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ETHIOPIA INVESTMENT PROMOTION STRATEGY REPOSITIONING

Diagnostics & Sectoral Prioritization Analysis - 2025

Abbreviations & Acronyms

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
DBE	Development Bank of Ethiopia
EAL	Ethiopian Airlines
ECMA	Ethiopian Capital Market Authority
EIC	Ethiopian Investment Commission
EIH	Ethiopian Investment Holdings
EPSA	Ethiopian Pharmaceutical Supply Agency
ESG	Environmental and Social Governance
ESX	Ethiopian Securities Exchange
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
GERD	Grand Ethiopian Renaissance Dam
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HGER	Homegrown Economic Reform
IAF	International Accreditation Forum
IAIP	Integrated Agro-Industrial Park
ICT	Information and Communication Technology
ILAC	International Laboratory Accreditation Cooperation
IP	Intellectual Property
LAMC	Liability and Asset Management Corporation
LAIS	Land Administration Information System
LCI	Land Commercialization Initiative
MOPD	Ministry of Planning and Development
MPI	Multidimensional Poverty Index
MoALD	Ministry of Agriculture and Livestock Development
NBE	National Bank of Ethiopia
NQI	National Quality Infrastructure
NQV	National Quality Village
PPP	Public-Private Partnership
QI4SD	Quality Infrastructure for Sustainable Development
R&D	Research and Development
REITs	Real Estate Investment Trusts
SANAS	South African National Accreditation System
SDGs	Sustainable Development Goals
SOE	State-Owned Enterprise
THRIP	Technology and Human Resources for Industry Programme
TYDP	Ten-Year Development Plan
UNBS	Uganda National Bureau of Standards
UNCTAD	United Nations Conference on Trade and Development
UPI	Unique Parcel Identifier

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Executive Summary

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Executive Summary

Ethiopia has emerged as one of Africa's leading investment destinations, attracting **$33.3 billion** in Foreign Direct Investment (FDI) over the past decade. This has contributed to a real GDP growth rate of **7.6%** and the creation of over **120,000** jobs. Economic reforms, infrastructure improvements, and government initiatives have fostered a more business-friendly environment, but challenges such as global economic uncertainty, domestic conflicts, and climate shocks necessitate a revised investment promotion strategy.

The revision of Ethiopia's investment strategy is driven by the country's shift from a state-led to a private sector-driven economy. The Homegrown Economic Reform (HGER) agenda has opened key sectors, including banking, telecom, and logistics, to foreign investors, while aligning investment priorities with national reforms and global trends. However, external shocks, including the COVID-19 pandemic, conflict, and inflation, have affected investment flows, requiring a more targeted approach to attract high-quality investors.

Ethiopia's economy remains one of Africa's fastest-growing, with a nominal GDP of **$210 billion** in 2023/24. Growth has been driven by industrialization, infrastructure investment, and private sector expansion. Key macroeconomic challenges, including currency depreciation and inflation, persist, prompting fiscal and monetary policy reforms to stabilize the business environment.

FDI inflows peaked at **$4.2 billion** in 2016/17 but declined due to internal and external shocks. Despite these challenges, Ethiopia remains one of Africa's top FDI recipients, with key investments in manufacturing, agriculture, and real estate. Major investors include China, India, Turkey, Saudi Arabia, and the United States. Reforms such as the opening of the telecom and banking sectors have improved investor confidence, exemplified by Safaricom's **$850 million** investment in the telecom industry.

Recent policy and regulatory changes have transformed Ethiopia's investment climate. The 2020 Investment Proclamation shifted from a restrictive sectoral approach to a more open investment framework, allowing foreign participation in previously restricted industries. The revision of the Commercial Code in 2021 modernized corporate regulations, while privatization efforts in telecom and banking have encouraged competition and efficiency. The introduction of **Special Economic Zones (SEZs)** aims to enhance industrial competitiveness and attract new investments. However, challenges such as regulatory inefficiencies, infrastructure gaps, and political risks still impact investor confidence.

Ethiopia's investment promotion strategy prioritizes seven key sectors, using an objective competitive assessment tool, the Harvard Competitiveness Framework, to evaluate the competitiveness of selected industries and sub-sectors. Based on this framework, the top seven most competitive sectors and sub-sectors identified are **textiles and garments**, **pharmaceuticals**, **leather and leather products**, **commercial agriculture**, **tourism**, **telcomm-unications and ICT, and real estate.** Additionally, three high-potential sectors: **mining**, **energy**, and **Agro-processing**—have been recognized for their capacity to attract significant FDI, provided that targeted policy and regulatory reforms are implemented.

Compared to regional peers such as **Kenya** and **Rwanda**, Ethiopia continues to attract a higher volume of FDI but faces increasing competition, particularly in agriculture and real estate. Rwanda has gained traction through well-structured investment incentives, while Kenya remains a dominant destination for agricultural investment. Despite a decline in the overall stock of FDI to the region, Ethiopia has successfully maintained its share of Chinese FDI stock from 2018 to 2022, highlighting its strategic importance as a preferred destination for Chinese investors.

While Ethiopia has made notable progress in investment promotion, persistent challenges remain. Macroeconomic instability, regulatory uncertainties, infrastructure deficits, and political risks continue to impact investment flows.

Addressing these issues requires policy consistency, infrastructure development, institu-tional capacity building, and sectoral diversification. Strengthening regional trade integration and leveraging opportunities under the African Continental Free Trade Area (AfCFTA) will further enhance Ethiopia's attractiveness as a competitive investment destination.

Ethiopia's investment promotion strategy aims to position the country as a leading FDI destination by aligning economic reforms with sectoral priorities and global best practices. While challenges persist, Ethiopia's market potential, industrialization drive, and policy reforms provide a solid foundation for long-term growth.



Introduction

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Introduction

Over the past decade, Ethiopia has emerged as a leading investment destination in Africa, attracting substantial capital inflows contributing to accelerated economic growth and job creation. Within the past decade, a total value of **$33.3** billion in Foreign Direct Investment (FDI)[1] has flown to Ethiopia, contributing to a real Gross Domestic Product (GDP) growth rate of **7.6%**.[2] FDI projects contributed to the creation of **121,304** jobs between 2019 and 2023. This total includes 74,083 permanent positions and **47,221** temporary roles.[3]

This progress has been facilitated by a series of policies and flagship initiatives aimed at enhancing economic openness, fostering increased private sector participation, and stimulating growth through investment. Ethiopia's consecutive national development plans have prioritized attracting investments as a key driver of economic transformation. In particular, the **Ten-Year Development Plan (TYDP)** and the **Homegrown Economic Reform** series placed investment attraction at the forefront of the country's economic transformation agenda.

These measures aimed to create a favorable environment for both domestic and foreign investors, aiming to make Ethiopia a regional investment hub.[4]

Recent challenges, including the impact of COVID-19, domestic conflict, global geopolitical tensions, and climate change effects such as drought and flooding, which impact FDI by increasing economic uncertainty and disrupting key industries, have contributed to investment volatility.[5]

Ethiopia's strategy for attracting investment is firmly rooted in its national development ambitions and is designed to capitalize on the country's comparative advantages. Ethiopia's recent investment promotion strategy has prioritized select sectors, including **textiles and garments**, **leather and leather products**, **agro-processing**, and pharmaceuticals.[6] In recent years, as part of the Homegrown economic reform agenda, several new sectors have been opened for investment including telecom, banking and finance, and domestic and international trade.

Aligning economic reforms with an effective investment promotion strategy is essential for Ethiopia to enhance FDI inflows and support sustainable economic growth. To advance this goal, the **EIC**, with funding from the **Bill and Melinda Gates Foundation**, has launched a project to assess the current economic and business climate, identify priority investment sectors, and develop targeted promotion and branding strategies for positioning Ethiopia as a competitive investment destination. This initiative aims to evaluate the attractiveness and viability of identified priority sectors, narrowing the focus to five to seven new priority areas for a targeted investment promotion strategy.

1.1 Rational For The Investment Strategy Revision

The rationale for revising Ethiopia's investment promotion strategy stems from significant economic and structural transformations over the past six years. These changes have been driven by reforms aimed at enhancing economic stability, increasing openness, and creating a more business-friendly environment. The revision also seeks to address key challenges that have emerged, **shifts in global investment patterns**, and the need to integrate **Environmental, Social, and Governance (ESG)** principles into investment strategies.

Key factors necessitating the repositioning of Ethiopia's investment promotion strategy:

1 Evolving Economic Structure: Ethiopia's economy is transitioning from a state-led development model to one led by the private sector. The government has focused on enhancing competitiveness by ope-ning sectors previously reserved for **State-Owned Enterprises (SOEs)** and Ethiopian nationals, aiming to attract greater foreign investment.

2 Review existing investment promotion strategies and app-roaches: Critically examine current investment promotion strategies and priorities in light of the economic context and ongoing reforms. Evaluate whether these strategies align with sustainable economic development goals and capitalize on the country's competitive advantages.

3 Alignment with National Reforms: The revised strategy aligns closely with Ethiopia's Homegrown Economic Reform agenda, which prioritizes industrialization, private sector-led growth, and economic transformation. By synchronizing inve-stment promotion efforts with these national objectives, the strategy can better support Ethiopia's industrialization goals and the broader aim of fostering a diversified, competitive economy driven by private investment.

4 Global Competition for FDI: Ethiopia faces increasing competition from other nations for FDI. To remain competitive, the country must adopt international best practices, such as leveraging digital platforms for outreach, improving targeted investment promotion, and focusing on high-quality investors. Additionally, implementing effective mec-hanisms to track and manage investment flows is essential for maximizing FDI's economic benefits and aligning with Ethiopia's long-term development goals.

5 Response to Recent Shocks: In recent years, Ethiopia has encountered significant external and internal shocks, including the COVID-19 pandemic, domestic conflicts, and climate shocks, all of which have impacted FDI inflows. The revised strategy will be adaptive, addressing the impacts of these shocks, introducing risk mitigation measures, and prioritizing investments in resilient sectors. This approach will help Ethiopia safeguard economic stability and attract investments that contribute to long-term resilience and sustainability.

1.2 Overview: Reforms & Shocks & Implications For Investment Promotion

A sustained high single digit and double-digit growth over the past two decades has made Ethiopia one of the biggest economies in the continent, with a nominal GDP of **210 billion USD** in **2023/24.**[7] Growth within the economy has been driven by significant public investments in infrastructure and human capital development, which have helped close critical gaps in transportation, energy, and education, thereby laying the foundation for continued progress.[8]

Ethiopia's economic journey to its current position has been driven by the implementation of numerous forward-thinking policies and strategic initiatives by successive governments since the 1990s. Among the most notable are the Agricultural Development Led Industrialization (ADLI), the Sustainable Development and Poverty Reduction Program (SDPRP) (2002/03–2004/05), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06–2009/10), Growth and Transformation Plan I (GTP-I) (2010/11–2014/15), and Growth and Transformation Plan II (GTP-II) (2015/16–2019/20).[9]

Following an administrative change 2018, the Government of Ethiopia (GOE) initiated a period of extensive reforms aimed at fostering economic openness and competitiveness. In 2019, the government launched the Homegrown Economic Reform (HGER 1.0), designed to address macroeconomic imbalances such as inflation, foreign exchange shortages, and the liberalization of key state-owned enterprises, including those in the telecom, energy, and logistics sectors. The reform also addressed several structural barriers in the economy, by revising several investment and business laws to enhance the business enabling environment for the private sector to play the leading role in economic growth.[10] These efforts were supported by significant measures, including the enactment of the 2020 investment law, the implementation of the **Public-Private Partnership (PPP) Proclamation**, the partial privatization of the state-owned telecom company, the establishment of Ethiopian Investment Holdings, and the creation of the Capital Markets Authority.[11]

Overall, the reform has revitalized the country's economic foundations, optimized its domestic resources, refined public investment strategies, and catalyzed new sectors with immense growth potential.[12]

HGER 1.0 also served as a bridge between the GTP-II and the Ten-Year Development Plan (TYPDP) (2021–2030).[13] The TYPDP was developed in 2020 to sustain the rapid economic growth achieved during GTP-I and GTP-II by focusing on strategic pillars such as promoting inclusive and quality economic growth, boosting productivity and competitiveness, facilitating institutional transformation, and enhancing technological capability and the digital economy.[14]

Ethiopia launched the second generation of the **Homegrown Economic Reform (HGER 2.0)** at the start of the 2023/24 fiscal year. Building on the achievements and lessons learned from the initial reform agenda, this second phase seeks to establish a modern macroeconomic policy framework aimed at ensuring stability and resilience. It also focuses on enhancing competitiveness by improving the investment and trade environment, expanding productive capacity and productivity across sectors, and strengthening public sector capabilities for efficient service delivery.[15]

Key reforms under HGER 2.0 include increasing economic openness by allowing foreign investors to participate **in retail and wholesale trade, energy, banking, and logistics sectors.** To further support economic stability, the National Bank of Ethiopia (NBE) adopted an **interest rate-based** monetary policy, initiating open market operations in July 2024. Additionally, the reforms introduce a competitive, market-based exchange rate system to rectify long-standing economic distortions.[16] These reforms have opened the door to greater private sector participation and increased FDI, both vital for Ethiopia's economic transformation.[17]

While Ethiopia's series of reforms and strategic plans have enabled the country to sustain rapid economic growth and attract significant investment, challenges remain. Despite the ambitious reforms, the scale of investment inflows and competitiveness has not met expectations. This under-performance can be attributed to several factors, including the series of shocks that have repeatedly disrupted Ethiopia's growth trajectory over the past six years.

These shocks have undermined progress, posing obstacles to realizing the full potential of the reform initiatives. Since 2018, persistent droughts, floods, locust infestations, conflicts, and other emergencies have affected almost all economic sectors of the economy, with an estimated **91%** of the population impacted, resulting in uncertainty and high economic risk profile.[18] The following section will discuss the impact of these shocks on the Ethiopian economy, examining how they have undermined the country's economic gains and disrupted its growth trajectory.

COVID-19 Pandemic

The COVID-19 pandemic severely disrupted Ethiopia's growth trajectory.[19] The pandemic exposed vulnerabilities in Ethiopia's fiscal space and ability to absorb economic shocks and raised debt sustainability risks. The government's COVID-19 fiscal response measures, worth **$3 billion** (or **3.1%** of GDP for FY 2019/20), contributed to the widening of the public deficit to **2.8%** of GDP in FY 2019/20, from **2.5%** of GDP previously.[20] Moreover, the economy's structural reliance on sectors requiring human movement and interaction—such as manufacturing and services—faced significant disruptions.

Furthermore, the COVID-19 pandemic significantly impacted FDI, as investors faced various challenges, including reduced demand, supply chain disruptions, logistical interruptions, and operational difficulties such as slow customs clearance and the enforcement of social distancing measures. The pandemic also had a psychological impact on employees, further affecting overall productivity.[21]

In addition to limiting new investment flows, the pandemic caused operational FDIs to perform at a lower level compared to previous years. For instance, firms in industrial parks, which serve as hubs for FDI, reported an average sales decline of **42 percent** and a production decrease of **40 percent.**[22] The socio-economic effects of COVID-19 also exhibited a gender disparity, with female employment among paid workers declining by **8.2 percent** compared to a **7.4 percent** decline for males.[23] [24]

Internal Conflicts

Internal conflicts, particularly the war in northern Ethiopia, have severely impacted the country's economic and social fabric. The conflict, which formally ended in November 2022, caused extensive total damage to infrastructure with estimated losses exceeding **$6 billion** and economic losses valued at **$22.6 billion.**[25] Reconstruction efforts are expected to require approximately an additional **$20 billion.**[26]

The conflicts have caused substantial damage to Ethiopia's economic infrastructure, with losses totaling **USD 2,478.4 million** across key sectors. The transport sector suffered the most, with **USD 1.13 billion** in damages, followed by information & communication technology at **USD 727.7 million**. The energy sector experienced losses of **USD 134.6 million**, while water, sanitation, and hygiene infrastructure saw damages amounting to **USD 95 million**, and municipal services incurred **USD 395.7 million** in losses.[27]

The conflict also disrupted Ethiopia's international relations, leading to the suspension of multilateral and bilateral budget support programs and exclusion from trade agreements, such as the **African Growth and Opportunity Act (AGOA)**. Ethiopia's tariff-free access to US markets under AGOA was an important factor in attracting FDI, particularly for the textile and garment sector.[28] The suspension has exposed the vulnerability of Ethiopia's export sector and led to job losses in manufacturing, particularly in the garment industry, where women have been disproportionately affected.[29] It has also created a significant setback in the emerging manufacturing sectors, evidenced by the fact that exports from the country's industrial parks declined by **24%** in 2023. Many multinational companies began scaling down their operations and some, such as PVH, even have left the country.[30]

Environmental Shocks: Locust Invasions, Drought, and Floods

Ethiopia also faced climate and environmental emergencies, exacerbating economic challenges. The locust invasions of 2020, considered the worst in **25 years**, ravaged agricultural lands across eastern and southern Ethiopia, invading 180-240 Woredas.[31] This severely affected food production and worsened food insecurity.[32] A second invasion, in late 2020, **twenty times more severe than the first**, further devastated agricultural yields and grazing lands, worsening the livelihoods of millions of Ethiopians.[33]

Similarly, since 2020, consecutive failed rainy seasons have plunged Ethiopia into a severe drought, devastating communities, particularly in the Somali, Oromia, and Southern Nations regions.[34] Concurrently, floods and landslides have **displaced over 760,000 people,** particularly in the Somali and Southern Ethiopia regions, where farmland and irrigation systems were significantly damaged.[35] The flood devastated **20,365 hectares** of irrigated farmland, swept away nine irrigation pumps, and resulted in the **loss of 1,150** livestock.[36] Additionally, **13,779 hectares** of farming land had been damaged, worsening the already dire food security situation in the area.[37] These environmental shocks have damaged productive assets, reduced production, and disrupted value chains, creating uncertainties that may undermine investor confidence.[38]

Recurring environmental shocks in Ethiopia have impacted the country's appeal as a destination for FDI. These shocks disrupt agriculture, a cornerstone of the economy that sustains millions of livelihoods and attracts foreign investors seeking opportunities in agribusiness and value-added production. For example, the 2020 locust invasions **devastated over 200,000 hectares of crops**, reducing agricultural output and disrupting supply chains, which created uncertainty about the reliability of investment returns.[39] Similarly, recurrent droughts and floods have inflicted extensive damage on critical input supply chains, irrigation systems, roads, and farmlands, further escalating operational costs and risks for investors. The unpredictability of these shocks, including erratic rainfall patterns and extreme weather events, has significantly disrupted Ethiopia's development and resilience efforts.[40] This uncertainty has affected investors' confidence and deterred long-term commitments, despite ongoing reforms aimed at attracting FDI.[41]

Impact of the Global Geo-political uncertainty

The ongoing Russia-Ukraine war has had far-reaching effects on Ethiopia's economy, particularly by driving up the cost of essential imports like wheat, fuel, edible oil, and fertilizers.[42]

Given that Russia was the second-largest oil producer and both Russia and Ukraine were major wheat producers, the conflict has severely disrupted global supply

chains. The effects extend beyond the two nations, disrupting global economic activities and risk levels for private capital.[43] Due to the conflict, and the resulting global supply chain disruptions and exacerbating inflation,[44] Foreign investors who seek stable and predictable markets could have potentially been deterred.

Additionally, Ethiopia's pursuit of Red Sea access through the 2024 memorandum of understanding (MoU) with Somaliland has aggravated tensions in the Horn of Africa. The deal has angered Somalia, which considers Somaliland to be part of its territory and worries that regional giant Ethiopia will impinge upon its sovereignty.[45]

Despite the initial dispute, Ethiopia and Somalia have since reached an agreement following talks in Turkey, to enhance cooperation, particularly in ensuring Ethiopia's access to the sea while respecting Somalia's sovereignty, and have committed to peaceful resolution of any disputes through continued dialogue.[46]

In conclusion, Ethiopia's ambitious reform agenda and its efforts to attract investment have been significantly challenged by a series of internal and external shocks. Political reforms, economic liberalization, and increased private sector engagement were promising steps forward. However, the compounded effects of the COVID-19 pandemic, internal conflicts, environmental disasters, and global supply chain disruptions have strained Ethiopia's economy, reducing its attractiveness for investment and undermining efforts to sustain economic growth. As most of these shocks have been addressed and lessons have been learned from the experience, concerted policy responses, sustained investment in resilience-building, and continued international cooperation will be required to support Ethiopia's path to economic recovery and stability.

Fundamentals of The Ethiopian Economy

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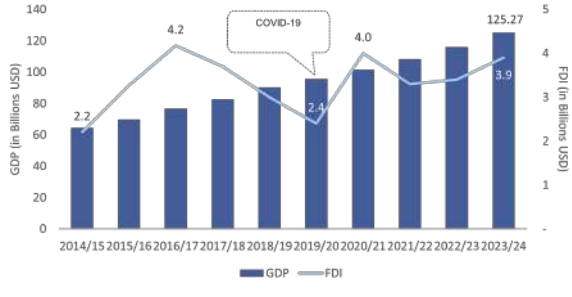
2.1 Economic Growth Prospects

2.1.1 Impact of Ethiopia's Economic Growth on FDI

With a population of approximately **126.5 million** as of 2023, Ethiopia is the second most populous nation in Africa and one of the fastest-growing economies in the region.[47]Over the past decade, between 2014/15 – 2023/24, Ethiopia achieved an average annual real GDP growth rate of **7.6%**.[48]*(Figure 1)* This growth was among the highest in Africa and contributed to a moderate improvement in living standards across both urban and rural areas. Reports from the **African Development Bank (AfDB)** and the **International Monetary Fund (IMF)** indicate that this growth in the coming years will be fueled by industry, private consumption, and investment, supported by a peace dividend, a resurgence in tourism, and economic liberalization.[49] This strong performance demonstrates Ethiopia's resilience and potential, especially when compared to other East African nations.

Figure 2.1

Real GDP and FDI (In Billions USD)[50] [51] [52]



Note: The FDI figures for the years 2014/15, 2015/16 and 2016/17 have been obtained from NBE Annual Reports and converted from Birr to USD using the period-weighted average exchange rate (Birr/USD) based on data from the NBE Annual Report. The GDP figure is based on NBE Annual Reports and World Bank data.

As Ethiopia sustains a strong growth trajectory, an increase in investment inflows to the economy is anticipated. A key driver of this trend is investor confidence. Steady GDP growth serves as a signal to investors that the economy is stable and expanding.[53] This robust economic environment encourages foreign companies to commit capital, knowing that their investments are more likely to yield positive returns.

Furthermore, Ethiopia's market size plays a significant role in attracting FDI. With a population of approximately **126.5 million** people in 2023, Ethiopia offers a substantial domestic market for various goods and services.[54] This large consumer base is particularly appealing to foreign investors looking to tap into emerging markets. Moreover, over **70%** of the population is under the age of **30**, indicating a youthful demographic that offers an abundant workforce and can drive future consumption and economic growth.[55]

Another critical aspect of Ethiopia's economic growth model is its emphasis on large-scale investments in infrastructure and human capital. The Ethiopian government has prioritized infrastructure projects across key sectors, including energy, transportation (rail and roads), ports, industrial parks, and urban and rural development, all of which are essential for enabling business operations and fostering economic growth. For example, in recent years, the government has made significant investments in road construction, and according to its 10-year

transport perspective plan, it aims to allocate around **3.0 trillion birr (approximately $58 billion)** to further develop the sector.[56] Furthermore, the construction of the Grand Ethiopian Renaissance Dam with a projected installed capacity of **5,150 MW**, is intended to serve as an engine for industrialization, economic development, and hard currency earnings through the export of electricity.[57]

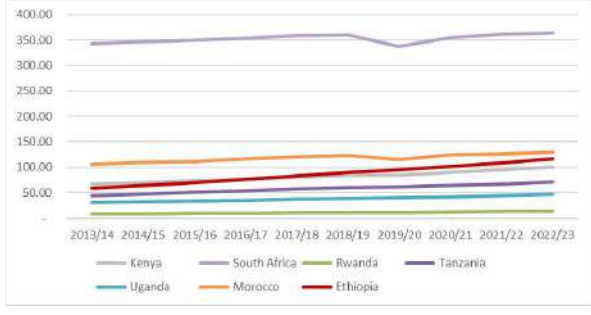
Investment in higher education has also accelerated significantly over the past three decades, leading to substantial growth in the country's human capital, particularly in terms of knowledge and skills.[58] Additionally, the introduction of frameworks such as the Ethiopian National Qualifications Framework has improved the quality and relevance of TVET training. These initiatives have also introduced innovative ways to recognize a broad spectrum of formal, non-formal, and informal learning opportunities, further enhancing the country's educational landscape.[59]

Ethiopia's economic growth remains competitive relative to countries with significant FDI attractiveness in the African region, though it is not necessarily the largest compared to its regional peers. In 2022/23, the real GDP in Ethiopia showed a notable increase achieving **$115.9 billion**[60] [61], surpassing that of Kenya (**$100 billion**), Uganda (**$46.5 billion**), Tanzania (**$70.5 billion**),Morocco (**$130.3 billion**), and Rwanda (**$14 billion**), which have all shown steady but slower growth.

South Africa ($363.3 billion) and Morocco ($130.3 billion) have continued to lead with significantly higher GDP compared to the rest of the countries across the entire period.[62]

Figure 2.2

Real GDP across Ethiopia and its Regional Competitors 2013/14-2022/23 (In Billions USD)[63] [64]



On the other hand, Ethiopia's economic growth rate remains impressive compared to its regional competitors, with an annual average growth rate of **8%.** In contrast, Kenya, Uganda, and Tanzania each have an average growth rate of **5%**, while Rwanda stands at **7%** and Morocco at **2%**. Despite having the largest economy in the region, South Africa has experienced stagnant growth, with an average annual rate of just **1%**.[65] This highlights Ethiopia's strong and improving GDP performance, which not only positions it among the top economies in East Africa but also underscores its growing influence as a regional economic leader.

2.2 Key Determinants of Economic Attractiveness & Macroeconomic Stability

Several key factors determine economic attractiveness and macroeconomic stability, both of which are essential for fostering sustainable growth and development. To strengthen these areas, Ethiopia has undertaken various reforms, including revising its business environment to attract investment and enhance competitiveness. Priority has been given to stabilizing macroeconomic variables, such as **maintaining a predictable exchange rate**, **controlling inflation**, and **reducing the cost of doing business.** Additionally, structural reforms focused on economic openness, regulatory simplification, and the promotion of trade and innovation have been implemented. Policies aimed at reinforcing fiscal discipline, bolstering financial sector resilience, and ensuring social inclusiveness further contribute to a stable and appealing economic framework.

2.3 Fiscal Stability

Ethiopia's fiscal stability is a cornerstone for enhancing its economic health and attractiveness to FDI. Fiscal stability signals a government's ability to manage its debt and finances prudently, reducing macroeconomic risks and fostering investor confidence.[66]

The Ethiopian government's progress in managing public debt demonstrates notable achievements.

Public external debt declined significantly from **17.2%** of GDP in 2023 to **13.7%** in 2024, while public domestic debt also fell from **22.1%** to **18.7%** over the same period. This reduction reflects improved fiscal discipline and efforts to stabilize public finances. However, challenges remain. The IMF projects that external debt will rise to **28.3%** of GDP in 2025, driven primarily by the depreciation of the Ethiopian birr, which increases the cost of servicing foreign-denominated debt. Conversely, domestic debt is expected to decline further to **14.5%**, contingent on the elimination of fiscal financing through direct advances from the NBE. This reduction underscores the importance of maintaining prudent monetary and fiscal policies to prevent inflationary pressures and ensure sustainable financing mechanisms.[67]

2.3.1 Government/Public Spending and FDI

Ethiopia's economic resilience is underpinned by strategic public spending, particularly in infrastructure and human capital development. Significant investments in roads, railways, and energy projects have improved connectivity, market access, and overall economic activity, laying the groundwork for industrialization and investment attraction.[68]

To further attract investment, the government offers financial incentives such as tax exemptions (ranging from 2 to 7 years) for businesses in priority sectors, reduced corporate tax rates, and import

and export duty exemptions. These measures are tailored to encourage investment in key sectors such as manufacturing, agriculture, and tourism.[69]

To ensure fiscal sustainability and mitigate risks, Ethiopia has strengthened revenue generation efforts through broadening the tax base, simplifying tax administration, and enhancing domestic resource mobilization. By improving tax compliance and efficiency, the government aims to reduce reliance on external borrowing while ensuring funding for critical public spending in education, health, and infrastructure. These initiatives demonstrate Ethiopia's commitment to fostering a stable, investment-friendly economic environment.[70]

2.3.2 Debt Management and FDI

Maintaining debt sustainability is critical for ensuring economic growth, stability, and a favorable environment for FDI. Unsustainable debt can lead to debt distress, where a country struggles to meet its financial obligations, often requiring debt restructuring. This can result in a loss of market access, higher borrowing costs, and reduced investor confidence, ultimately stifling economic growth. Excessive public debt can also crowd out private investment, as it limits capital availability for both domestic and foreign investors.[71]

A well-defined fiscal and monetary policy framework, coupled with sustainable debt levels, is essential for fostering broader economic activity and attracting FDI. By avoiding damaging economic distortions, a stable policy regime offers predictability to investors, enhancing confidence in the investment climate.[72]

Sovereign credit ratings further influence FDI by signaling the country's perceived risk to external investors, especially those unfamiliar with the local context, as is often the case in emerging and developing markets. Higher sovereign credit ratings generally indicate a lower risk of default, improving investor confidence and attracting more FDI. These ratings also serve as benchmarks for corporate and lower-level government entities, reinforcing the overall perception of a country's investment climate. By improving their credit ratings, countries can enhance their attractiveness for FDI, which is critical for sustainable long-term growth.[73] [74]

As of 2025, Ethiopia is in the final stages of securing an agreement with international creditors under the DSSI Common Framework to effectively address its debt distress and improve its credit rating. This milestone is expected to bolster investor confidence by enhancing Ethiopia's financial stability and signaling a more favorable investment climate.[75]

2.3.3 Exchange Rate Stability

Exchange rates, in both their levels and volatility, influence the total amount of FDI and its allocation across countries.[76]

Higher exchange rate variability reduces the certainty-equivalent expected return

thus if exchange rates are highly volatile, the expected values of investment projects are reduced, and FDI is reduced accordingly.[77]

In Ethiopia, between 1992 and 2024, the government operated a so-called "managed floating" exchange rate regime, where it occasionally intervenes in the foreign exchange market by buying and selling currencies. However, the IMF classifies this regime as a crawling-peg arrangement, rather than a true managed float, due to the relatively stable exchange rate and the NBE's intervention policies.[78] [79] While the NBE asserted that the exchange rate had no predetermined path and was allowed to fluctuate daily, the overall stability and frequency of interventions led the IMF to categorize it as a crawl-like system.[80]

The nominal exchange rate was set in an interbank foreign exchange market, with the NBE supplying foreign exchange based on supply and demand forecasts made at the start of each year. However, despite the presence of the interbank market, the exchange rate was primarily driven by supply-side factors (availability of foreign currency).

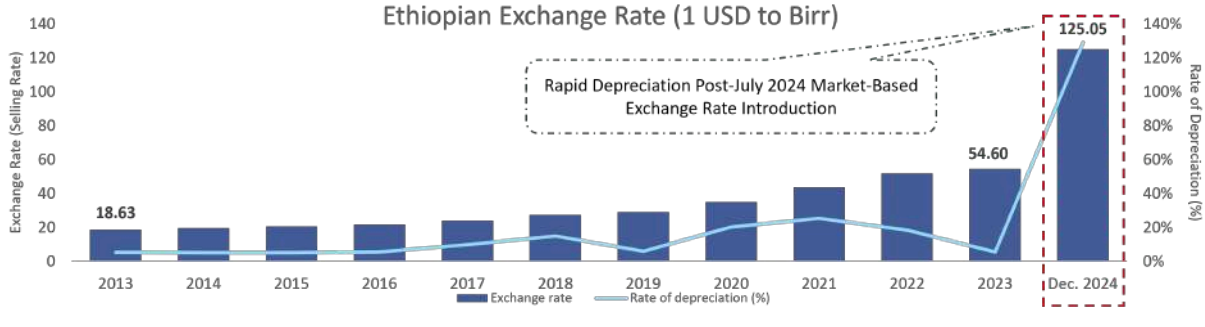
As a result, the nominal exchange rate remained largely insensitive to shifts in macroeconomic fundamentals and external shocks.[81] *(Figure2.3)*

Despite the continuous depreciation of the currency over the years, Ethiopia maintained a large and persistent currency overvaluation, meaning the birr was priced higher than its true value based on demand and supply. This made the country's exports more expensive, undermining competitiveness and potentially deterring FDI aimed at developing export-oriented industries. While the overvalued birr lowered import costs, it also led to a flourishing parallel market, where the gap between official and parallel exchange rates (the parallel market premium) widened significantly. The birr traded for fewer dollars on the parallel market, making it a more accurate reflection of the currency's real value.[85]

The overvaluation also resulted in excess demand for dollars that could not be met at the official exchange rate, leading to chronic foreign exchange shortages.[86] This shortage severely hindered businesses' ability to repatriate profits and procure investment inputs, further discouraging FDI.[87]

Figure 2.3

Exchange Rate (1 USD to Birr)[82] [83] [84]



Additionally, the **overvaluation of the birr** made domestic assets more expensive for foreign investors.[88]

The widening gap between the official and parallel exchange rates highlighted the growing disconnect between the nominal exchange rate and the real market value of the birr, ultimately signaling the need for deeper structural reforms to ensure a more responsive and market-driven exchange rate system.

In July 2024, **the government announced a competitive, market-based exchange rate system**, departing from the 'managed floating' exchange rate system with the primary goal of addressing long-standing foreign currency shortages, boosting investor confidence, and ultimately stabilizing the economy.[89] The newly introduced market-based exchange rate regime also included several changes, including the removal of rules governing FX rationing, the introduction of non-bank foreign exchange bureaus, and the relaxation of foreign exchange controls. [90] This shift was followed by the depreciation of the Ethiopian Birr by a total of **134.7%** between July and early December, 2024.[91]

The new exchange rate regime is expected to bring several benefits to the economy. By removing key obstacles, the reform will enhance Ethiopia's attractiveness to foreign investors, boosting FDI inflows and aligning the business environment with regional peers. Additionally, it will help the country better capture foreign earnings and prevent resource losses from smuggling, invoice manipulation, and capital flight, ultimately benefiting the local economy and businesses.[92] Reflecting these positive shifts, coffee export revenue increased by **34.3%** in the last quarter of 2023/24 compared to the same period in 2022/23, primarily due to a **59.1% rise** in export volume, despite a **15.6% decline** in international prices.[93]

For a successful transition to the new exchange rate regime, several measures need to be put in place. The broader policy framework should be cohesive and aligned with the new regime.[94] Additionally, Ethiopia must address supply constraints, improve trade performance, and ensure strong macroeconomic management. Enhancing productive capacity by ensuring peace, stability, and infrastructure development is vital to attract investment and strengthen the supply chain. Export diversification and import substitution strategies can be used to reduce dependence on primary exports and essential imports, improving foreign exchange earnings and reducing vulnerabilities. Sound fiscal and monetary policies and building foreign exchange reserves, are essential to control inflation and mitigate the effects of currency depreciation.[95]

2.3.4 Export Performance of Major Sectors in Ethiopia

Countries with high export volumes tend to attract significant foreign investment, as strong export performance signals a competitive & globally integrated economy.

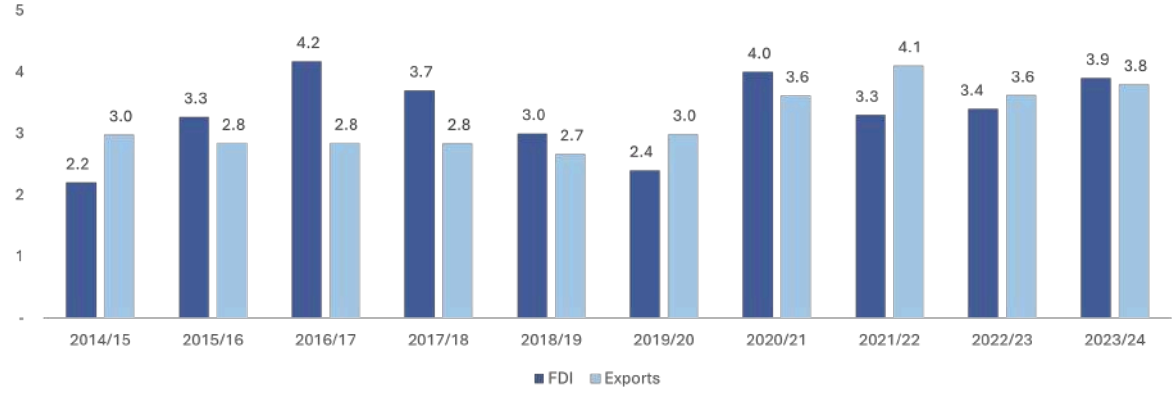
A robust export sector indicates efficient production capabilities, access to international markets, and stable trade relationships, which reduce perceived risks for investors. High export activity also supports economic growth, generates foreign exchange, and strengthens infrastructure, all of which enhance the overall investment climate. By fostering confidence in the country's ability to sustain returns, export-driven economies create a compelling environment for FDI.[96] [97]

products, with little value addition. Low productivity across economic sectors, combined with a focus on unprocessed goods, has kept export earnings limited.[101]

Structural and competitiveness challenges, such as high cost of logistics, along with an overvalued exchange rate, have further hindered export performance. Issues span the entire supply chain—from production to final destination—impacting product quality, supply consistency, and marketing effectiveness.[102]

Figure 2.4

Ethiopian Exports and FDI (in billions of USD)[98] [99]



Note: The FDI and Export figures for the years 2014/15, 2015/16 and 2016/17 have been obtained from NBE Annual Reports and converted from Birr to USD using the period-weighted average exchange rate (Birr/USD) based on data from the NBE Annual Reports.

For over half a century, Ethiopia has sought to boost its export trade and reduce reliance on imports. However, export earnings have remained stagnant with an annual average growth rate of only **3.22%** between **2014/15** and 2023/24,[100] while imports have continued to surge. The country's exports are still heavily focused on primary products, such as **coffee**, **chat**, **oil seeds**, **pulses**, **live animals**, and **leather** and **leather**

Ethiopia's deteriorating global competitiveness reflects this trend. The country ranked **126** out of **140** in the World Economic Forum's Global Competitiveness Index in 2019, dropping from **122** in 2018.[103] Ethiopia's exports of goods and services have significantly declined over the past decade, falling to **1.8%** of the GDP in 2023/24, from **4.5%** in 2014/15.[104] [105] This decline indicates severe constraints on export performance

suggesting that addressing these challenges could unlock sustained export growth, given Ethiopia's underlying potential. The country's export sector remains heavily reliant on **primary commodities**, with coffee and oilseeds making up nearly half of total exports, while the share of manufactured goods has seen minimal growth.[106]

FDI can boost exports by providing additional capital for production, facilitating technology transfer, expanding and upgrading the product portfolio, improving technical and managerial skills in domestic firms, offering access to global distribution networks for international sales, and enhancing the export structure of the host country.[107] In the case of Ethiopia, although FDI has grown at an annual average rate of **10.3%** between 2014/15 and 2023/24, exports have only experienced a **3.22%** annual average growth rate, suggesting that although foreign investments are increasing, they may not be effectively translating into a significant boost in export activity.[108] This can be attributed in part to the composition of Ethiopia's export commodities and the concentration of FDI in the manufacturing sector, while the export sector continues to be largely dependent on primary agricultural products.[109] Despite the challenges, Ethiopia holds significant potential to more than double its exports to **$10 billion by 2030**, and if leveraged correctly, FDI could serve as a crucial driver in achieving this goal.[110]

Ethiopia's recent liberalization of the trade sector for FDI is a critical move aimed at enhancing export performance and integrating the country into global trade networks. By opening the sector to foreign participation, Ethiopia can attract **capital, modern technology, and international expertise** that drive improvements in supply chain efficiency, logistics, and market access. Increased foreign investment in the trade sector facilitates the establishment of export-oriented businesses, improves product quality to meet international standards, and strengthens Ethiopia's ability to compete in global markets. This has been seen in Tanzania, its export sector highlights that trade liberalization significantly boosted export performance through several key mechanisms.[111] Tariff reductions and the removal of trade barriers enabled firms to access larger markets, leading to increased export volumes. The adoption of export-oriented policies and trade facilitation reforms enhanced Tanzania's competitiveness, making its products more attractive to foreign buyers. FDI increased, contributing to technological advancements and higher productivity in export industries. However, infrastructure and institutional strength were key factors influencing the overall effectiveness of liberalization.

2.3.5 Political Stability

A stable political environment is a significant determinant of FDI inflows, as it determines the profitability of investment projects. Investors seek stable environments where the risk of sudden changes in the business climate is minimized.[112] When investors face fixed and irreversible costs to invest, uncertainty regarding local conditions—such as the political and regulatory environment—can have a dampening effect, reducing their responsiveness to new investment opportunities. Additionally, after entry, current investors may opt to delay or outsource operations when confronted with increased risks.[113]

Ethiopia's political landscape has recently been marked by instability, as reflected in its declining rankings on global peace indicators. Over the past decade, Ethiopia has consistently ranked low, with fluctuations in its position. The period from 2020 to 2023 was particularly challenging due to the conflict in Tigray, which erupted in November 2020, causing widespread destruction of infrastructure and significant loss of life.[114] [115] A ceasefire was soon reached in late 2022, leading to improvements in the security of the country.[116]

While Ethiopia's ranking has slightly improved in 2024, it still lags behind its neighbors. In 2024, Ethiopia ranked **144th** with a score of **2.845**, in contrast to Tanzania at **65th**, Rwanda at 92nd, Kenya at **122nd**, and Uganda at **126th**, with scores of **1.987**, **2.12**, and **2.409**, respectively.[117]

To attract foreign investment, the Ethiopian government should prioritize promoting stability in conflict-affected regions through targeted and proactive measures. This includes negotiating and effectively implementing peace agreements, enhancing security infrastructure to safeguard investors and their assets, and minimizing the risks of violence and instability. A secure and predictable environment fosters investor confidence by reducing uncertainty and perceived risks, making Ethiopia a more attractive destination for long-term investment and economic engagement.

2.3.6 Regulatory Environment and Policy Predictability

Before 2018, the framework was widely seen as unpredictable and restrictive, exacerbated by recurring civil unrest and cumbersome procedures that challenged foreign investors. In response, the government implemented reforms to streamline commercial registration, business licensing, tax administration, and income tax processes.[118] The introduction of the HGER program in 2018 marked a pivotal shift toward modernizing the macroeconomic framework and establishing a foundation for private sector-led growth. This effort was reinforced with HGER 2.0 in 2024, which focused on maintaining macroeconomic stability, fostering an investment and trade-friendly environment, enhancing productivity in key sectors, and developing an efficient civil service.[119]

Investment Proclamation No. 1180/2020

One of the most significant regulatory changes was the introduction of **Investment Proclamation No. 1180/2020**, which marked a major departure from previous policies. Previously, only a specified list of sectors was open to foreign investment; the new approach employs a negative listing system that allows investors to engage in all sectors except those explicitly restricted. This reform categorizes investment areas into those reserved for joint ventures with the government, those designated for domestic investors, and those intended for joint investments with domestic partners. It also enhances capital mobility by allowing the free remittance of proceeds from share transfers and capital reductions, and streamlines investor entry by introducing multiple-entry business visas for key foreign personnel while ensuring that expatriates are only employed in higher management or technical roles when qualified Ethiopians are unavailable.[120] [121] [122]

Revision of the Commercial Code

In 2021, Ethiopia's parliament revised the **Commercial Code of 1960** for the first time in 60 years. This historic update was designed to modernize and streamline business regulations to better reflect contemporary economic realities.[123] The revised code expanded the definition of a trader from an exhaustive list to a more illustrative approach, increasing the recognized areas of trade from twenty-one to thirty-seven. It eliminated the Ordinary Partnership form, introduced Limited Liability Partnerships for licensed professionals, and permitted the formation of One-person Companies. The revision simplified the company formation process by removing the requirement for articles of association and replacing it with a memorandum of association. It also abolished bearer shares in favor of registered shares, introduced new rules for share transfers to protect minority shareholders, allowed non-shareholders to serve on boards of directors, and mandated the establishment of boards and supervisory boards for enhanced corporate governance. Furthermore, the code recognized holding companies and provided detailed rules for mergers and divisions.[124]

Privatization of State-Owned Telecom Services and Entry of Private Operators

Significant changes have also taken place in the telecommunications sector. Ethio Telecom, a longstanding state monopoly, embarked on privatization. Concurrently, the government invited private telecom operators to enter the market, attracting major global players such as Vodacom, MTN, and Orange. Following a competitive bidding process, Safaricom Ethiopia was granted a nationwide, **15-year** full-service license in 2022 and expanded its services to **26 cities** by April 2024. The government has even issued a call for a third telecom license, signaling further liberalization of the sector.

These initiatives are expected to lead to lower prices, improved service quality, and set the stage for Ethiopia's digital transformation.[125]

Launch of Ethiopian Investment Holdings and Complementary Regulations

In 2022, the government established **Ethiopian Investment Holdings (EIH)** as the strategic investment arm responsible for reforming state-owned enterprises and attracting private investment to boost economic productivity and growth.[126]

Opening Up of Key Sectors

Recent reforms have further liberalized sectors that were once off-limits to foreign investors. A 2018 law initially permitted foreign participation in Public-Private Partnerships in power projects,[127] and subsequent reforms under the 2020 Investment Proclamation expanded this opening to additional sectors. Areas such as air, railway, ground, and marine transport are now accessible to foreign investment. The banking sector was liberalized through the Banking Business Proclamation enacted in December 2024. This legislation allows foreign banks to enter the market by establishing subsidiaries, branches, or acquiring shares in local banks.[128] Additionally, a directive issued in 2024 by the Ethiopian Investment Board has enabled foreign investors to participate in export, import, wholesale, and retail trade, subject to certain criteria. These changes collectively signal Ethiopia's shift toward a more open and competitive investment landscape, aimed at modernizing its economy and ensuring sustainable growth.[129]

Investment Incentive Regulation No. 517/2022

The regulation, which has been amended by the Council of Ministers on January 14, 2025, is designed to enhance employment opportunities, streamline tax exemptions for investment-related assets, and attract investments in the mining sector.[130] A key feature of the amendment is the increase in employment thresholds required for income tax exemptions: investors employing between **2000** and **3000** Ethiopians qualify for a one-year exemption, those employing **3001** to **5000** receive a two-year exemption, and those employing over **5000** are eligible for a three-year exemption.[131]

The regulatory reforms in Ethiopia have fundamentally reshaped the nation's investment climate. By streamlining regulatory processes, overhauling key legal frameworks, privatizing state monopolies, and opening previously restricted sectors, Ethiopia is creating a more predictable, investor-friendly environment. These changes not only facilitate sustainable economic growth but also position Ethiopia to fully integrate into the global market, paving the way for a prosperous and diversified future.

Recent Trends in Foreign Direct Investment (FDI) in Ethiopia

3

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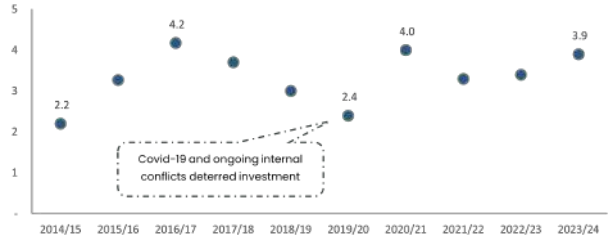
3.1 Recent Trends In FDI Inflows And Major Sources Of Investment For Ethiopia

3.1.1 Recent Trends of FDI Inflows in Ethiopia

Ethiopia's FDI inflows experienced a remarkable surge in the early 2010s, positioning the country as one of Africa's top FDI recipients.[132] Between 2014/15 and 2016/17, Ethiopia attracted a total of **$9.6 billion** in FDI. Between 2014/15 and 2016/17, the annual growth rate averaged an impressive **38.1%** until 2016/17, peaking at **$4.2 billion**-equivalent to **5.1%** of the country's GDP.[133]

Figure 3.1

FDI Inflow in Ethiopia (In Billions USD)[134] [135]



Note: The FDI figures for the years 2014/15, 2015/16, and 2016/17 have been obtained from NBE Annual Reports and converted from Birr to USD using the period-weighted average exchange rate (Birr/USD) based on data from the NBE Annual Report.

Factors including strong economic performance, improved infrastructure (particularly industrial parks), implementation of GTP I), expanding market sizes, and the government's openness to foreign investment contributed to the growth of FDI.[136] [137]

In 2018, FDI experienced a slight decline, followed by a more significant drop in subsequent years.

This pre-pandemic downturn was primarily driven by civil unrest and political uncertainty, which culminated in a change of government in 2018. The appointment of Dr. Abiy Ahmed as Prime Minister marked the beginning of policy reforms and economic liberalization, aimed at stabilizing the investment climate and fostering long-term growth.[138]

Starting in 2016/17, FDI in Ethiopia saw a consistent decline, dropping from **$4.2 billion** to **$2.4 billion** by 2019/20. The decrease began with a slight decline in 2017/18, followed by a more substantial decline, which worsened during the COVID-19 pandemic in 2019/20, when FDI's share of GDP fell to **2.2%**.[139]

Despite the pandemic's effects, it still comprised over a third of foreign investment in the sub-region.[140] [141]

Despite a drop in FDI inflows between 2019 and 2020, Ethiopia leveraged the crisis in Bangladesh's textile sector to attract foreign textile investors. However, the situation worsened with the onset of the Tigray conflict in November 2020. The pandemic, ongoing conflict, political unrest, and delays in debt restructuring further deterred investors.[142] [143] In 2020/21, Ethiopia attracted **$4 billion** in FDI, a significant increase over the previous year.[144] This rise was primarily attributed to the **$850 million** sale of a private telecom license to Safaricom and its consortium.[145]

Investor confidence declined in 2021 due to the escalating conflict in the Tigray region, which began in late 2020.

Alongside the pandemic, political instability, and economic constraints—including inflation and foreign exchange shortages—this led to a decline in FDI inflows. By 2021/22, FDI inflows had dropped to **$3.3 billion**. Nonetheless, Ethiopia continued to make progress in transport infrastructure and energy production, aiming to enhance its attractiveness to investors.[146] [147]

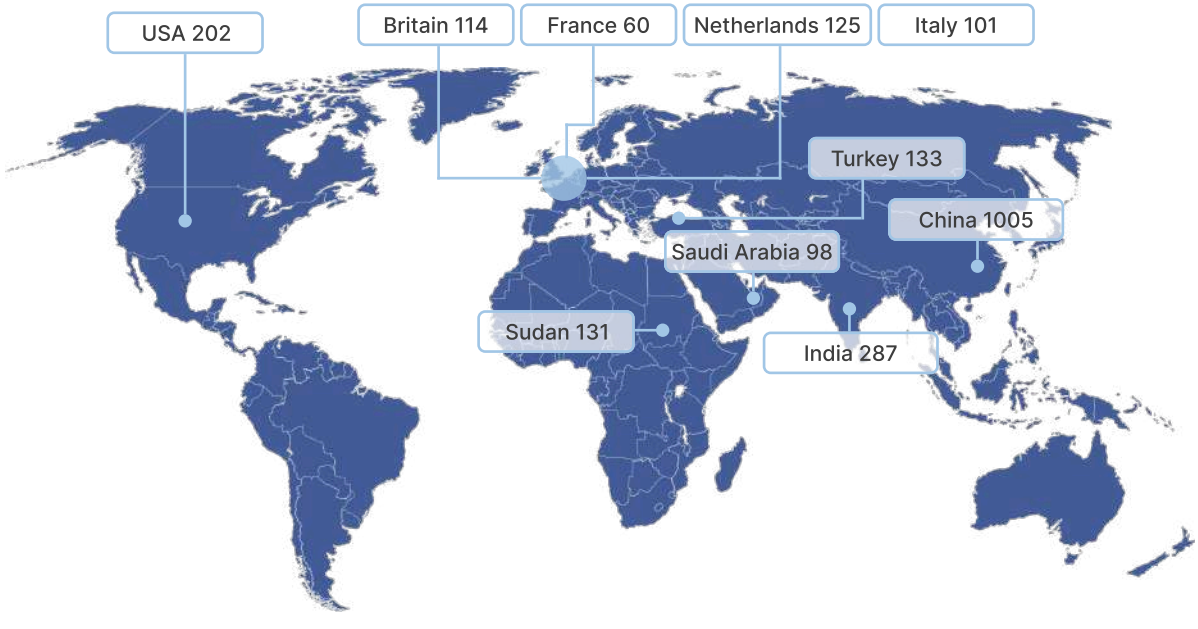
Ernst & Young's Africa Attractiveness Report 2023 highlighted that the number of FDI projects in Ethiopia fell from **34 in 2019** to only **five in 2021**, with a slight rebound to **six in 2022**.[148] The decline was due to factors including the COVID-19 pandemic, the Russia-Ukraine conflict, and internal security issues. Ethiopia's exclusion from the African Growth and Opportunity Act (AGOA), high inflation, foreign exchange limitations, and debt also posted significant challenges. Nevertheless, Ethiopia has been able to attract investment, particularly in the telecoms sector, drawing interest from Safaricom, Kenya's leading telecommunications company.[149] Furthermore, in 2022/23, FDI reached **$3.4 billion**, surpassing regional competitors such as Kenya ($1.5 billion) and Uganda ($2.9 billion).[150] [151]

3.2 Major Sources of Investment for Ethiopia

Ethiopia has emerged as a significant destination for FDI in East Africa, particularly in 2016/17, when it attracted approximately **$4.2 billion**, surpassing regional neighbors such as Kenya and Uganda. This strong performance can be attributed to investment inflows from key economic partners that have established substantial economic ties with the country.[152] [153] Between 1992 and 2022, China, India, the US, Turkey, and Sudan, in descending order, accounted for the major sources of FDI in terms of the number of projects.[154] [155]

Figure 3.2

Top 10 countries of origin for FDI in Ethiopia by No of projects)[156]



China is one of the largest investors in Ethiopia. Between 2019 and 2023, it undertook 1,098 projects, with 559 being wholly foreign-owned and the remainder as joint ventures.[157] Chinese FDI spans various sectors of Ethiopia's economy, but four industries dominate: clothing and textiles, building materials, plastics and metals, and engineering. Over the past two decades, the stock of Chinese investment in Ethiopia is estimated at $4 billion, creating over 100,000 jobs. [158]

The Chinese government as well as private enterprises have invested heavily in Ethiopia's infrastructure, manufacturing, and energy sectors. This substantial investment reflects China's broader strategy to enhance its influence in Africa through initiatives like the Belt and Road Initiative.[159]

Similarly, India has been a significant contributor to foreign investment in Ethiopia, with a total of 475 projects, 47 of which are wholly owned, while the rest are joint ventures.[160] Indian FDI primarily focuses on food processing and plastics. However, Indian firms have also invested across a wide range of sectors, including agriculture and floriculture, engineering, manufacturing, cotton and textiles, water management, consultancy, ICT, education, pharmaceuticals, and healthcare.[161]

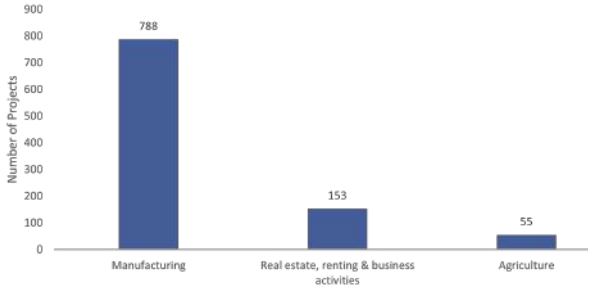
Additionally, Saudi Arabian FDI is broadly distributed across sectors such as agriculture, manufacturing, mining, education, healthcare, hotels, tour operations, real estate, and water well drilling, among others. In contrast, Turkish investors have primarily focused on industries like textiles, construction, food processing, and power generation, contributing significantly to Ethiopia's industrial and infrastructure development.[162]

3.3 Key sectors that are currently attracting FDI in Ethiopia

The manufacturing, real estate, renting and business activities, and agriculture sectors are the largest recipients of FDI in Ethiopia, attracting the highest number of projects and generating the most employment between 2019 and 2023.[163]

Figure 3.3

Number of FDI Projects (2019-2023) Across Three Sectors[164] [135]



The graph above shows the distribution of FDI projects across different sectors in Ethiopia between 2019 and 2023. The manufacturing sector has attracted 788 projects, followed by real estate, renting, and business activities with 153 projects. The agriculture sector has the fewest projects among the three, totaling 55.

3.3.1 Manufacturing

Over the last two decades, Ethiopia's manufacturing sector has witnessed significant growth in the number of firms, sales, and employment.[165] The sector has attracted **788 projects** and employed **77,398 employees**, of which **55,420** are permanent and **21,978** are temporary employment.[166] However, its overall contribution to the economy remains modest, accounting for only about **4%** of GDP in 2023, down from **5.6%** in 2019.[167]

To attract FDI and create employment opportunities, Ethiopia introduced an industrial park strategy in 2013.[168] Currently, the country hosts **13 public and 5 private** industrial parks. Over the past decade, this strategy has achieved several milestones, including attracting FDI worth **$740 million** from over **60 foreign investors**, creating more than **150,000 jobs**—primarily for women—and contributing to manufactured exports worth **$575 million in 2023**. Some parks, such as Bole Lemi, Kilinto, and Hawassa, have reached occupancy rates exceeding 80% at their peak. While manufactured exports in 2023 accounted for less than one-fifth of total exports, the industrial parks have not only contributed to foreign currency generation but also played a significant role in transferring knowledge and skills.[169]

Ethiopia's approach to industrialization also stood out in attracting FDI, as it is one of the few African countries to pursue a developmental state framework. This has been supported by a capable state apparatus with extensive experience in development planning, infrastructure development, and service delivery. The country also offers a trifecta of competitive wages, subsidized energy, and affordable industrial land, making it a desirable destination for investors. For instance, Ethiopia's land leasing rates are among the lowest in Africa, significantly cheaper than in countries like Kenya, South Africa, and Nigeria.[170]

The Ethiopian Investment Commission (EIC) provides a range of incentives to attract investment, categorized into fiscal, non-fiscal, and other forms of support. These incentives aim to promote industrial development, facilitate ease of doing business, and create a conducive environment for investors. The Investment Guide and the Investment Regulation outline attractive incentives for priority sectors and sub-sectors. [171] Additionally, expatriate employees of industrial park enterprises (tenants) enjoy personal income tax exemptions for up to five years following the issuance of their business license.[172]

3.3.2 Agriculture

Agriculture is a key driver of economic growth in Ethiopia and a top priority for the Ethiopian government. Recognizing its potential, the government has focused on enhancing agricultural production and productivity as a strategic approach to increase export revenue and strengthen global competitiveness.[173] Currently, three-quarters of Ethiopia's population is employed in the agricultural sector,

highlighting its importance to the economy.[174]

In terms of the number of FDI projects, agriculture ranks as the third-largest sector, with **55** FDI projects, and is the second-largest in employment generation, creating **15,631 jobs**—**497** of which are permanent and 15,134 are temporary.[175] Ethiopia offers a variety of investment opportunities in agriculture due to its diverse topography and favorable climate, allowing the production of coveted crops like cereals, pulses, oilseeds, fruits, vegetables, coffee, tobacco, sugarcane, tea, spices, and cotton.[176]

To attract more FDI, the Federal and Regional Investment Commissions of Ethiopia provide incentive packages, including up to **10 years of income tax** exemptions for businesses in the agriculture sector. The duration of tax exemptions depends on the location of the investment, with the most favorable incentives offered to those investing in areas with less-developed infrastructure and farther from urban centers. Even in the capital, Addis Ababa, and surrounding areas, agricultural investors benefit from business income tax exemptions.[177]

However, despite these incentives, the sector faces significant constraints, such as limited access to finance and modern technology, which hinder its full potential. Inefficient market systems and underdeveloped research and extension services add to these challenges, along with the difficulty of identifying and retaining appropriately skilled personnel.[178] [179]

Addressing these issues is critical for unlocking the sector's full capacity to drive economic growth and attract further investment.

3.3.3 Real Estate, Renting, & Business Activities

Between 2019 and 2023, the real estate, renting, and business activities sector in Ethiopia comprised **153 projects**, generating **14,424 jobs**, of which **12,452** were permanent and **1,972** were temporary.[180] The sector is divided into five key subsectors. The largest share of projects, **44%**, was in other business activities, with **68 projects** focused on investment activities such as consulting services in electrical, civil, and chemical engineering. Computer and related activities followed, accounting for **35%** of the projects, with **54 projects** focused on software design, data center services, and data processing, and others. Real estate activities, which include investments in areas such as real estate development and industrial parks, contributed **18%** with **27 projects.** Supporting and auxiliary transport activities, including travel agencies, made up **2%** with **3 projects**, in areas such as urban planning consultancy. The smallest subsector, other service activities, accounted for less than **1%**, with just **1 project.**[181]

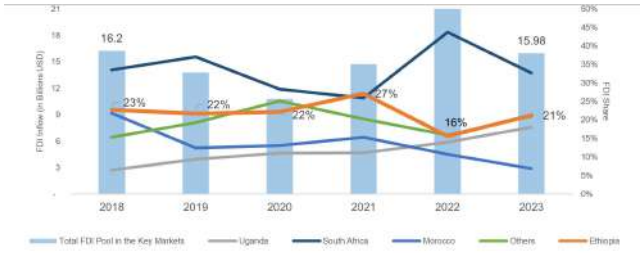
3.4 Comparative Analysis Of Ethiopia's Performance Against Regional Peers

Ethiopia's investment landscape is evolving within a dynamic regional context. To assess its competitive position, this section compares Ethiopia's performance in key sectors with six regional peers—**Kenya, South Africa, Morocco, Tanzania, Rwanda, and Uganda.** These countries were selected based on the stability and conduciveness of their investment climates. The analysis identifies Ethiopia's strengths and areas requiring improvement, offering insights into how the country can enhance its attractiveness to investors and sustain economic growth. Recent data covering six African economies reveals that the total FDI pool rose from **USD 16.2 billion** in 2018 to **USD 22 billion** in 2022, before declining to **USD 15.98 billion** in 2023. Despite these overall shifts, each country's relative share of FDI has remained relatively stable over the six years, with Ethiopia's portion dropping by just **1%**. Notably, Ethiopia experienced a peak share of **27%** in 2021, then a sharp decline in 2022—even as the total FDI pool reached its highest level that year—only to rebound again in 2023, signalling renewed investor interest.

Crucially, there is no evidence that FDI is systematically diverting away from Ethiopia. Although Ethiopia's share has shown volatility—partly reflecting global economic uncertainties and domestic conditions—the minor overall change in its relative portion of FDI suggests that investors continue to view the country as a competitive destination in the region. Coupled with a strong rebound in 2023, Ethiopia's investment climate remains an attractive option, even as neighboring countries also vie for foreign capital by improving their business environments and offering sector-specific incentives.

Figure 3.4

Countries' Share of Total FDI Inflows in the Region (Across Seven Countries)[182]



When looking at specific FDI flows from key investment sources, the top two FDI-contributing countries in Ethiopia were China and India.[183] China's overall Foreign Direct Investment (FDI) stock in these seven African countries has slightly declined, decreasing from **USD 15.5 billion** in 2018 to **USD 14.7 billion** in 2022. Among them, South Africa had the highest share of Chinese investment, accounting for **36%** in 2022, though this marked a significant drop from **48%** in 2018, largely due to shifting investment dynamics.

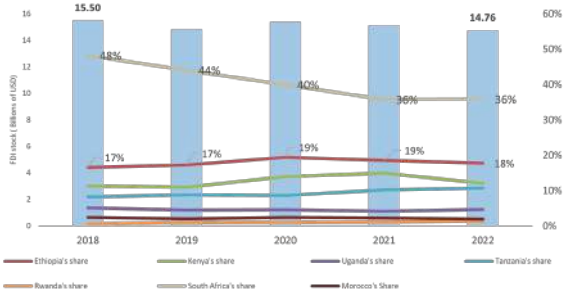
Despite the overall decline in China's FDI stock, Ethiopia maintained a stable share, increasing slightly from **17%** in 2018 to **18%** in 2022. This demonstrates Ethiopia's continued attractiveness to Chinese investors, particularly in sectors such as

manufacturing, and infrastructure.[184] The country's ability to sustain its share of Chinese investment, even as the total pool decreased, highlights its strategic position within the broader **China-Africa economic relationship.**

Meanwhile, Morocco also managed to maintain and slightly increase its share, rising from **8%** in 2018 to **11%** in 2022. This coincided with the signing of a joint Belt and Road Initiative (BRI) implementation plan between Morocco and China in 2022, which strengthened bilateral cooperation across various sectors. The agreement positioned Morocco as the first North African country to establish a comprehensive partnership with China under the BRI, fostering increased investment opportunities.[185]

Figure 3.5

Countries' Share of Total Chinese FDI Stock in the Region[186]



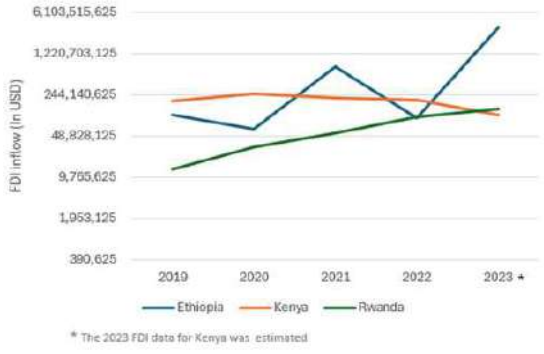
Sectoral Comparison of FDI Inflow

Ethiopia's sectoral Foreign Direct Investment (FDI) inflow was analyzed in comparison with Kenya and Rwanda, where relevant data was available, to identify investment trends. The analysis focused on key sectors, including Manufacturing, Real Estate, and Agriculture.

Manufacturing Sector

Figure 3.6

FDI Inflow into the Manufacturing Sectors of Ethiopia, Rwanda, and Kenya[187] [188] [189]



Note: There is a discrepancy between the total FDI figures reported by EIC and other agencies such as NBE, and MOPD

Ethiopia's FDI inflow fluctuated significantly between 2019 and 2023, reaching its lowest point in 2020 before rebounding in 2023 to a five-year high of **USD 3 billion**. Despite these fluctuations, Ethiopia maintained the highest FDI inflows into the manufacturing sector compared to its neighbouring countries. However, while Kenya and Rwanda experienced more stable FDI trends, Ethiopia's inflows remained volatile.

Kenya's FDI in manufacturing was relatively stable between 2019 and 2021 but saw a slight decline from 2022 onwards. In contrast, Rwanda's FDI inflows into manufacturing, though significantly lower than Ethiopia's, have consistently increased, reflecting an improved investment climate and growing investor confidence in the sector.

For the past decade, Rwanda has implemented strategic measures to boost FDI in manufacturing, focusing on policy reforms, infrastructure development, and investment incentives.

A key driver has been the expansion of **Special Economic Zones (SEZs)**, particularly the Kigali Special Economic Zone (KSEZ), which offers world-class infrastructure and regulatory incentives. By 2019, KSEZ was at full capacity with over **65 companies**, leading to further expansion. New SEZs have also attracted investments in textiles, processed foods, and electric vehicle assembly, reflecting Rwanda's push for industrial diversification.[190]

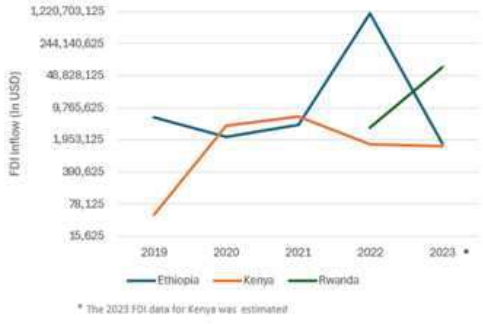
Infrastructure improvements have further enhanced Rwanda's competitiveness. Projects like the Kivu Belt Road, Kigali dry port, Bugesera International Airport, and the planned Kigali-Dar es Salaam railway have lowered transport costs and improved trade logistics, making manufacturing more attractive to investors.[191]

Additionally, Rwanda's business environment has significantly improved, ranking as the **second-best** place to do business in Africa and 38th globally on the World Bank Doing Business index. Streamlined regulations and investor-friendly policies have strengthened its position as a growing industrial hub in Africa.[192]

Real estate, Renting, and Business Activities

Figure 3.7

FDI Inflow into the Real estate Sectors of Ethiopia, Rwanda, and Kenya[193] [194] [195]



Note: There is a discrepancy between the total FDI figures reported by EIC and other agencies such as NBE, and MOPD

Ethiopia's Foreign Direct Investment (FDI) in the real estate sector has followed a fluctuating pattern similar to its manufacturing sector, experiencing significant highs and lows. The sector reached its peak in 2022 with **USD 1.1 billion**, only to drop sharply to a five-year low of in 2023. Between 2019 and 2023, real estate activities—including investments in real estate development and industrial parks—accounted for **18%** of Real Estate, Renting, and Business activities' FDI, with **27 projects** recorded during this period.

Historically, Ethiopia led its regional peers, Kenya and Rwanda, in real estate FDI inflows. However, Rwanda has emerged as a strong competitor, particularly since 2022, when its real estate sector began attracting increasing FDI inflows. By 2023, Rwanda overtook both Ethiopia and Kenya, recording **USD 75 million** in FDI.

The Rwandan government is actively

promoting real estate development as part of our Vision 2050 plan to have 70% of the population living in urban areas by 2050. The sector contributes approximately 16% to Rwanda's GDP.[196] A major contributor to Rwanda's rise in real estate FDI has been the Manufacture and Build to Recover Program (MBRP), launched in 2020 to drive economic recovery by attracting private sector investments in manufacturing, agriculture, construction, and real estate development. Initially planned to conclude in 2022, the program was extended to 2025 due to its positive impact on investment inflows.[197]

The MBRP introduced several incentives to attract investors, including tax exemptions on imported construction materials not available within the East African Community (EAC), as well as on locally sourced materials, significantly reducing setup and operational costs for real estate projects.[198] By December 2022, the program had approved 101 projects across multiple sectors, with 32 specifically in construction, highlighting its effectiveness in driving FDI into Rwanda's real estate sector.[199]

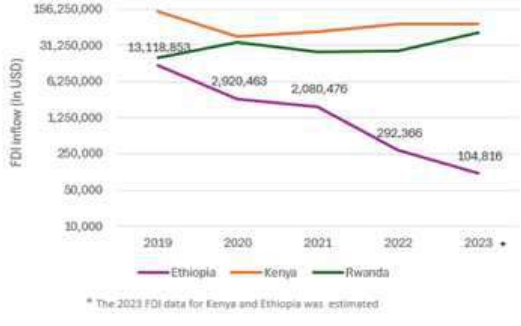
Rwanda's proactive investment policies and structured incentives have positioned it as an increasingly attractive FDI destination for real estate, while Ethiopia's real estate FDI inflows have declined due to economic uncertainties, regulatory challenges, and global investment shifts.

Agriculture

Ethiopia has had relatively low and stable FDI inflows in the agriculture sector from 2019 to 2023, with minimal inflows of 292.37 thousand USD in 2022, compared to significant inflows in neighboring countries. Kenya experienced a strong performance, reaching 81.8 million USD in 2022, while Rwanda saw steady growth, reaching 24.5 million USD.

Figure 3.8

FDI Inflow into the Agriculture Sectors of Ethiopia, Rwanda, and Kenya



Note: There is a discrepancy between the total FDI figures reported by EIC and other agencies such as NBE, and MOPD

Ethiopia's stagnant FDI inflows highlight a stark contrast to the performance of Rwanda and Kenya, suggesting that Ethiopia may need to attract more investment to boost its agricultural sector.

Kenya has invested in its agricultural sector through the implementation of its **Third Medium Term Plan (MTP III)**, part of the Vision 2030 national strategy. This multi-sectoral framework (2018-2022) focused on several key reforms aimed at enhancing the productivity and sustainability of agriculture. The plan promoted the adoption of green

technologies and the expansion of agricultural productivity through improved access to affordable fertilizers and increased mechanization. Additionally, Kenya increased land under irrigation, encouraging the use of drip irrigation and greenhouses for water-efficient agriculture. [200]

Conclusion

Ethiopia's FDI trajectory, while marked by volatility, underscores its enduring appeal as a regional investment destination despite challenges. Although its share of the regional FDI pool fluctuated sharply, peaking at 27% in 2021 before declining and rebounding in 2023—the absence of systematic diversion signals sustained investor confidence. Ethiopia retains strategic advantages, particularly in manufacturing, where it leads regional peers like Kenya and Rwanda, albeit with volatility. However, Rwanda's rise in real estate (overtaking Ethiopia in 2023) and Kenya's dominance in agriculture highlight competitive gaps driven by targeted reforms, such as Rwanda's tax incentives under the MBRP and Kenya's Vision 2030 agricultural modernization.

Ethiopia's stable share of Chinese FDI amid declining Chinese regional investments further underscores its geopolitical relevance. To capitalize on its strengths and mitigate vulnerabilities, Ethiopia must prioritize policy stability, infrastructure enhancements, and sector-specific incentives—particularly in underperforming sectors like agriculture and Real estate, to solidify its position as a resilient, diversified FDI hub in a competitive regional landscape.



Investment Climate Overview

4

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4.1 Policy Overview

Over the past six years, the Ethiopian government, spearheaded by the EIC and backed by high-level leadership, has rolled out bold reforms to improve the business environment, modernize regulations, and create a favorable ecosystem for investment.[201]

Under the **Ease of Doing Business (EDB)** initiative launched in 2020, more than 100 targeted reforms were identified to address legal, operational, and institutional barriers to business. Over 85 legal instruments have been revised, including the modernization of the Commercial Code, which had remained unchanged since the 1960s, and the introduction of the Capital Market Proclamation, providing a legal foundation for securities markets. Other notable reforms include the E-Transaction Proclamation, which formalized electronic transactions, and the Commercial Registration and Licensing Proclamation, streamlining regulatory processes. Beyond legal reforms, operational improvements have made significant impacts, such as the removal of trade name publication requirements and lease contract obligations for business registration. The introduction of e-government services, including online trade registration, electronic tax systems, and e-permitting for construction, has further reduced bureaucratic inefficiencies, enabling businesses to operate more seamlessly.[202] [203]

A strong governance structure underpinned the success of the EDB initiative. The Steering Committee, chaired by the Prime Minister, ensured high-level oversight, while the EIC coordinated implementation across ten government institutions. As a result, initiatives have been fully executed, setting the stage for a new, holistic phase of business climate reform that emphasizes private sector engagement, institutional restructuring, long-term planning, and enhanced monitoring.[204] [205]

In parallel, Ethiopia has undertaken transformative reforms to improve its investment climate. The enactment of a new Investment Law in 2020 was a watershed moment, opening up previously restricted sectors to foreign investors.[206] Key sectors such as telecom, media, and trading have seen significant liberalization, with the trading sector opened for foreign participation for the first time in 50 years under gradual and regulated conditions. Similarly, the financial sector is now undergoing major reforms to accommodate foreign players, while the logistics sector is being targeted to unlock its potential to support broader economic activity. **The Investment Incentive Regulation No. 517/2022** offers substantial tax exemptions, such as income tax breaks for investments in underdeveloped regions and star hotels, incentivizing job creation and expansion.[207] The Regulation also allows investors to import capital goods, construction materials, and motor vehicles free from customs duties.[208]

The regulation was amended in 2025, with key changes including updates to income tax exemptions for investors providing employment opportunities outside of Ethiopia to Ethiopians who hold qualifications from recognized training institutions for placement abroad. Under the revised regulation, the required number of jobs an investor must create to qualify for the tax exemption has been increased. Additionally, a new sub-article 4 was introduced, granting the Ethiopian Investment Board the authority to offer additional incentives to companies involved in strategic **mining and petroleum** operations, enabling more tailored incentives for projects deemed vital to national development. The amendments also clarify the **tax exemption for motor vehicles** used in investment activities, stipulating that eligibility will now be determined by a directive issued by the Ministry, which specifies the types of investment projects that qualify for such benefits. Importantly, pickup trucks and station wagons are explicitly excluded from customs duty exemptions.[209] Collectively, these reforms create a more efficient, investor-friendly environment that supports economic growth and foreign investment.

Proclamation No. 1076/2018 was enacted to create a favorable framework for privately financed projects to promote economic development.[210] In February 2023, the government further amended the original legislation by enacting **Proclamation No. 1283/2023**. A key feature of this amendment is the introduction of a **direct negotiation mechanism for PPP projects**. This allows the Public-Private Partnership Board to approve projects through bilateral economic diplomacy or direct negotiations with foreign companies, streamlining the process of securing investment.[211]

Complementing these efforts, Ethiopia's **Ministry of Finance issued Directive No. 941/2023** following Article 5 of the **Investment Incentives Regulations No. 517/2022**, which provides for income tax exemption on income earned from expanding or upgrading existing investments. The directive offers substantial benefits, including income tax exemptions and duty-free importation of capital goods for qualifying businesses. The income tax exemptions are scaled based on the degree of expansion: businesses that achieve a **50-70% increase** in production receive a **60% exemption**, those with a **71-90% increase** is eligible for an **80% exemption**, and businesses that expand by **more than 90%** receive a **full** tax exemption. To qualify, businesses must have been operational for at least **36 months,** maintain certified financial statements, and meet their tax obligations during any previous exemption periods. Investors are also mandated to maintain separate accounts for expenses related to the expansion and face legal penalties for providing false documentation to obtain these incentives.[212] The directive provides clear guidance on how tax incentives can be utilized, targeting investments that

contribute to the expansion or upgrading of existing operations. This focus implies the government's intention to encourage not just new investments but also the growth and modernization of existing businesses. By setting stringent requirements for the utilization of incentives, the directive ensures that tax incentives are granted only to investments that align with those intended for upgrading or expansions.

Furthermore, recognizing the need for structural reforms to streamline bureaucratic and regulatory processes and enhance governance in public institutions, Ethiopia has implemented several measures aimed at reducing business constraints and promoting private sector-led growth. These reforms are focused on improving the country's ease of doing business and creating a more conducive environment for investment. Among others, the main reform measures include improving the different components of the ease of doing business such as starting a business, dealing with construction permits, paying taxes, trading across borders, getting electricity, getting credit, and registering property.[213]

These policy developments demonstrate Ethiopia's commitment to creating a more investment-friendly environment as the government continues to prioritize reforms that reduce barriers to entry, enhance market efficiency, and improve the overall business climate. By modernizing the regulatory framework and introducing measures that encourage private sector participation, Ethiopia is setting the stage for sustained economic growth. Ultimately, these strategic policy shifts position Ethiopia as an increasingly attractive destination for investment, promising significant opportunities for investors and facilitating the country's long-term economic transformation.

4.2 Ethiopia's Flagship Initiatives

4.2.1 Special Economic Zones

Since the launch of the GTP, Ethiopia has emphasized the establishment of industrial parks as a key tool for industrialization.[214] However, despite this effort, the industrial parks have faced several challenges that have hindered their ability to meet planned targets and operate at full capacity. Key issues include weak linkages and economic spillovers, lack of proper infrastructure, high labor turnover, lack of clear regulations and weak inter-agency coordination, supply chain challenges, shortage of foreign currency, and inadequate pre-approval screening.[215]

In response to these challenges, Ethiopia's Parliament enacted **Proclamation No. 1322/2024** in 2024, introducing new regulations for **Special Economic Zones (SEZs)** and repealing the earlier Industrial Parks Proclamation **No. 886/2015 and Regulation No. 417/2017.**[216] [217]

The enactment of this significant reform consolidates Ethiopia's various zone schemes—industrial parks, trade zones, logistics parks, and other service-sector investments—into a unified framework.

As a result, all existing industrial park investments will be subject to the provisions of the new Proclamation and regulations thereunder, and oversight of the Ethiopian Investment Board and the Ethiopian Investment Commission.[218]

The repealed Industrial Parks Proclamation and the new SEZ Proclamation differ in terms of scope, incentives, and reforms. The SEZ Proclamation has a broader sectoral focus aimed at diversifying Ethiopia's economy and integrating it into global and regional supply chains, whereas the Industrial Parks Proclamation primarily focused on priority manufacturing industries. SEZs offer more comprehensive fiscal incentives, including dividend tax exemptions and withholding tax relief during tax holidays, making them more attractive to investors compared to the earlier industrial park framework. Additionally, SEZs provide an experimental platform for targeted regulatory reforms, allowing successful measures to be scaled nationwide, whereas the Industrial Parks legislation lacked a specific investment regime to guide such reforms.[219] [220]

Under the new framework, the Board is empowered to formally approve SEZs that meet specific criteria. Zones must invest at least **USD 75 million** in capital development over time, with a minimum land requirement of **50 hectares** for designation applications.[221]

The proclamation also offers a range of tax incentives, including exemptions from all taxes and duties on imports and exports of goods, as well as zero-rated VAT and exemptions from other indirect taxes for goods and services entering the zone. Investors also enjoy duty-free importation of construction materials, capital goods, and exemption from income tax on dividends and withholding tax during the tax holiday period.[222]

The introduction of the SEZ regulations represents a strategic step towards creating a more conducive business environment in Ethiopia. By establishing a unified framework for SEZs, the country aims to unlock new avenues for economic growth, encourage investment, and promote trade integration, ultimately contributing to the overall development and prosperity of the nation.[223]

4.2.2 Dire Dawa free trade zone

According to the Special Economic Zone Proclamation **No. 1322/2024**, a free trade zone is a special economic zone in which goods and services may be imported, stored, transformed, handled, manufactured, reconfigured and/or re-exported suspensive of customs duties and taxes.[224] The first free trade zone in Ethiopia, the Dire Dawa Free Trade Zone (FTZ), was inaugurated in 2022. It covers an initial area of **150 hectares** with the potential to expand up to **4,000 hectares.**[225] Its operations began in 2018 with 15 factory sheds rented to investors from China, Italy, Sri Lanka, and Ethiopia, focusing on garment, apparel, and textile production exclusively for export.[226]

The Dire Dawa FTZ was established under key principles of sustainability, import substitution, and re-export processing, with broad objectives that include reducing price inflation, generating income, boosting economic activity, and creating employment opportunities.[227] [228] The zone is expected to attract significant foreign direct investment, increase global competitiveness, and curb illegal trafficking. As part of Ethiopia's long-term development vision, the FTZ aims to enhance Ethiopia's integration into global value chains and position the country as a leading industrial hub in Africa.[229]

The zone plays a central role in supporting Ethiopia's alignment with the **African Continental Free Trade Area (AfCFTA)**, one of Africa's flagship development projects under Agenda 2063.[230] The primary objective of the AfCFTA is to create an integrated African market that facilitates the free movement of goods and services across the continent's internal borders.[231] By ratifying the AfCFTA, Ethiopia has taken a significant step toward facilitating intra-African trade and improving its global trading position. This initiative not only benefits Ethiopia but also contributes to the broader goals of economic integration across the continent.[232]

In conclusion, the Dire Dawa Free Trade Zone represents a transformative initiative within Ethiopia's economic landscape, strategically designed to boost trade, attract foreign investment, and stimulate industrial growth. This initiative not only enhances Ethiopia's position as a regional trade hub but also promotes economic diversification and job creation, contributing to long-term sustainable development and strengthening the country's global competitiveness.

4.2.3 Liberalization reform of state-owned organizations

In Ethiopia, **State-Owned Enterprises (SOEs)** play a pivotal role as the government's strategic investment arm, focusing on addressing market failures and safeguarding critical national interests. Over the past few years, significant reforms have been implemented to enhance their sustainability, operational efficiency, and competitiveness. These reforms aim to catalyze economic transformation, create high-quality jobs, and pivot toward private sector-driven solutions while improving public sector accountability. By fostering private-sector competition, attracting foreign investment, and enhancing SOE financial stability, the government has laid the groundwork for more dynamic economic participation.[223]

In the power sector, tariff adjustments have been made for Ethiopian Electric Power and Ethiopian Electric Utility to strengthen their financial health, enabling greater private sector involvement through **Public-Private Partnerships (PPPs)**. These reforms demonstrate the government's focus on leveraging private sector engagement to modernize critical infrastructure and services.[234]

To address the debt challenges faced by SOEs, the government established the

Liability and Asset Management Corporation (LAMC),), transferring nearly **398 billion ETB** of SOE debt. This intervention has provided much-needed financial stability for SOEs, allowing them to refocus on their operational mandates. Complementing this, the establishment of **Ethiopian Investment Holdings (EIH)** has been a significant milestone. With an authorized capital of **100 billion ETB**—25 billion ETB already paid up—EIH serves as Ethiopia's sovereign wealth fund, tasked with managing public assets and funds professionally. EIH's mandate focuses on unlocking value from underutilized assets, consolidating public resources for monetization, and attracting foreign investment through co-investment platforms.[235]

While Ethiopia's reform trajectory has been largely positive, challenges remain. Efforts to privatize certain industries and issue a third telecom license have encountered delays due to market shocks. Nonetheless, the broader strategy of SOE reform, privatization, and market liberalization has already created a more competitive and efficient environment for public asset utilization.[236] Moving forward, the government must continue to strengthen SOEs, encourage private sector participation, and strategically prioritize public investments in sectors with market failures and high social impact potential. These sustained efforts are essential to achieving Ethiopia's vision of balanced, inclusive, and sustainable economic growth.

4.2.4 Capital Market

In recent years, Ethiopia has made significant strides in developing its capital market, which is a critical component of the country's broader economic reforms aimed at fostering sustainable growth and liberalizing the financial sector. Recognizing its benefits, Ethiopia has embarked on a series of initiatives to establish its first formal securities exchange and build a robust capital market ecosystem.[237]

In 2021, the NBE issued the Capital Markets Proclamation No. 1248/2021, laying the groundwork for the **Ethiopian Securities Exchange (ESX)**, the country's first securities exchange. The absence of such an exchange had long hindered Ethiopia's capital market development, limiting liquidity and the availability of financial intermediaries like investment banks and stockbrokers. Despite having one of the largest economies in Africa, Ethiopia lacked the capital market infrastructure that other regional economies have.[238] [239]

To support this initiative, the **Ethiopian Capital Market Authority (ECMA)** was established in June 2021 as an autonomous federal government agency. Its mandate, set forth under **Proclamation No. 1248/2021**, is to regulate and oversee the emerging capital market. The creation of the ECMA is part of Ethiopia's broader economic reforms designed to liberalize the financial sector and attract private investment. It aims to ensure a well-regulated capital market that can promote

sustainable economic growth and wealth creation.[240] [241] Furthermore, the ESX was officially launched in January 2025, marking a historic milestone in Ethiopia's economic development.[242]

According to **Assefa and Yohannes, Senior Advisors at the Ethiopian Capital Markets Authority** (personal communication, December 13, 2024), while foreign investors may participate in the capital market through equity investments, infrastructure projects, green climate finance initiatives, and investment banks, substantial FDI is not anticipated in the capital market itself. However, the existence of the capital market can stimulate investment in other sectors by enhancing access to finance and improving liquidity.

These initiatives aim to facilitate more efficient capital allocation, attract both domestic and international investment, and stimulate innovation within the financial sector. By laying the foundation for a functioning capital market, Ethiopia is positioning itself to drive long-term economic growth, enhance financial inclusion, and support the development of high-potential industries and enterprises.

4.3 Challenges In Doing Business In Ethiopia

Despite the government's ongoing efforts to foster a favorable investment climate in Ethiopia, there are persistent challenges that hinder business competitiveness. These challenges pose significant obstacles for foreign investors seeking to operate successfully in the country.

Some of the key challenges include:

Infrastructure

Frequent power outages present a significant challenge for foreign investors in Ethiopia.[243] [244] The unreliable electricity supply is a major barrier to conducting business, as power disruptions can directly affect production processes, leading to reduced intermediate and final outputs. Beyond these immediate impacts, firms are often forced to implement costly coping strategies, such as investing in alternative power sources like generators. These measures not only increase operational costs but also hinder overall productivity and competitiveness, making the business environment more challenging for investors.[245] Furthermore, companies face long lead times for importing goods and dispatching exports due to logistical bottlenecks and high land transportation costs. These inefficiencies hinder economic competitiveness and limit export growth, as the infrastructure needed to support modern manufacturing and agricultural supply chains is often lacking.[246] [247]

Unpredictable Business Climate

Foreign investors in Ethiopia face significant challenges due to an unpredictable business climate marked by **sudden policy changes and a constantly shifting operating environment.** These factors have eroded private sector confidence, discouraging long-term investments and stifling business expansion and job creation.[248]

In addition, inconsistent application of investment regulations, an unpredictable tax regime further complicates efforts to navigate the market.[249] Together, these obstacles hinder the creation of a more investor-friendly environment, making it difficult for foreign investors to operate effectively. **Bahiru**, the **Executive Director of the European Chamber in Ethiopia**, (personal communication, December 5, 2024) noted that there is a significant lack of awareness regarding new regulations, with many investors often blindsided by new policies or changes that were **not communicated in advance**. This unpredictability in the regulatory environment heightens uncertainty and risk, making it difficult for investors to plan effectively and eroding confidence in the investment landscape.

Bureaucratic Hurdles

Foreign investors in Ethiopia face several **bureaucratic challenges** that hinder business operations. These include delays in licensing, requests for bribes, and cumbersome procedures at the regional level. Licensing delays can prolong the time needed to start operations, while the demand for bribes creates an environment of corruption that undermines investor confidence. Furthermore, complex and inefficient processes at the regional level add a layer of difficulty for businesses, making it more challenging to navigate the regulatory environment and secure necessary approvals. These bureaucratic hurdles contribute to a less favorable investment climate.[250] Habtamu (personal communication, December 5, 2024), explains that lengthy processes and complex requirements for obtaining loans and foreign exchange further deter investors and reduce Ethiopia's competitiveness. Additionally, the process for repatriation of profits involves multiple verification steps, including checks on the initial registered capital by the NBE, leading to delays and operational inefficiencies.

In conclusion, while Ethiopia has made strides to improve its investment climate, persistent challenges continue to hamper the growth of FDI. Issues such as unreliable infrastructure, an unpredictable business climate, a shortage of foreign currency, security concerns, and bureaucratic hurdles all contribute to a less conducive environment for foreign investors. Without substantial improvements in these areas, Ethiopia may struggle to fully unlock its investment potential and attract the **long-term foreign investment.**



Ethiopia's Investment Promotion Strategy

5

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5.1 Overview Of Ethiopia's Investment Promotion Strategy

Over the past decade, Ethiopia has made significant strides in reforming its business environment and promoting investment, particularly in the manufacturing sector. Ethiopia designed and implemented an Investment Promotion Strategy aimed at enhancing its attractiveness to investors by identifying and capitalizing on key sectors with high investment potential. Alongside these initiatives and legal and regulatory reforms, EIC has established a one-stop-shop service that streamlines licensing and registration processes for foreign investors. To further enhance investor support, the EIC has expanded its services by adding three specialized divisions: **Investment Operations**, **Industrial Park Regulation**, and **Policy Research and Improvement**, all aimed at optimizing the investment climate in the country.251

In line with the overall reforms, EIC developed a **Ten-Year Development Plan** for the period 2020/21-2029/30 aimed at fostering economic growth, creating job opportunities, and increasing export income through the attraction of high-quality investment and ensuring its long-term sustainability. The plan draws upon the successful results and valuable experiences from the previous planning period, seeking to build on these achievements while addressing and overcoming the challenges encountered. By transforming past challenges into new opportunities, the plan aims to create a more favorable environment for investment and economic growth.[252]

Consequently, the investment promotion strategy was developed in 2020 to achieve the objectives outlined in the Ten-Year Development Plan. It focused on attracting investment into a select group of priority sectors that are vital for Ethiopia's economic development and appeal to both potential and established investors, aiming to capitalize on the country's significant investment potential.[253] [254] The strategy focuses on nine priority sectors, divided into two tiers. **The first tier** includes textile and garment, leather and leather products, agro-processing, and pharmaceuticals, while **the second tier** consists of tourism, ICT, energy, agriculture, and mining.[255]

The strategy was designed to be implemented through five key programs: an outreach program to promote each priority sector, a facilitation program offering information and assistance to prospective investors, an aftercare program providing support to both new and existing investors, an advocacy program to address investor concerns, and a country branding program focused on developing and maintaining Ethiopia's brand and value proposition.[256]

Additionally, EIC aimed to build and strengthen five strategic partnerships to enhance its execution capacity. These include a formal promotional platform with the Industrial Parks Development Corporation and private industrial parks to

position them as attractive investment hubs. EIC also sought to consolidate international promotion efforts by strengthening ties with Ethiopian consular and diplomatic offices. Furthermore, investor support focal points were aimed at being established with both federal and regional entities involved in the investment process. Finally, a public-private dialogue forum was intended to provide effective aftercare services and develop an advocacy program for investors.[257]

The positive impact of reforms and initiatives aimed at attracting investment, including Ethiopia's investment promotion strategy, is reflected in the country's FDI trends from 2020 to 2023. Despite notable fluctuations, the overall trajectory demonstrates positive growth. In 2019/20, FDI stood at **$2.4 billion**. Despite the challenges posed by the global COVID-19 pandemic and internal instability, FDI surged in 2021, reaching a peak of **$4.26 billion.** FDI surged in 2021, reaching a peak of **$4.26 billion.** This rise was primarily attributed to the **$850 million** sale of a private telecom license to Safaricom and its consortium.[258]

However, FDI experienced a decline in the subsequent years. Despite this drop following the 2020/21 peak, the Average Annual Growth Rate (AAGR) over the four-year period was **17.4%**, signaling an overall improvement in FDI inflows.[259]

When compared to regional peers in East Africa over the same period, Ethiopia's average growth rate lags behind Rwanda, Kenya, and Uganda, which recorded respective AAGRs of **44%**, **92%**, and **38%**. This comparison highlights that, while Ethiopia has made progress, there remains significant room for improvement in attracting and sustaining foreign investment relative to its regional counterparts.[260] [261]

Aligned with the programs outlined in the investment strategy, EIC's investment promotion team has been implementing a targeted strategy focused on three key approaches: hosting international events, organizing local events, and providing facilitation and aftercare services to incoming investors.[262] These promotional approaches are discussed below.

5.1.1 Local and International Events

One effective way to help investors explore the investment options and opportunities in Ethiopia is by organizing a range of investment events. These events provide a platform for potential investors to gain insights into key sectors, emerging trends, and the economic landscape, while also supporting EIC's mission of **creating jobs**, **improving exports**, and boosting the economy by attracting **quality and sustainable investments.**[263] In 2023, several key investment events were organized in Ethiopia to position it as an attractive investment destination, including the Debre Berhan International Investment, Trade & Finance Expo, the Diaspora Investment Forum, & Invest Ethiopia 2023. One of the earliest events of 2023, the Debre Berhan International Investment,

Trade & Finance Expo, held from January 12-22, 2023, played a key role in positioning Debre Berhan as a prime destination for both local and international investors. The expo was designed to promote FDI and establish the city as an emerging investment hub. It also provided a platform for business-to-business matchmaking and gave local start-ups the opportunity to gain exposure to a broader business community, fostering opportunities for growth and development.[264]

In a related effort, following Prime Minister Abiy Ahmed's call to the Ethiopian diaspora, many Ethiopians returned home, creating an opportunity to boost diaspora participation in the investment sector. To capitalize on this momentum, EIC organized a Diaspora Investment Forum from February 11-14, 2023, bringing together investment offices and executive bodies from all regions. The forum highlighted alternative investment sectors in Ethiopia, provided detailed explanations, and actively recruited and attracted diaspora investors to participate in the country's economic growth.265

In addition, Invest Ethiopia 2023 was an international investment forum held under the theme "**Invest and Grow in Ethiopia – The Land of Attractive Investment Opportunities**". The forum aimed to build Ethiopia's image, attract FDI, explain the country's legal, policy, and economic reforms, and recruit new investors while addressing challenges faced by current investors.[266]

Furthermore, Ethiopia's participation in the Dubai Expo 2020, an international event, provided a platform to further promote the country's image on the global stage, by highlighting Ethiopia's wide range of investment opportunities.[267]

Other promotional activities were also carried out to attract high-quality FDI between 2020/21 and 2022/23. These activities included preparing and distributing promotional materials, organizing and participating in key platforms, and engaging with investors across different sectors at the national level to recruit and attract investment.[268]

As a result of these promotional activities, between 2020/21 and 2022/23, a total of **622 investors** were granted new investment permits. Of these, **419** were in the **manufacturing sector**, **179** in the service sector, and **24** in the **agriculture sector**. Among the **622 investors**, **381** were wholly foreign, **146** were **joint ventures**, and **95** were **domestic investors**.[277]

Building on the momentum of 2023, the Beijing Ethiopia Business Cooperation and Promotion Conference, held on June 21, 2024, in Addis Ababa, was a significant event designed to further strengthen business ties between Ethiopia and China, the largest contributor to FDI in the country.[270] [271] With over 200 participants, including representatives from Ethiopian government departments, chambers of commerce, industry associations, and enterprises, the conference highlighted

four key sessions, including a signing ceremony, economic and trade promotion, and enterprise negotiations. During the event, Beijing and Ethiopia reached a series of cooperative agreements, signing six major agreements. Additionally, over **100 Ethiopian enterprises** engaged in face-to-face discussions with their Beijing counterparts to explore cooperation and business opportunities for mutual development.[272]

Despite the achievements, institutional challenges persist in the investment promotion process. EIC's service delivery in promotional activities lacks established standards, leading to inconsistencies and potential inefficiencies. The institution's limited capacity hampers effective operations and diminishes the impact of promotional efforts. Additionally, staff limitations and low levels of stakeholder engagement further undermine the effectiveness of investment promotion activities, preventing the realization of full potential in attracting and retaining investors.[273]

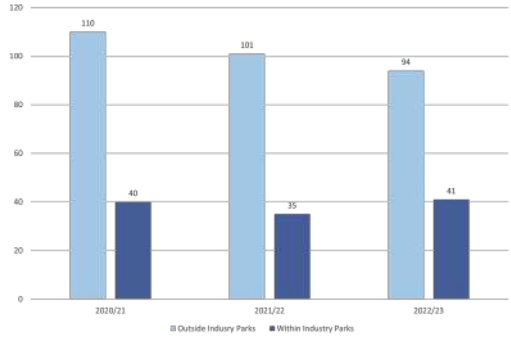
5.1.2 Facilitation & Aftercare Services

Facilitation and aftercare services are essential for achieving investment promotion goals. Facilitation services attract investors by providing information and support for informed decision-making, while aftercare services help retain and expand investments by addressing challenges during start-up, operations, and expansion.[274]

Between 2020/21 and 2022/23, various facilitation services were provided to simplify the investment process. These included one-stop-shop services, support services, and investment visa services. Key activities involved issuing, renewing, and canceling investment licenses and work permits, as well as providing registration and related services to enhance efficiency. Efforts to establish one-stop-shop centers improved access and operations, while investment visa services—such as entry visas for new investors, shareholders, and VIP extensions—remained a priority.[275]

Figure 5.1

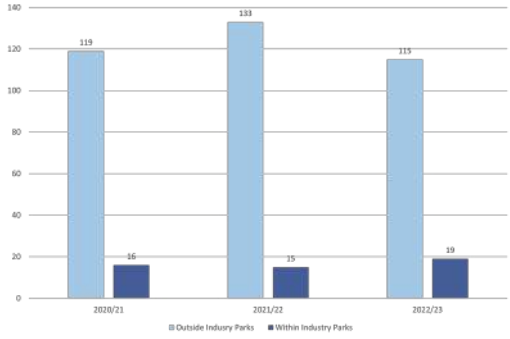
Projects that have Transitioned from Pre-implementation to Implementation[276]



Another key goal of the 2020/21-2022/23 planning period was to support the transition of projects from pre-implementation to implementation. Consequently, **421 projects** were successfully moved forward, with **305 situated outside industrial parks** and **116 within industrial parks.**[277] This suggests that EIC has played a crucial role in guiding investors through the early stages of their projects, offering essential information, assistance, and follow-up to ensure smooth progression from planning to execution.[278]

Figure 5.2

Projects that have Transitioned from Implementation to Production/Service Provision[279]



Additionally, various supports were provided to facilitate the transition from implementation to production or service provision, resulting in **417 projects** being successfully transferred, with **367 located outside industrial parks** and **50 within industrial parks.**[280] This highlights the EIC's role in not only attracting investments but also ensuring that projects reach their operational stages, demonstrating the impact of its facilitation services in both industrial and non-industrial park settings.[281]

Furthermore, recognizing the importance of investor retention, expansion, and reinvestment, aftercare services have been implemented to address challenges faced by ongoing projects. As part of this strategy, **100 projects** have been categorized into platinum, gold, and silver tiers by 2022/23, with tailored support continuously being provided to help these projects expand and redevelop, ensuring their long-term success and contribution to the economy.[282]

Overall, encouraging progress has been made in terms of transferring projects.

However, challenges such as insufficient resource supply, foreign currency shortages, incomplete infrastructure, and national instability over the past three years have hindered implementation. Additionally, the **inefficient use of information technology (IT)** in service delivery has further contributed to inefficiencies, highlighting key areas for improvement.[283] Designing an Investment Promotion Strategy that embeds solutions to these challenges is essential for ensuring long-term success and sustainability in attracting and retaining investment. The strategy should prioritize enhancing investment facilitation services by improving the efficiency and responsiveness of investor interactions. Strengthening aftercare services is also crucial for retaining investors and encouraging reinvestment. Continuous support is needed to help investors navigate challenges during their start-up, operational, and expansion phases, addressing issues faced such as foreign currency shortages and infrastructure gaps.[284] The strategy should also focus on improving the use of technology throughout the investment cycle. Efficient use of IT can streamline investment facilitation, such as site selection and administrative processes, and enhance aftercare services by connecting investors with local suppliers and addressing feedback and grievances. Addressing current inefficiencies in IT use will be key to supporting investors and fostering a more responsive investment environment.[285]

5.2 Gender-Responsive FDI And Investment Promotion

Despite its role in economic growth, the gender impact of FDI remains mixed. While FDI has generated employment in sectors with high female participation, advancement opportunities for women remain limited.

In the textile and apparel sector, particularly within Hawassa Industrial Park, women constitute over **90%** of the workforce. However, wages remain low, ranging from **$20** to **$50 per month**, and high turnover persists due to poor working conditions.[286] In contrast, the ICT and telecom sector, bolstered by **Safaricom's $8.5 billion investment**, has created new digital jobs, yet women remain underrepresented due to gaps in STEM education. The pharmaceutical sector, driven by FDI in Kilinto Industrial Park, offers opportunities for women in high-skilled roles, yet female participation in clinical research and leadership positions remains low.[287] In agro-industry, FDI has expanded market access for women but has also led to land displacement, as observed in the Gambela Saudi Star project.[288]

Despite FDI-driven job creation, gender disparities persist in leadership and wage equality. In the textile sector, **women account** for **85–90%** of the workforce but hold few supervisory roles. In ICT, relatively few women apply for technical positions despite increased demand. Female-led businesses represent only **16–20%** of formal enterprises, limiting their integration into FDI supply chains. Case studies reflect these mixed outcomes: while Hawassa Industrial Park has created jobs, it has also faced challenges such as wage suppression, housing shortages, and workplace harassment. In response to gender gaps in tech employment, Safaricom Ethiopia has launched STEM training programs. Similarly, FDI in floriculture has provided jobs for many women but has also exposed them to chemical hazards and seasonal employment instability.289

Ethiopia's investment promotion strategy has prioritized sectoral growth but lacks gender-responsive policies. The Ethiopian Investment Commission (EIC) has focused on attracting FDI in manufacturing, agro-processing, and telecom but does not track gender-disaggregated employment data or set specific targets for women's economic inclusion. Existing incentives emphasize export performance, tax exemptions, and business facilitation, with no explicit provisions for gender equity in employment, leadership, or entrep-reneurship.

Compared to global best practices, Ethiopia's investment strategy lacks key gender-inclusive mechanisms:

Costa Rica integrates FDI with workforce training programs to ensure gender balance in key industries.290

South Africa links investor incentives to diversity metrics, requiring companies to promote inclusivity.291

- Canada incorporates gender equality clauses in investment agreements, safeguarding women's participation in FDI-driven sectors.[292]
- Rwanda mainstreams gender considerations into economic policy, leading to higher female representation in FDI projects.[293]

In the absence of gender-responsive measures, Ethiopia's FDI-driven sectors have reinforced existing disparities, particularly in low-wage industries such as textiles. Additionally, the lack of supplier diversity programs has limited the participation of women-owned businesses in FDI supply chains.

To align FDI with **gender equity goals**, Ethiopia's recently introduced investment incentive framework—currently tied to job creation—should incorporate a gender dimension.

Tax incentives should be introduced for firms that actively promote female employment, while gender-disaggregated reporting should be mandated for major FDI projects. Expanding **STEM** education initiatives, developing women's leadership programs within FDI firms, and enhancing supplier linkages for female-led businesses should be prioritized. Investors should also be encouraged to implement CSR programs that address **childcare**, **equal pay**, and **workplace safety**. To ensure effective oversight, Ethiopia must institutionalize gender-responsive investment policies within the EIC and relevant agencies, ensuring systematic monitoring and enforcement.

Incorporating gender-focused policies into investment strategies will enhance women's economic participation and generate long-term benefits for Ethiopia's labor market.

Sectoral Competitiveness Analysis

6

EIC
ETHIOPIAN INVESTMENT COMMISSION
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6.1 Introduction

As Ethiopia opens more of its sectors to foreign investment, prioritizing strategic sectors is essential to adopt a targeted approach to investment promotion. This strategy focuses on leveraging Ethiopia's competitive and comparative advantages while channeling incentives and reforms to priority sectors to ensure competitiveness and long-term viability for FDI. Since 2011, the EIC has prioritized key sectors and sub-sectors such as textile and garment, leather and leather products, agro-processing, pharmaceuticals, and ICT for their potential to drive economic growth and attract FDI.[294]

With the launch of the second generation of the HGER in 2023/24, Ethiopia has reassessed its investment priorities.[295] The reforms opened monopolized sectors like telecom, logistics, and banking to foreign investors, while introducing targeted interventions in agriculture, manufacturing, mining, digital technology, and tourism.[296] These changes aim to address structural challenges, foster industrial growth, and revitalize state enterprises. Liberalization has also expanded opportunities in health, education, electricity, and retail trade,[297] demonstrating the government's commitment to creating a competitive and investor-friendly environment.

This context underscores the importance of adopting a renewed approach to sectoral prioritization, ensuring that Ethiopia's investment strategy remains aligned with its long-term development objectives while capitalizing on emerging economic opportunities. To identify **5- 7 key sectors** for investment promotion, this study uses a detailed analysis of competitiveness.

6.2 Sectoral Prioritization Methodology

The sectoral prioritization process is based on Harvard's Competitiveness Framework, commonly known as Porter's Diamond Framework. Sector competitiveness is assessed through four interrelated dimensions:[298]

1. Factor Conditions: This dimension evaluates a nation's endowment of production inputs, such as infrastructure, skilled labor, and capital.
2. Demand Conditions: This assesses the nature and scale of domestic demand for goods and services.
3. Context for Firm Strategy and Rivalry: This examines the competitive environment and the dynamics among domestic firms.
4. Related and Supporting Industries: This evaluates the presence and strength of supplier networks and complementary industries.

Together, these dimensions provide a structured approach to analyzing the competitive positioning of sectors.

To comprehensively assess Ethiopia's investment climate and competitiveness, **25 indicators** are selected across these four dimensions. The indicators are distributed as follows:

1. Factor Conditions: Physical infrastructure, ICT infrastructure, research and development, knowledge infrastructure, financial market depth, labor force, and policies for doing business.
2. Context for Firm Strategy and Rivalry: Physical property rights, intellectual property rights, legal and political environment, and economic complexity.
3. Demand Conditions: Living conditions, sustainable development, network readiness, market access, and domestic market scale.
4. Related and Supporting Industries: State of cluster development, university–industry R&D collaboration, startup ecosystem, and quality infrastructure.

Among these, three indicators—political stability, physical infrastructure, and policies for doing business—are identified as overarching, binding factors critical for attracting FDI across all sectors and sub-sectors. These cross-cutting factors are foundational for fostering an investment-friendly environment, regardless of the sector. Therefore, Ethiopia's performance in these areas is assessed first to provide a comprehensive understanding of the overall investment climate and capture their significant impact.

Following this, the prioritization process shifts to the remaining **22 indicators**. Ethiopia's performance is evaluated using available data to determine its position for each of these indicators.

For each sector and sub-sector, the five most relevant indicators are selected, reflecting the factors most critical for attracting investment and fostering growth in that sector or sub-sector. To facilitate objective comparisons, global indexes are utilized to assess Ethiopia's performance. These indexes were chosen because investors often rely on such indicators to evaluate a country's investment potential before making investment decisions, providing standardized scoring mechanisms for consistent evaluation across sectors.

Since the various indexes operate on different scales, a normalization process is applied to standardize them, ensuring comparability across all indicators. A five-tier evaluation system is used to score each index on a unified scale, facilitating a consistent and robust assessment.

For each indicator, the total possible score is now divided into five equal ranges to make the assessment more granular: **very low** (1), **low** (2), **average** (3), **good** (4), and **very good** (5). For instance, if an index is scored out of 100, the ranges are defined as 0–20 (very low, score 1), 21–40 (low, score 2), 41–60 (average, score 3), 61–80 (good, score 4), and 81–100 (very good, score 5). Similarly, for indexes scored out of 10, the ranges are defined as 0–2 (very low, score 1), 3–4 (low, score 2), 5–6 (average, score 3), 7–8 (good, score 4), and 9–10 (very good, score 5). The rank or value of Ethiopia in each index is used to determine its placement within these tiers. For example, if Ethiopia scores **32** on an index out of

100, it is classified as "low-tier" and assigned a score of 2.

This methodology is applied to the essential conditions investors require for each sector and sub-sector. The total score for each sector or sub-sector is calculated as the sum of its scores across these indicators, with a maximum possible score of 25 (if performance is classified in the "very good" tier across all five indicators). Through this scoring system, sectoral priorities are systematically evaluated and compared based on their performance across the selected indexes.

6.3 Binding Factors to Attract FDI

Regardless of the investment sector, there are fundamental conditions that all investors prioritize. These include political stability and security, a conducive business environment, and adequate infrastructure to support operations. This section focuses on the binding factors that are critical for FDI attraction across all sectors:

6.3.1 Political Stability

Political stability plays a pivotal role in attracting FDI, as it influences both the security and profitability of investment projects.[299] Stable environments minimize the risks associated with sudden changes in the business climate, making them more appealing to investors. Ethiopia's political landscape, however, has experienced significant challenges in recent years, reflected in its declining rankings on global peace indicators.

Over the past decade, Ethiopia has experienced fluctuations in political stability. The period from 2020 to 2023 was particularly challenging for Ethiopia due to the Tigray conflict, which erupted in November 2020. The war caused widespread infrastructure destruction and significant loss of life.[300] [301] It persisted until November 2022, when a peace agreement between the TPLF and the federal government marked the end of hostilities and initiated a recovery process for the Tigray region. However, during this period, insurgencies in other regions escalated, involving more actors and deepening political divisions nation-wide.[302]

By late 2024, political violence in parts of the Amhara and Oromia regions had declined. In Amhara, clashes between militias and government forces subsided, while in Oromia, violence linked to the Oromo Liberation Army (OLA) decreased following a peace agreement signed on 1 December 2024.[303] Notably, conflict in Amhara was limited to a few locations, affecting areas in which less than 2% of the population live.[304]

Despite these challenges, Ethiopia's political stability has shown improvement in 2024 compared to previous years' rankings, 2022: 149th[305] and 2023: 151st[306] on the Global Peace Index. The country now ranks 144th out of 163, with a score of 2.845. However, it still lags behind regional peers, including Tanzania (65th, 1.987), Rwanda (92nd, 2.12), Kenya

(122nd, 2.409), and Uganda (126th, 2.409).[307] While some pockets of conflict remain, large parts of the country have achieved relative stability, creating a more favorable environment for business operations.

6.3.2 Policies for Doing Business

Ethiopia's performance in the World Bank's Ease of Doing Business rankings has historically been poor, reflecting significant challenges in its regulatory and business environment. These rankings evaluate 190 economies based on various indicators affecting small and medium-sized businesses throughout their lifecycle.[308] In 2020, Ethiopia ranked 159th with a score of 48. While a slight improvement in its score to 49 in 2021 was noted, it did not translate into a better global ranking.[309] Ethiopia remains below both regional and global averages, with peers in sub-Saharan Africa such as Rwanda (38), Kenya (56), and Uganda (116) outperforming it significantly in 2020.[310] Key areas of weakness include protecting minority investors, getting credit, starting a business, and trading across borders. However, Ethiopia performs relatively better in enforcing contracts and paying taxes, where its performance exceeds expectations relative to its overall ranking.[311]

In response to these challenges, the Ethiopian government has implemented several reforms to improve the business environment. A special Steering Committee, chaired by the Prime Minister and established in 2018, has been tasked with spearheading reforms across the ten indicators measured in the ease of doing business rankings. The committee meets monthly to review progress and guide improvements.[312]

Additionally, the outdated Commercial Code from the 1960s was modernized, providing a contemporary legal framework for business operations, minority investor protection, and bankruptcy procedures.[313]

Administrative streamlining has also been prioritized, with over 80 legal and bureaucratic reforms introduced to reduce the cost and time of doing business. Trade registration and licensing processes have been digitized, reducing the time required for these services from 52 days to just 10. Electronic single-window portals have also cut trade clearance times from 44 days to 13. Procedures for establishing a business have been consolidated, with one-center service provision enabling streamlined processes for company name registration, address verification, by-laws, TIN, and VAT registrations. Licensing requirements have been simplified, with the number of business types requiring quality verification certificates reduced from 1,352 to 333, and licensing categories streamlined from 1,352 to 519.[314] Due to these reforms since 2020, Ethiopia would likely achieve a much higher score and a significantly improved ranking if re-evaluated on the Ease of doing business assessment (discontinued since 2020).[315]

Improvements in access to financing have also been a focus of reforms. Measures

such as the implementation of the Movable Property Security Right Proclamation, enhancements to credit information systems, and frameworks for capital goods financing have been introduced. These efforts aim to create a more conducive business environment, recalibrate the balance between public and private sectors, and boost Ethiopia's competitiveness in international trade. Despite these efforts, Ethiopia's ranking remains a challenge, highlighting the need for sustained focus on creating a favorable and efficient business climate.[316]

6.3.3 Physical Infrastructure

Physical infrastructure, such as railroads, ports, air transport, and electricity, is essential for attracting foreign investors. Well-developed infrastructure boosts productivity and profitability, making it a key factor in investment decisions.[317] Overall, Ethiopia's general infrastructure scored **8.8/100** in the Global Innovation Index 2023, underscoring the considerable challenges the country faces in developing its physical infrastructure. Among its regional peers, Ethiopia only outperforms Kenya, which scored slightly lower at 7. Other neighboring countries, such as Rwanda (18.3), Tanzania (21.3), Uganda (13.4), South Africa (32.1), and Morocco (17.1), all have significantly higher infrastructure scores.[318]

Ethiopia's logistics sector includes a **network of road**, **railway**, **air**, and **cargo/ shipping infrastructure**, which supports the movement of goods and services within the country and beyond. Ethiopia has made significant strides in improving its road infrastructure over the past few decades, reflecting the country's ongoing efforts to enhance connectivity and support economic growth. Since the launch of the Road Sector Development Program (RSDP) in 1997, Ethiopia has completed five phases of road improvement, resulting in the construction or upgrading of a total of **128,470 km** of roads.[319] By the end of 2022/23, road density per 1,000 square kilometers had expanded to **149.3 km**, up from **141 km the previous year**, reflecting a **5.9 percent** annual growth.320 However, despite this progress, Ethiopia's road density remains below Africa's weighted average of 570 km per 1,000 square kilometers, highlighting that while road infrastructure is improving, it still lags behind regional standards in terms of overall coverage and access.321 Looking ahead, the Ethiopian government plans to expand road coverage to **245,942 km** by **2030**, alongside improvements in cargo and dry ports, air facilities, local water transport systems, and road maintenance.322

Ethiopia's air infrastructure, spearheaded by Ethiopian Airlines, stands as a regional leader, both in passenger transport and freight services. Ethiopian Airlines serves over 120 destinations across more than 70 countries, boasting the most extensive fleet on the continent and manages over 20 airports nationwide. In 2019, Ethiopian Airlines carried out a **$345 million** expansion of Addis Ababa's Bole

International Airport that **tripled** its capacity from seven million passengers per year to **21 million.**[323] In terms of cargo, Ethiopian Airlines has emerged as a dominant force, leading Africa's air freight industry. In 2023, the airline carried **670,147 tons** of freight, making it the top performer among 15 African Airlines Association (AFRAA) member airlines. Comparatively, Kenya Airways carried only 56,502 tons, while Air Tanzania managed just 4,166 tons. These figures highlight Ethiopian Airlines' substantial lead over regional competitors in the freight sector, reinforcing Ethiopia's pivotal role in African air transport.[324]

Ethiopia's logistics landscape faces challenges, particularly with import dwell times—the average number of days containers remain at ports before being moved for delivery. In 2022, Ethiopia's import dwell time stood at 10.9 days, which is significantly higher than the global average, where most countries typically see dwell times between 3 to 9 days. By comparison, Kenya, a key regional player, had a more efficient dwell time of 5.1 days, while South Africa performed even better at 4.0 days. Ethiopia's dwell time is also higher than Uganda (9.3 days) and Tanzania (10.3 days), but still better than Rwanda, where containers stayed at ports for an average of 14.6 days. Morocco, with a dwell time of 10.2 days, is slightly more efficient than Ethiopia but still faces similar challenges.[325] Furthermore, logistics costs account for 22-27% of final product costs in Ethiopia, with shipping & freight expenses **60% higher** than neighboring countries. As a landlocked nation, Ethiopia primarily relies on Djibouti's port for imports and exports, while other regional ports, such as Port Sudan in Sudan, Berbera in Somalia, and Assab and Massawa in Eritrea, are used less frequently. To improve logistics, Ethiopia has established inland ports, including Modjo, Kality, Semera, Mekelle, Dire Dawa, Gelan, and Kombolcha, with an installed handling capacity of 22,000 containers.[326]

In 2016, a 760 km standard gauge electrified railway opened, connecting Addis Ababa to Djibouti, providing Ethiopia access to the sea via the Port of Doraleh.[327] Despite this significant development, Ethiopia's rail network density remains low at 0.6 km per 1,000 km², trailing far behind regional peers such as South Africa (19 km/1,000 km²), Kenya (5.6 km/1,000 km²), Tanzania (3.9 km/1,000 km²), and Uganda (1.3 km/1,000 km²).[328] Ethiopia's railway sector faces several challenges, including the lack of a clear policy direction, governance issues with blurred roles between the **Ethiopian Railway Corporation (ERC)** and **Ethio-Djibouti Railway (EDR)**, and underutilized capacity. Insufficient local expertise in operations and maintenance further reduces sector performance. A shortage of foreign currency for spare parts used to hamper maintenance, while poor coordination among agencies, particularly customs and security, adds operational strain. Additionally, security threats such as theft and vandalism, especially along

the Addis-Djibouti line, increase costs and operational inefficiencies. These challenges undermine the sector's potential and its contribution to Ethiopia's development.329

Ethiopia is the 10th largest country in Africa with a total land area of **110,000,000 hectares.**[330] Of this, arable land stood at **16,314,000 hectares** in 2021.[331] [332] This positions Ethiopia ahead of several regional peers in terms of agricultural potential. For instance, South Africa has 12,000,000 hectares of arable land, while Tanzania has 13,502,500 hectares, both falling short of Ethiopia's figures. Uganda, with 6,900,000 hectares, Morocco with 7,512,000 hectares, Kenya with 5,800,000 hectares, and Rwanda with 1,268,400 hectares, all have significantly lower amounts of arable land.[333] Ethiopia's higher percentage of arable land underscores its potential for agricultural development, contributing to its strategic advantage over its regional counterparts. Furthermore, Ethiopia's industrial land availability is significantly enhanced by its expanding network of industrial parks, which serve as crucial hubs for both manufacturing and foreign investment. Currently, the country has 25 operational industrial parks, covering a total area of approximately 5,969.7 hectares. Additionally, there are four upcoming industrial parks that will provide an extra **1,475 hectares of industrial land.**[334]

On the energy front, Ethiopia also has vast renewable energy potential, with the ability to generate over **60,000 MW** from hydroelectric, wind, solar, and geothermal sources. In recognition of this potential, the government has made significant investments in energy infrastructure, including the Grand Ethiopian Renaissance Dam (GERD), with a capacity of 5,150 MW, and the Koysha Hydropower Dam, which will provide 2,170 MW. However, Ethiopia has faced frequent power cuts, disrupting operations across various sectors and causing downtime and inefficiencies.[335] [336] These challenges stem from the underperformance of the country's hydropower systems, largely due to recurring droughts.[337] Electricity costs in Ethiopia, however, have been among the lowest globally, at just **$0.003 per kWh**, far cheaper than neighboring countries like Kenya ($0.256 per kWh), Rwanda ($0.193 per kWh), South Africa ($0.191 per kWh), Tanzania ($0.084 per kWh), Uganda ($0.173 per kWh), and Morocco ($0.121 per kWh) in 2024.[338]

In conclusion, while Ethiopia has made notable progress in developing its physical infrastructure, significant challenges remain across various sectors. Despite advancements in road construction, air transport, and energy generation, Ethiopia lags behind many of its regional peers in overall infrastructure development, as highlighted by its low Global Innovation Index score.

6.4 An assessment of Ethiopia's current position on each of the 15 indicators

6.4.1 Factor (Input) Conditions

6.4.1.1 Information and Communication Technologies (ICTS) Infrastructure

ICT plays a key role in attracting FDI by reducing information costs and enabling quick access to market data, helping foreign enterprises assess local conditions more effectively. It also shortens communication distances and lowers communication costs, improving the attractiveness of the investment climate and boosting returns on investment.339 Ethiopia's ICT landscape has been rapidly evolving. In June 2020, the GOE launched the "**Digital Ethiopia 2025**" strategy, aiming to digitize the economy by 2025.[340] Additionally, key digital initiatives, such as digital IDs, mobile payments, and digital portals for e-trade, e-procurement, e-services, and ease-of-doing-business platforms, which have digitized more than **130 services** across various public institutions, have also been undertaken.[341] [342] These efforts are expected to improve efficiency, reduce costs and time, enhance transparency, and increase access to government services, making Ethiopia more attractive for investment.[343] Furthermore, until recently, Ethio Telecom held a 126-year monopoly on telecommunications and internet services. In 2020, the Ethiopian Communication Authority (ECA) invited private telecom operators, leading to Safaricom entering the market in 2022. By 2024, internet penetration is expected to increase to **24.45%.**[344]

In 2022, only **19.38%**345 of Ethiopians had access to the Internet, with the country's wireless penetration standing at **58%**, below the Sub-Saharan average of 75%. Fixed and mobile line telephone density were reported at 1% and 58%, respectively, in 2021/22.[346] In 2023, Ethiopia's average mobile internet cost was 0.68 USD per GB.[347] Comparatively, Rwanda (0.55 USD),[348] Kenya (0.59 USD)[349], and Morocco (0.63 USD)350 offered slightly cheaper rates, while Tanzania (0.84 USD)[351], South Africa (1.18 USD)[352], and Uganda (1.32 USD)[353] had higher average costs.

In terms of digital innovation, Ethiopia lags significantly behind its regional counterparts. According to the 2023 Global Innovation Index, Ethiopia scored only **17/100** in ICT development. This is considerably lower than Tanzania (90.6), Rwanda (85.2), and Kenya (74.7), reflecting Ethiopia's slow adoption of technology and limited infrastructure. South Africa (68.8), Morocco (56), and Uganda (35.4) also surpass Ethiopia in this metric, further underscoring the country's need for improvements in its digital infrastructure and policy framework.[354]

Overall, Ethiopia's digital potential has not been realized. Digital literacy remains low, particularly within public institutions, where there is limited knowledge and skills in using ICT tools, resulting in inefficiencies.

Additionally, the country's power sector faces infrastructure challenges, such as frequent power outages and unstable Wi-Fi, which disrupt reliable internet access and hinder the effective use of digital services. These gaps in infrastructure limit the overall impact of digitalization efforts.[355]

6.4.1.2 Research and Development

Research and Development (R&D) attracts foreign investors by fostering innovation, boosting productivity, and enhancing competitiveness. It creates a favorable business environment through new technologies, skilled development, and a strong innovation ecosystem, appealing to investors looking for growth opportunities in emerging markets.[356] The current state of R&D in Ethiopia shows promising growth, but also significant challenges. Government support for R&D is increasing, with more budget allocation for education, science, and technology, as evidenced by rising investments across research and technology organizations (RTOs) between 2018 and 2020.[357] In 2022, the gross domestic expenditure on research and development in Ethiopia amounted to **730 million U.S. dollars.**[358] Ethiopia's performance in PhD training has also improved, enhancing the country's potential for scientific and technological development.[359]

Ethiopia's R&D performance, as measured by the Global Innovation Index, is relatively low, with a score of 1.4/100. This places it behind several of its regional peers, including Rwanda (3.5), Tanzania (2.3), and Morocco (3.7). However, it still ranks above Uganda, which has an even lower R&D score of 0.6. South Africa, a more developed economy in the region, far outpaces Ethiopia and its neighbors with a score of 12.2, highlighting the disparity in R&D. Despite its lower R&D score, Ethiopia has a researcher density of **90.5 full-time equivalent researchers per million inhabitants**, which reflects a strength within its income group.360

However, Ethiopia's R&D landscape falls short of expected standards. There is a weak collaborative framework between research institutions, industry, and government, resulting in fragmented efforts and limited technology transfer. Private sector funding for R&D is almost nonexistent, and insufficient incentives for researchers discourage deeper involvement in innovation. Moreover, Ethiopian higher education institutions struggle to process and disseminate scientific and technological information effectively, emphasizing the need for a centralized platform to connect stakeholders. Despite these challenges, increased government commitment suggests potential for future progress.[361] [362]

6.4.1.3 Knowledge Infrastructure

Knowledge infrastructure attracts FDI by providing access to valuable skills, technology, and innovation. Firms engaging in knowledge-seeking FDI are specifically drawn to locations with strong technological capabilities and expertise, as these environments allow them to

enhance their own competitive advantage. By offering access to skilled individuals and cutting-edge knowledge, host countries become attractive destinations for firms looking to boost their innovation and strategic assets.[363]

Ethiopia has a relatively high labor force participation rate with advanced education, indicating that a portion of its workforce possesses higher education qualifications, which can be attractive for sectors requiring specialized skills. Additionally, Ethiopia shows promising levels of participation in formal and non-formal education and training, signaling efforts to improve skill development across different education levels.[364] Ethiopia also has a large pool of trainable talent, with more than **200,000 students** graduating annually from STEM disciplines and related fields.[365] In comparison, for example, Rwanda produced a total of **11,642** STEM graduates in the 2020/21 academic year, highlighting the substantial difference in the scale of available talent between the two countries.[366]

However, Ethiopia's ranking in the knowledge infrastructure based on the Global Knowledge Index highlights significant gaps in key areas critical for attracting FDI, particularly in industries that depend on innovation and technology. Ethiopia scored 27.8/100, ranking 128th out of 133 countries, indicating limited capacity in research, development, and innovation. This greatly reduces its potential to foster homegrown technological advancements and attract knowledge-seeking investors. In comparison, countries like Tanzania (31.2), Uganda (34.5), Rwanda (38.2), Kenya (39.3), Morocco (42.5), and South Africa (44.0) are better positioned to capitalize on innovation-driven opportunities.[367]

6.4.1.4 Financial Market

A well-developed financial market attracts foreign investors, as it signals economic vitality, openness from the country's authorities, and a market-friendly environment, encouraging greater investment.[368,369] Ethiopia's financial sector is largely underdeveloped, with limited competition and a narrow range of services.[370] The sector is heavily dominated by banking, which accounts for **96.1%** of the financial sector's total assets in 2024.[371] Competition remains constrained by a high concentration ratio, a wide spread between lending and deposit rates, and significant barriers to entry and exit, while non-banking financial institutions are virtually absent. For the past two decades, financial services have been primarily focused on savings and credit facilitation, with the domestic financial system insulated from foreign competition, limiting the benefits of knowledge transfer and technology.[372]

These challenges are evident in Ethiopia's poor performance on the Absa Africa Financial Markets Index 2023, where it scored **29/100**, the lowest among the 28 countries covered. Ethiopia lagged across all six pillars of the index: market depth, access to foreign exchange, market

transparency, tax and regulatory environment, capacity of local investors, macroeconomic environment and transparency, and legal standards and enforceability. In comparison, South Africa had the highest score at 88, while Uganda scored 63, Tanzania 55, Morocco 58, and Rwanda 44, highlighting Ethiopia's weaker performance relative to these peer countries.[373]

However, recent reforms are seeking to address these challenges. Key initiatives include liberalizing the exchange rate regime and advancing the digital payment ecosystem. Furthermore, reforms have been introduced to develop a capital market that provides an alternative funding source, including for riskier ventures typically avoided by banks, fostering innovation in the process. Legal and regulatory reforms are also underway to align Ethiopia's banking practices with international standards.[374] Additionally, the banking sector has been opened to foreign participation to expand the scope, depth, and accessibility of modern financial services.[375] These changes aim to create a more diversified financial ecosystem, which is critical for improving investor confidence, attracting FDI, and positioning Ethiopia as a more competitive global investment destination.[376]

6.4.1.5 Availability of Labor

Labor availability, both in terms of cost and skill level, is a crucial factor in attracting FDI, especially in efficiency-seeking investments where **multinational enterprises (MNEs)** seek to reduce costs or gain access to specialized skills. Countries with policies that emphasize human resource development through education and health initiatives tend to have a competitive edge in attracting FDI, as they can offer both a capable workforce and favorable conditions for investors.377 The role of low-cost and skilled labor varies by industry, with labor-intensive sectors like automotive manufacturing relying more on low-cost labor, while capital-intensive industries like pharmaceuticals and machinery prioritize skilled labor due to their need for specialized expertise.[378]

Ethiopia presents a mixed landscape in terms of labor availability for FDI. On one hand, the country is highly attractive for cost-seeking FDI due to its cheap labor, a key factor drawing foreign investors.[379] [380] With **54%** of the population in working age and a high **employment-to-working-age population ratio (EWPR)**, Ethiopia has an ample labor supply, mimicking a typical low-income economy. This abundance of low-cost labor has been a significant driver of FDI, especially in labor-intensive industries such as manufacturing.[381]

However, the quality of labor in Ethiopia poses challenges. The workforce lacks the skills necessary to meet the demands of a transforming economy. In 2019, only **7%** of the labor force had completed secondary education or higher, and **78%** had not completed primary education. Furthermore, the International Labor Organization (ILO) estimates that **74%** of Ethiopia's labor force works in jobs that exceed their educational qualifications,

which is considerably higher than countries like Kenya (62%), Bangladesh (58%), and Vietnam (28%). This gap in skills presents a barrier to attracting FDI in industries that require a more educated workforce, such as pharmaceuticals, machinery, and chemicals.[382]

Comparatively, Ethiopia lags behind peer countries in the availability of skilled labor. On the Global Competitiveness Index (GCI) for ease of finding skilled employees, Ethiopia scores **3.64/7**, lower than Kenya (4.87), Rwanda (4.12), Uganda (4.45), South Africa (3.94), Morocco (3.96), and Tanzania (4.29). This reflects the difficulty investors face in sourcing adequately skilled labor, which can deter FDI in higher-value sectors.[383]

6.4.2 Context For Firm Strategy and Rivalry

6.4.2.1 Physical property rights

Physical property rights are crucial to attracting foreign investors because they provide security and predictability for their investments and incentivize them to invest in long-term development.[384] Ethiopia's Constitution, under **Article 40**, recognizes the right to own private property, including the ability to acquire, use, and transfer property through sale or bequest, subject to public interest and the rights of others. However, land is designated as the collective property of the state and the Ethiopian people, meaning it cannot be sold or exchanged. The government is empowered to grant private investors use rights over land based on payment arrangements, and investors retain full rights to any immovable property they build on the land.[385] The 2020 Investment Proclamation states that no domestic or foreign investment can be expropriated or nationalized except for public interest, in line with the law, and with fair compensation. Compensation must be non-discriminatory and based on current market value. However, for expropriated land, only the value of buildings or infrastructure is compensated, excluding the land's other economic benefits such as its monetary value.[386]

Ethiopia's score of **3.6/10** on the Physical Property Rights Index reflects challenges in protecting physical property, such as land, and lags behind several peer countries. For example, Rwanda, with a score of 5.7, demonstrates significantly stronger property rights protections, which contribute to better investor confidence. Similarly, Morocco (5.6), Kenya (4.8), Tanzania (4.5), Uganda (4.6), and South Africa (5.0) also outperform Ethiopia, indicating more secure frameworks for ownership and transfer of properties. Ethiopia's relatively low score suggests difficulties related to property security, registration processes, and the enforcement of property rights, factors that could deter foreign investors or complicate domestic economic activities.[387]

Furthermore, Ethiopia's score of **3.2/6** on the International Fund for Agricultural Development's (IFAD) Rural Sector Perfo-rmance Assessment reveals significant challenges in land access & security.

Land tenure is often insecure, with major weaknesses in land administration. Regulations governing the management and use of common property resources are vague, and enforcement remains ineffective, exacerbating issues of resource-management.[388][389] Additionally, the proper implementation of laws related to land access, particularly for investment purposes, faces persistent obstacles. Lack of coordination between regional states and the federal government further complicates decision-making on investment-related land issues, hindering effective governance and development in the sector.[390]Ethiopia experiences ongoing issues with property rights that create complexities for foreign investors operating in the country.[391] [392] These issues make doing business in Ethiopia difficult for foreign investors and create uncertainty in securing their investments.

6.4.2.2 Intellectual property rights

Strong intellectual property rights attract foreign investors by protecting innovations from imitation. This security encourages firms to transfer advanced technologies and production to developing countries, boosting FDI and innovation.[393] Ethiopia has made some positive strides in intellectual property protection, becoming a member of the **World Intellectual Property Organization (WIPO)** in 1998, which demonstrates its commitment to strengthening its IP framework. The country has also established the **Ethiopian Intellectual Property Authority (EIPA)** to safeguard patents, protect copyrighted materials, and combat piracy, particularly in the software sector. These efforts reflect Ethiopia's interest in building a more robust IP system. [394] [395]

However, enforcement of intellectual property laws remains weak, with widespread counterfeiting and infringement. **Ethiopia's score of 3.2/10** on the Intellectual Property Rights Index indicates a relatively weak IP protection environment, which can deter foreign investors concerned about safeguarding their intellectual assets. It lags behind regional peers like Rwanda (5.4), Tanzania (4.5), Uganda (4.3), Kenya (4.6), and South Africa and Morocco (both 5.2).[396] The EIPA struggles with limited staffing and budget constraints, further hindering effective enforcement. Furthermore, the country has not yet joined key international treaties like the Paris Convention, the Berne Convention, the Madrid System, or the Patent Cooperation Treaty, limiting the scope of protection and reducing alignment with global standards. As a result, Ethiopia's IP rights are only protected at the national level, necessitating direct registration within the country. This lack of participation in regional and international IP registration systems increases the complexity and cost for inventors, companies, and creators who seek protection in multiple jurisdictions.[397] [398] These challenges contribute to the underperformance of Ethiopia's IP system, possibly deterring foreign investors concerned about safeguarding their intellectual assets.

6.4.2.3 Economic complexity

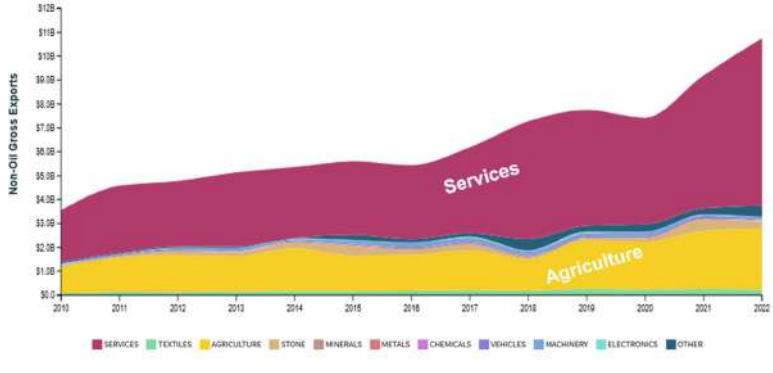
Economic complexity, a key indicator under the Harvard Competitiveness Index within the context of firm strategy and rivalry, reflects the knowledge embedded in a society as expressed through the products it produces. It is calculated based on the diversity of a country's exports and their ubiquity, which assesses how many other countries can produce similar products and the complexity of those countries' economies.[399] This indicator is particularly valuable for evaluating structural transformation, which involves transitioning from primary products to higher-value goods and services characterized by greater labor productivity and technological advancement.

In 2022, Ethiopia ranked **110th** out of **145** Countries on the Economic Complexity Index (ECI) with a score of -0.80, placing it among the lower complex economies globally.[400] Comparatively, Ethiopia lags behind neighboring countries such as Kenya (-0.25, 81st), Rwanda (-0.54, 94th), and Uganda (-0.57, 96th). Ethiopia's exports are heavily concentrated in low-value agricultural products, including coffee (**$1.55 billion**), gold (**$546 million**), and cut flowers (**$255 million**).[401] Although export revenues increased from **$2.67 billion** in 2017 to **$3.86 billion** in 2022,[402] the composition of exports has not significantly diversified.

This reliance on primary goods exposes the economy to vulnerabilities from global demand fluctuations and limits its potential to generate higher wages and sustainable employment. Compared to similar economies, Ethiopia's economic diversification remains limited, highlighting the need to enhance productive capabilities and develop a more sophisticated and varied export basket to support structural transformation and long-term economic resilience.[403]

Figure 6.1

Ethiopia's Export Performance by Sector (2010-2022)[404]



The chart above depicts Ethiopia's export performance by sector, it reveals a relatively low level of economic complexity. While there's growth in services, the economy still heavily relies on primary sectors like agriculture. This suggests that Ethiopia's production capabilities are concentrated in less complex goods and services, limiting its potential for high-value exports and technological advancement.

6.4.3 Demand Conditions

6.4.3.1 Living Condition [405]

Ethiopia, with a population exceeding **126.5 million**,[406] has experienced fluctuations in poverty levels over recent years. According to the World Bank's 2020 Ethiopia Poverty Assessment, poverty declined from **30%** of the population in 2011 to **24%** in 2016 [407], reflecting strong economic growth, particularly in urban areas. However, this progress has been reversed in recent years due to challenges such as droughts, floods, and conflicts in various regions. The United Nations Development Programme (UNDP) reports that the poverty headcount ratio has increased across all regions, for instance, Oromia region experienced a rise from **34.5%** in 2020 to **48%** in 2023—significantly higher than the national pre-conflict average of 26%.[408]

The living condition in Ethiopia is assessed using the global **Multidimensional Poverty Index (MPI)**, which is part of the Harvard Competitiveness Framework's demand condition bucket. The MPI measures acute poverty by evaluating overlapping deprivations across ten indicators within three equally weighted dimensions: health, education, and standard of living. Based on 2019 data, Ethiopia faces significant challenges, with **68.7%** of the population (**86 million people**) living in multidimensional poverty and an additional **18.4%** classified as vulnerable to it. [409]

The intensity of deprivation, which measures the average level of deprivation among the poor, stands at **53.3%**, resulting in an MPI value of **0.367**. This figure underscores the depth and extent of poverty in Ethiopia, which remains significantly higher than many of its regional peers.[410]

For comparison, Rwanda and Uganda have MPI values of 0.231 and 0.281, respectively. In Rwanda, 48.8% of the population is multidimensionally poor, with an intensity of deprivations of 47.3%, while in Uganda, 57.2% of the population experiences multidimensional poverty with an intensity of 49.2%. Ethiopia's MPI is not only higher than these peer countries but also exceeds the Sub-Saharan Africa average of 0.262, indicating that poverty in Ethiopia is both more widespread and severe.[411]

The major contributors to multidimensional poverty in Ethiopia are deprivations in the standard of living (**54.5%**), health (**31.5%**), and education (**14.0%**). The prominence of standard of living in Ethiopia's MPI highlights critical issues such as inadequate housing, limited access to clean water, and energy poverty, which are more pronounced than in neighboring countries.

The rural population faces a much higher poverty rate, with **79.7%** classified as MPI poor, compared to **39.2%** in urban settings. The report emphasizes that poverty in Ethiopia is not merely a matter of income but encompasses various deprivations in education, health, and living standards.

Key indicators contributing to this high MPI include nutrition, child mortality, and access to basic services such as clean drinking water and sanitation. The report reveals that many Ethiopians struggle with multiple deprivations simultaneously, which exacerbates their overall poverty experience.

The high proportion of Ethiopia's population living in multidimensional poverty, combined with the additional segment vulnerable to it, suggests limited spending ability among a significant portion of the population. This indicates that much of the population struggles to meet basic needs such as health, education, and living standards, which could constrain their capacity to participate in discretionary spending or drive demand for non-essential goods and services.

6.4.3.2 Sustainable development [412]

The **Sustainable Development Index (SDG Index)** evaluates countries' progress across 17 Sustainable Development Goals (SDGs), scoring them from 0 to 100, with 100 representing optimal performance. In the 2023 Global Sustainable Development Report, Ethiopia scored **54.5** [413], reflecting a mix of achievements and persistent challenges in areas such as clean energy, environmental conservation, and poverty eradication. Climate resilience remains a priority, as demonstrated by initiatives like the Climate Resilient Green Economy strategy, the Green Legacy Program (which has planted 18 billion seedlings since 2019), and improved disaster risk management aligned with global standards. However, global and domestic shocks continue to disproportionately impact vulnerable groups, highlighting the need for sustained reforms and robust partnerships. Ethiopia's score trails behind regional peers such as Kenya (62.2), Rwanda (67.5), and Uganda (56.1)[414], indicating significant room for improvement in advancing its SDG agenda.

Ethiopia's sustainable development efforts are guided by its constitution and the **Ten-Year Development Plan (2021–2030)**, which aligns national strategies with the 2030 Agenda. Substantial progress has been made in reducing poverty, with rates dropping from **23.5%** in 2015/16 to **19%** in 2019/20, alongside improved healthcare outcomes such as lower child mortality and reduced stunting and wasting. Education has seen increased enrollment, especially for girls, while gender equity has advanced through greater participation of women in education, economic activities, and governance. Ethiopia's economic growth, averaging **7.9%** annually from 2015/16 to 2020/21, has been accompanied by better access to clean water, electricity, and renewable energy infrastructure.

Ethiopia has made notable progress in reducing poverty over the past two decades, but domestic and global shocks continue to threaten these gains, particularly for vulnerable households. The poor, especially in urban and rural areas, are disproportionately affected by rising food prices, often caused by

disruptions in food supply from events like droughts and internal conflict. These shocks have compounded challenges, with the urban poor facing worsening conditions due to their reliance on market-bought cereals. Although health outcomes have improved, the impact of the COVID-19 pandemic, internal conflict, and environmental crises has hindered progress, particularly in maternal and child health services, immunization, and disease management. The damage to health facilities in northern Ethiopia further exacerbates the situation. Access to clean drinking water, sanitation, and hygiene services remains limited, with recurrent droughts and other environmental factors complicating water resource management. Despite these setbacks, Ethiopia remains committed to achieving the SDGs, though its efforts are being challenged by political transitions, economic reforms, COVID-19, domestic conflict, and the global effects of the Ukraine crisis.

6.4.3.3 Network Readiness

This indicator is comprised of four pillars to picture a country's network preparedness. The four pillars are: Technology, People, Governance, and Impact. The People pillar measures a nation's proficiency in leveraging digital technologies for economic and social development. It assesses the techn-ological landscape across three pillars - people, infrastructure, and economic impact. The People pillar examines technology adoption at the individual, enterprise, and public sector levels. [415]

Ethiopia's performance in digital adoption, as reflected in the 2023 **Networked Readiness Index (NRI)**, highlights significant challenges, with a score of **17.8 out of 100 (where higher scores indicate better performance)**. [416] This places Ethiopia well behind regional peers such as Kenya (42.93), Rwanda (29.9), and Tanzania (27.91).[417]

Internet penetration in Ethiopia remains low, reaching just **19%** by the end of 2022, further underscoring the country's lag in digital connectivity compared to neighboring nations like Sudan, which achieved a penetration rate of 30%. Mobile phone ownership is growing but still limited, with 60% of the population owning a mobile phone in 2022 [418], Ethiopia also lags in mobile money adoption, with only 0.3% of the adult population using mobile financial services compared to 20.9% across sub-Saharan Africa. [419] Internet access among firms is also uneven, with only 34% of Ethiopian businesses having internet access—**80% for large firms**, **23%** for small firms, and just **13%** for agricultural firms.[420] The most significant barriers to digital adoption in Ethiopia are affordability, literacy, and digital skills, with 2021 rankings placing Ethiopia **119th** out of **134** in the Digital Skills Gap Index.[421]

To address these issues, GOE has launched initiatives such as the Digital Ethiopia 2025 Strategy, which focuses on sectors like agriculture, manufacturing, IT-enabled services, & tourism to foster digital transformation. The TYDP (2020-2030) aims to deepen the

country's technological base and improve digital skills, [421] while the **5 - million Ethiopian Coders program** aims to train 5 million youth by 2026, enhancing their coding and digital literacy skills. [423] This move is not only impacting pricing and service offerings but also driving significant improvements in network coverage and infrastructure development across the country. [424] These efforts underscore Ethiopia's commitment to improving its digital preparedness, despite the existing challenges.

6.4.3.4 Domestic Market

This indicator, classified under the demand conditions of the Harvard Competitiveness Index, assesses the size and strength of a country's domestic market, as measured by GDP per capita (PPP$), which is often considered a key indicator of a nation's standard of living. In 2023, Ethiopia ranked **161st** globally out of **191** countries in GDP per capita [425], reflecting the relatively low purchasing power of its individuals. However, when compared to peer countries, Ethiopia's GDP per capita (PPP$) of **$3,434** is relatively favorable, surpassing Rwanda ($2,836) and Uganda ($3,018). Nonetheless, there is a significant gap when compared to neighboring Kenya, which has a GDP per capita (PPP$) of $6,122.[426] This disparity underscores the need for Ethiopia to undertake substantial efforts to enhance individual purchasing power & elevate its standard of living.[427]

However, Ethiopia, with a population of **126.5 million**—the second most populous country in Africa after Nigeria[428]—presents a substantial market for investors.

In 2023, the country achieved a robust GDP growth rate of **8%** [429], reinforcing its position as an emerging market with significant potential. The large consumer base, coupled with over **70%** of the population being under the age of 30, offers a unique demographic advantage.[430] This youthful population is poised to drive future consumption and economic growth, making Ethiopia an appealing destination for foreign investors aiming to capitalize on its expanding market opportunities. Beyond its demographic strength, Ethiopia's evolving economic structure further enhances the prospects of its domestic market.

While agriculture has historically been the backbone of Ethiopia's economy, the rapid growth of the service sector highlights the increasing sophistication and diversification of the domestic market. According to the NBE, services accounted for **40%** of GDP during the 2021/22 fiscal year, followed by agriculture at **32%** and industry at **29%**.[431] The service sector's expansion shows that the population's demand is increasing for modern goods & services, this growing demand reflects a shift in consumer behavior & purchasing patterns, driven by the country's youthful demographic & rising urbanization.

6.4.3.5 Market Access

Ethiopia's foreign market access has significantly improved, as evidenced by its export performance.

According to the NBE, exports rose from **USD 770.70 million** in the fourth quarter of 2023 to **USD 927.20 million** in the first quarter of 2024. Over the longer term, exports averaged **USD 709.48 million** between 2006 and 2024, with a record high of USD 1,161.30 million in the second quarter of 2022.[432] Ethiopia has diversified its export products beyond traditional commodities like coffee, hides, and skins. This diversification has helped increase export earnings. For instance, the country has expanded into textile and garment production, benefiting from favorable conditions and strategic investments.[433] Enhancements in product quality and packaging, especially for commodities like cut flowers and coffee, have led to higher prices and increased export earnings. The World Bank Group has noted significant progress in this area, with Ethiopian products gaining a competitive edge in international markets.[434]

The Ethiopian government has implemented various incentives and policy reforms to promote exports, including tax exemptions and simplified export procedures. According to the United Nations Economic Commission for Africa (UNECA), these measures have significantly contributed to creating a more conducive environment for exporters, thereby boosting foreign market access.[435] In addition, Ethiopia's participation in various international trade agreements, such as the African Continental Free Trade Area (AfCFTA), the African Growth and Opportunity Act **(AGOA)**, the World Trade Organization (**WTO**), and the Common Market for Eastern and Southern Africa (**COMESA**), has significantly boosted its foreign market access. These agreements have opened up new markets and opportunities, contributing to the overall export growth. For instance, AfCFTA has boosted manufacturing exports and fostered regional value chains.[436] Additionally, the country's garment manufacturing sector, the largest beneficiary of AGOA, has experienced substantial growth. Between 2000 and 2020, Ethiopia exported **$722 million** worth of garments to the US duty-free under AGOA.[437]

In terms of the Index of Export Market Penetration for 2021, Ethiopia's score of **3.04** reflects a moderate level of foreign market access. This index measures how well Ethiopia has penetrated international markets, with a higher score indicating greater success in reaching and establishing a presence in foreign markets. Compared to its regional neighbors, Ethiopia performs better than Rwanda (1.62), Uganda (2.13), and Tanzania (2.82), but still lags behind Kenya (3.9) and significantly falls short of top exporters like Morocco (7.16) and South Africa (13.79). With the regional median at 1.8, Ethiopia's position highlights its relative strength in accessing global markets, while also showing room for further growth to compete with more established export economies.[438]

6.4.4 Related & Supporting Industries

6.4.4.1 State of Cluster Development

Cluster development, a key driver of industrial competitiveness, evaluates the distribution, concentration, and prevalence of economic clusters across regions or sectors. In Ethiopia, efforts to advance cluster development focus on establishing industrial parks and special economic zones (SEZs) to promote exports, generate employment, and foster value-chain linkages. Despite these initiatives, Ethiopia's performance in cluster development remains limited, as reflected by its score of **21.9 out** of 100 in global rankings.[439] This places Ethiopia significantly behind regional peers such as Kenya (41.0), Uganda (34.6), Rwanda (55.8), and Tanzania (58.9). [440] The disparity highlights challenges in achieving widespread and integrated economic clusters, which are essential for enhancing industrial efficiency and regional economic growth. Ethiopia's lower score signals the need for greater investment and policy reforms to strengthen its cluster ecosystem and realize its full potential as a competitive industrial hub.

Ethiopia began operating industrial parks in 2014, primarily as catalysts for investment, trade, employment, and economic growth. The parks aim to promote competitiveness, facilitate structural transformation, and attract foreign investment. While these parks have contributed to export promotion and job creation, challenges such as limited linkages to the wider economy, spatial dispersion, logistical delays, bureaucratic inefficiencies, raw material shortages, and foreign exchange constraints hinder their effectiveness.[441]

There are currently **13** public industrial parks in Ethiopia, with a primary focus on textiles and garments. Notable examples include the Hawassa Industrial Park, the largest and most expensive park, and Bole-Lemi I. Although textile and garment manufacturing dominate, other sectors, such as leather products, agro-processing, pharmaceuticals, and ICT, are underrepresented. The parks are strategically distributed across Ethiopia's regions, including the northern, southern, eastern, and western zones, reflecting an emphasis on equitable regional development. However, their establishment has yet to deliver the envisioned structural transformation, partly due to insufficient infrastructure, capital, and institutional capacity.[442]

The Ethiopian government has implemented specific cluster policies to develop manufacturing clusters, particularly in sectors like leather and leather footwear. Initiatives such as the establishment of the **Leather Development Institute (LDI)** and the **Ethiopian Leather and Leather Product Technology Institute (LLPTI)** demonstrate targeted government support.

Despite the achievements in industrial clusters, Ethiopia faces significant challenges in achieving its ambitious transformation goals. Issues such as

inefficient institutional frameworks, limited technological learning, and inadequate integration with local SMEs remain persistent barriers. Nevertheless, initiatives like the development of SEZs and the promotion of cluster-based farming demonstrate Ethiopia's commitment to positioning itself as a manufacturing and agricultural hub.

6.4.4.2 University–industry R&D collaboration

In the last twenty years, Ethiopia has achieved considerable growth in its tertiary education system and industries. However, this expansion has often compromised the quality of education, which is supposed to be the core mission of universities. While this growth continues, there has been limited focus on **University-Industry Linkages (UIL)**.[443] In Ethiopia, university–industry R&D collaboration remains limited, with both sectors often working in isolation. This lack of partnership hinders the development and transfer of innovations that could boost productivity and drive industrialization.[444] Despite the potential, partnerships remain unsatisfactory. The study on University-Industry Linkage at Debre Markos Institute of Technology in 2020 surveyed **142 officials**, chairholders, and academicians using a structured questionnaire. The findings revealed active collaboration mainly through student internships and research sponsorships, but challenges such as limited financial support, low faculty engagement, and weak follow-up after MoUs hinder effective partnerships.[445]

According to the Global Innovation Index (GII) 2024, Ethiopia scored **32** out of **100** and ranked **93rd** out of **132** countries, reflecting significant challenges in establishing strong university-industry collaborations. Meanwhile, Ethiopia's regional peers are performing better, with Kenya ranked 72nd, Tanzania ranked 40th, and Uganda ranked 79th, all showing relatively more progress in fostering university-industry partnerships.[446] These countries benefit from stronger institutional frameworks and more developed innovation ecosystems, positioning them ahead of Ethiopia in terms of supporting effective collaboration. While these nations also face barriers, their higher rankings highlight a more favorable environment for university-industry engagement, underscoring the need for Ethiopia to strengthen its innovation infrastructure and institutional support to close the gap.

To overcome these gaps in collaboration, there are several challenges specific to Ethiopia that need to be addressed. These include a lack of information about potential partners, difficulty identifying the right contacts, and high transaction costs. Universities often focus on basic research far from commercialization, while industries prioritize applied research for large-scale production. Additionally, industries view universities as disconnected from practical business needs, discouraging collaboration.[447] Despite increasing interest in university-industry R&D collaboration in Ethiopia, more needs to be done to manage these

relationships effectively. Universities should establish dedicated offices or roles, such as corporate liaison units, to foster partnerships, promote research strengths, and streamline collaboration agreements. Clear financial policies on costing, service pricing, and income distribution are also essential to build trust and prevent friction. These measures can address challenges like isolation, high transaction costs, and lack of information, helping R&D efforts lead to practical, scalable innovations that benefit both sectors.[448]

6.4.4.3 Startup Ecosystem

Ethiopia's startup ecosystem is witnessing rapid growth, particularly in Addis Ababa, which serves as its focal point. This growth is driven by initiatives such as Digital Ethiopia 2025 and the E-Startup Initiative, designed to support digital transformation and foster entrepreneurship.[449] [450] Sectors like transportation, logistics, and last-mile delivery lead in employment, annual revenues, and investment rounds, underscoring their economic significance.[451] The country's untapped market, youthful population, and expanding mobile connectivity contribute to the ecosystem's potential. For example, public and private entities in Addis Ababa are building a seed-stage support system, while programs like the Bruh Entrepreneurship Competition reflect government commitment to entrepreneurship. [452]

Ethiopia is ranked **111th** globally in the Global Startup Ecosystem Index for 2024, having dropped 8 positions from the previous year. Regionally, it holds **6th** place within Eastern Africa, supported by its significant population of 126.5 million and a young, entrepreneurial demographic.[453] While these rankings reflect Ethiopia's potential, they also highlight the challenges facing its startup ecosystem. Startups often rely on informal financing methods, such as bootstrapping or family support, due to the scarcity of investors and startup-friendly banks. [454] [455] Despite these challenges, Ethiopia's startup ecosystem holds immense potential. Enhanced investments, stronger stakeholder collaboration, and policy reforms could transform it into a leading innovation hub in Africa. The combination of a young, entrepreneurial population & government support creates a promising foundation for future growth. [456] [457]

6.4.4.4 Accreditation & standard agencies

Ethiopia's National Quality Infrastructure (NQI) is at an early stage of development, reflecting significant challenges despite recent efforts to modernize its framework. This is evidenced by Ethiopia's low-**Quality Infrastructure for Sustainable Development (QI4SD)** Index score of **21**, which underscores critical gaps in institutional capacity and alignment with international standards. Comparatively, Ethiopia's performance falls behind regional peers such as Kenya (39/100), Rwanda (29/100), & Uganda (31/100), as well as other African countries like South Africa (60/100) & Morocco (34/100).

This highlights the pressing need for targeted investments and reforms to enhance Ethiopia's NQI and close the performance gap with its counterparts.[458] Historically, the establishment of the Quality and Standards Authority in 1987 marked a foundational step in the country's quality journey. Over time, this institution was restructured into four independent entities in 2011, each tasked with advancing metrology, standardization, accreditation, and conformity assessment. Despite these efforts, Ethiopia's NQI continues to lag behind its regional and global counterparts, reflecting an underdeveloped system struggling to meet the demands of modern trade and sustainable development.[459]

A key development in Ethiopia's NQI was the inauguration of the **National Quality Village (NQV)** in 2024.[460] The integrated nature of the NQV aims to streamline Ethiopia's quality assurance services, making them more accessible and effective, which is crucial for aligning the country's products with international standards.

Despite developments, Ethiopia's performance remains constrained by several structural challenges. A key issue is the concentration of laboratories and testing facilities in urban areas, which limits access for rural producers to essential quality services, hindering their ability to meet international standards & compete in global markets.[461] Additionally, the shortage of skilled professionals in areas like metrology and accreditation further undermines the effectiveness of the country's NQI systems, as Ethiopia struggles to build the necessary technical capacity.[462] The lack of strategic policies and insufficient governmental support for quality infrastructure development slows Ethiopia's integration with international quality , ultimately reducing the country's competitiveness in global trade.[463]

6.5 Sector & Sub-sector Analysis

Ethiopia has taken significant strides to broaden its investment landscape, opening up a wide range of sectors to foreign investors to attract FDI and foster sustainable economic growth. The government has implemented progressive reforms to create a more attractive and competitive investment climate, aiming to position Ethiopia as a prime investment destination in Africa.

Currently, key sectors open for investment include:

- Manufacturing
  - Textile and Garment
  - Leather and Leather Products
- Transport and Logistics Sector
- Agriculture
  - Agro-Industry
  - Commercial Agriculture
- Education Sector
- Tourism
- Real Estate
- Mining
- Financial Sector
- Health Sector
  - Health Services
  - Pharmaceuticals

- Energy Sector
- Digital Economy
  - Telecom and ICT
- Wholesale and Retail Trade

Ethiopia's expanded investment opportunities reflect its ambition to become a regional economic hub by leveraging its competitive advantages, including abundant natural resources, a large and youthful workforce, and a strategic geographic location that connects global markets. This liberalization is further supported by the country's efforts to enhance political stability, improve its business regulatory framework, and upgrade key infrastructure, creating an environment conducive to long-term investment and growth. With these developments, Ethiopia presents vast untapped opportunities for both strategic and growth-oriented investors looking to capitalize on emerging markets.

The sectoral analysis subsection of this document aims to identify and prioritize sectors and subsectors with the highest potential for attracting FDI and driving economic growth. The sectors are categorized based on priorities set by the EIC, HGER 2.0, and liberalized sectors.

- Sectors and Sub-sectors Prioritized by EIC: (Textile and garment, Leather and leather products, Agro-industry, Pharmaceuticals)
- Sectors and Sub-sectors Prioritized by HGER 2.0: (Commercial agriculture, Mining, Tourism, Digital economy)
- Liberalized Sectors: (Telecom and ICT, Transport and logistics, financial services, Energy, Health services, Education, Wholesale and retail trade, Real estate)

This classification highlights the sectors with the most significant investment opportunities, aligning with Ethiopia's broader economic reform agenda and efforts to diversify the economy.

A systematic methodology has been employed to achieve this: five of the most relevant indicators are selected for each sector, representing critical factors for investment and growth. These indicators are evaluated using global indexes to provide standardized benchmarks for performance across sectors. To ensure objective and consistent comparisons, a normalization process has been applied to standardize data from indexes with varying scales. This structured and data-driven approach ensures that the prioritization process aligns with Ethiopia's economic goals while maximizing investment opportunities in the most promising sectors.

6.5.1 Textile and Garment Sector

6.5.1.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's textile and garment industry has made significant strides in recent years, driven by FDI and government support. As of recent reports, the sector has grown four-fold since 2020, generating over **USD 140 million** in exports.[464]

The country's competitive advantage lies in its abundant, low-cost labor and renewable energy-powered industrial parks, such as the Hawassa, Bole Lemi, and Kombolcha industrial parks, which provide "**plug-and-play**" factory facilities and eco-friendly production through **Zero Liquid Discharge (ZLD) systems**. These parks host major global apparel brands like PVH (Calvin Klein, Tommy Hilfiger), who are attracted by Ethiopia's commitment to sustainable production.[465] Improved physical infrastructure, such as the Djibouti-Addis Ababa railway, supports exports by reducing transport costs and ensuring fast access to ports .[466] To attract FDI, Ethiopia offers tax holidays, duty-free imports of raw materials and machinery, and preferential trade access to the U.S. (AGOA) and EU (EBA) markets.[467] However, the sector faces several challenges. Forex shortages remain a critical bottleneck, limiting manufacturers' ability to import production inputs like dyes and fabric. The non-convertibility of the Ethiopian Birr and the government's control over foreign exchange allocation exacerbate this problem.[468] Additionally, the sector struggles with worker turnover and a skills gap, as many newly trained workers leave for better-paying opportunities in other industries. Political instability and social unrest further dampen investor confidence, with disruptions affecting production timelines. [469]

Top Five Attracting Factors for Foreign Investment

Low-cost Labor

Foreign investors prioritize low-cost labor when entering the textile sector, as it is the principal requirement for establishing a competitive manufacturing base. The textile industry has historically leveraged affordable labor as a strategic advantage for developing countries to industrialize and grow their economies.[470] For instance, India benefits from a skilled workforce, contributing to cost-effective production in its textile sector (EnterSlice, 2023). Similarly, Vietnam's southern region, known for its textile hub, thrives on an efficient labor force, complementing the region's infrastructure to attract international brands (Vietnam Briefing, 2023).

Domestic Market Scale

Foreign investors are highly attracted to countries with large or rapidly expanding domestic markets, particularly in the textile sector, where the demand for apparel and garments often grows in line with population and income growth. As the World Bank (2017) states, "domestic market-seeking" investment is largely motivated by the size or growth rate of a country's market, making it a key factor in FDI, particularly in the manufacturing sector.[471] This factor holds true across various industries, including textiles, where large domestic markets create strong demand for locally produced

goods, encouraging foreign investors to establish production facilities. In the textile industry, large domestic markets provide not only a steady demand for locally produced goods but also a competitive edge by reducing the costs associated with international logistics and trade barriers. For instance, in the textile sector, countries like India and Bangladesh benefit from large domestic consumer bases that not only sustain local demand but also provide opportunities for international companies to scale their operations. India's textile industry, fueled by a growing middle class and increasing demand for both traditional and contemporary apparel, has attracted foreign investment from brands like H&M and Zara, who aim to meet both domestic and export needs.[472] Likewise, Bangladesh's growing domestic textile consumption and competitive production costs have made it an attractive location for textile giants like Uniqlo to set up operations, capitalizing on both local and global demand.[473]

Electricity [474]

Low-cost electricity is a significant incentive for foreign investors, particularly in energy-intensive industries like manufacturing. Ethiopia, for instance, offers the cheapest electricity in Africa at **$0.035 per kWh** [475], making it a highly competitive destination compared to neighboring countries such as Kenya, where electricity costs $0.09 per kWh. This cost advantage enables investors to significantly reduce their operating expenses, thereby increasing profitability. Additionally, the Ethiopian government has mitigated challenges like grid instability and power outages by establishing dedicated power stations for industrial zones, ensuring a reliable electricity supply for key economic hubs.

Market Access [476]

Market access further strengthens the attractiveness of countries for FDI. Ethiopia enjoys privileged access to major global markets through international trade agreements like the African Growth and Opportunity Act (AGOA) (however, Ethiopia lost its AGOA beneficiary status **starting from 1 January 2022.**)[477] and duty-free arrangements with the European Union. These agreements allow Ethiopian products to enter high-income markets with reduced trade barriers, providing a competitive edge for investors targeting export-driven industries. Furthermore, Ethiopia's strategic location as a gateway to East Africa and its integration into the Common Market for Eastern and Southern Africa (COMESA) grants duty-free access to **23 African countries**, enhancing regional market connectivity.

Logistics [478]

Efficient logistics play a crucial role in the textile and garment sector, ensuring seamless production, distribution, and inventory management. Strong logistics infrastructure enhances supply chain efficiency by facilitating timely material sourcing, streamlined manufacturing

processes, and fast delivery of finished goods to markets. In a highly competitive industry driven by shifting consumer demands and global trade, well-developed transportation networks, warehousing, and inventory systems help reduce costs, minimize delays, & improve overall productivity. As multinational corporations assess investment locations, regional logistics capabilities significantly influence their decisions, highlighting the need for robust logistics infrastructure in sustaining textile and garment sector growth.

Table 6.1

Index Analysis in Regards to Ethiopia's Top Priorities for Textile and Garment Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Low-cost Labor Force	Ethiopia has a large and cost-competitive labor force, particularly suitable for the textile and garment sector. However, skill levels need further improvement.	161/171	5
Domestic Market	The domestic market is growing, but its current scale is relatively limited compared to countries like India and Bangladesh.	31/54	3
Electricity	Ethiopia offers the cheapest electricity in Africa, but grid stability and reliability remain concerns despite dedicated industrial power stations.	143/147	5
Market Access	Ethiopia's market access is diminished due to the loss of AGOA benefits, though COMESA membership provides regional opportunities.	3.04/16	1
Logistics	Ethiopia implemented targeted logistics reforms, opening the sector to FDI and investing in rail and road infrastructure. Industrial parks and Ethiopian Airlines enhance transport efficiency, but port access and high logistics costs remain major challenges.	2.84/7	3

Among the five key factors, labor force availability and electricity costs stand out as strong advantages for Ethiopia in attracting foreign investment in the textile sector. However, challenges remain in market access, financial market incentives, and domestic market scale. To address these challenges, Ethiopia should intensify its efforts to join the WTO and AfCFTA, while expanding competitive market access. This includes targeting regional markets and exploring opportunities in the Asian market to enhance market access for its products worldwide.

Additionally, investing in skill development will enhance Ethiopia's attractiveness and positioning it as a competitive player in the global textile and garment industry.

6.5.2 Leather and Leather Products Sector

6.5.2.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia is Africa's largest livestock producer and ranks seventh globally, boasting nearly **200 million** livestock as of recent estimates[479]. This vast resource base, combined with steady growth rates, offers immense potential for the leather industry. Every year, Ethiopia produces **4 million** pieces of salted hides (equivalent to 110 million square feet) and **20 million** pieces of skins (equivalent to 80 million square feet)[480].

The country's leather sector is supported by **26 tanneries**, with an annual finished leather production capacity of **120-135** million square feet[481]. These tanneries export approximately **60 million** square feet of finished leather annually, generating nearly **USD 69.5 million**. Furthermore, Ethiopia is home to 19 factories exporting leather goods and garments, with total exports valued at **USD 1.8 million**, as well as 3 foreign footwear factories producing **7.81 million** pairs annually, contributing **USD 38.5** million in exports[482].

Ethiopia's leather sector offers significant investment potential, driven by abundant livestock resources, globally recognized high-quality sheepskins, low production costs, and strong government support. The government has introduced incentives such as **100%** duty exemptions on capital goods and raw materials, preferential financing options, and access to foreign financing for export-oriented manufacturers[483]. Coupled with an affordable labor force, and a focus on value addition, these factors position Ethiopia as a prime destination for leather sector investment.

However, the industry faces challenges, including poor raw material quality due to inadequate animal husbandry and slaughter facilities, outdated technology, a shortage of skilled labor, financial constraints, weak supply chain coordination, and high logistics costs. Addressing these issues through modernization, improved supply chain efficiency, and workforce development is essential to fully realize the sector's potential.[484]

Top Five Attracting Factors for Foreign Investment

Cluster Development [485]

The establishment of integrated production chains encompassing raw materials, manufacturing, and finished products is vital. These clusters often include shared facilities and support services, fostering collaboration and efficiency. Vietnam exemplifies this model, where leather clusters have significantly boosted exports and global competitiveness.

Livestock Population [486]

The availability of abundant raw materials, such as hides, skins, or other inputs derived from large livestock populations, serves as a critical driver of FDI in the leather sector. Countries with significant livestock resources, like India and Brazil, attract resource-seeking investors by offering a reliable and cost-effective supply chain for leather production. These inputs reduce operational costs and support the production of high-quality leather goods. For example, India's leather sector has benefited significantly from its vast supply of hides and skins, enabling the country to become a major player in the global leather industry. Such resource advantages make nations with rich raw material bases highly competitive in attracting FDI in this sector.

Transport infrastructure

The quality of road infrastructure plays a critical role in attracting FDI by facilitating efficient transportation and reducing operational bottlenecks. Conversely, poor infrastructure, including inadequate road networks, inefficient rail transport, and limited communication systems, has historically deterred FDI inflows and hindered intra-regional trade across Africa. [487]Road Infrastructure: The quality of road infrastructure plays a critical role in attracting FDI by facilitating efficient transportation and reducing operational bottlenecks. Conversely, poor infrastructure, including inadequate road networks, inefficient rail transport, and limited communication systems, has historically deterred FDI inflows and hindered intra-regional trade across Africa.[488] The World Bank estimates that trade-related infrastructure upgrades in sub-Saharan Africa could generate annual gains of **$20 billion**, underscoring the transformative potential of investment in transportation networks. Robust and reliable road infrastructure not only supports the movement of goods and services but also enhances regional value chains, making countries more attractive destinations for FDI and contributing to sustained economic growth.[489]

Market access [490]

Access to market is a critical driver for attracting FDI in the leather sector across **sub-Saharan Africa (SSA)**. The region boasts significant export potential in leather and leather products, making it an attractive destination for export-oriented FDI. Additionally, the growing global demand for leather goods and rising

incomes present a lucrative and expanding market, appealing to market-seeking investors. A country with fewer export restrictions and strong intraregional connections is well-positioned to attract FDI in the leather sector.

Low-Cost Labor [491]

The presence of low-cost labor is another significant factor driving FDI in the leather sector. Affordable labor reduces production costs, making countries with inexpensive yet skilled workforces highly attractive for labor-intensive industries.

For instance, surveys of Chinese and Indian firms investing in Sub-Saharan Africa highlight that low labor costs were a primary reason for their investment decisions. Similarly, Bangladesh has leveraged its low-cost workforce to establish itself as a hub for labor-intensive manufacturing, including leather goods. This dynamic, combined with access to local or regional markets, creates a favorable environment for foreign investors seeking to optimize cost structures and expand production in global markets.

Table 6.2

Index Analysis in Regards to Ethiopia's Top Priorities for Leather and Leather Products Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Cluster Development	Ethiopia has made limited progress in developing integrated leather clusters, which hinders efficiency and value chain competitiveness.	19.1/100	1
Livestock population	Ethiopia ranks 189th (higher rank reflects higher population) out of 192 countries in livestock population, reflecting its substantial cattle resources. This high ranking underscores the country's strong agricultural capacity and reliance on livestock farming, positioning it as one of the top nations globally in this indicator.	189/192	5
Transport Infrastructure	Road infrastructure is improving, but significant gaps remain in quality and connectivity, which hinders efficient transportation for the leather sector activities	25.4/100	2

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Market Access	Ethiopia's market access is diminished due to the loss of AGOA benefits, though COMESA membership provides regional opportunities.	3.04/16	1
Low-cost Labor	Ethiopia has a large and cost-competitive labor force. However, skill levels need further improvement.	161/171	5

Among the five key factors, Ethiopia's large livestock population and labor force represent its relative strengths in attracting foreign investment to its leather sector. However, the country faces significant challenges in cluster development, road infrastructure, and market access, which limit its full potential. Addressing these gaps requires policy incentives to establish leather clusters, investment in road networks, and strategic trade agreements to unlock export opportunities. Such improvements would enhance Ethiopia's competitiveness and position it as a key player in the global leather market.

6.5.3 Pharmaceutical Sector

6.5.3.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's pharmaceutical market is valued at approximately **$500 million** annually and is expanding rapidly at a rate of **25% per year**.[492] Despite being one of the first African nations to establish a national pharmaceutical manufacturing strategy and having strong investment policies with tax exemptions, streamlined services, and procurement preferences, the country heavily relies on imports.

Local manufacturers supply only **90** of the **380+** essential medicines on the national list, reflecting limited production capabilities and a narrow product range. The domestic medical devices market is similarly dependent on imports, which account for **96%** of its **$383 million** demand (as of 2020). The Ethiopian **Pharmaceutical Supply Agency (EPSA)**, the largest buyer, controls **97%** of the market.[493] [494] This reliance on imports poses challenges to ensuring affordable and accessible healthcare for Ethiopia's growing population.

Top Five Attracting Factors for Foreign Investment

Domestic Market Scale [495]

A strong domestic market with increasing demand is a significant driver for attracting FDI. Growing consumer needs and a robust demand for pharmaceutical products make the sector appealing to investors.

Logistics [496]

Advanced logistical infrastructure, such as dedicated industrial zones & logistics hubs, is a crucial factor for investors.

For instance, Morocco's competitive edge lies in its specialized zones for pharmaceutical manufacturing and facilities like Tanger Med Port, which enable seamless integration into global supply chains.[497] Such infrastructure ensures efficient production and timely delivery of high-quality products to international markets.

Skilled Labor Force [498]

The availability of a competitive and skilled workforce is a key consideration for investors. Countries like Uzbekistan, as recommended by the World Bank, are advised to focus on developing competitive skill sets to enhance their attractiveness for FDI in pharmaceuticals.

University - R&D Collaboration [499]

Countries with strong R&D capabilities attract FDI by fostering innovation and offering skilled human resources. Investments in universities and specialized training programs in pharmacy, chemistry, and biotechnology ensure a continuous supply of skilled professionals. Furthermore, partnerships between foreign investors and local research institutions can enhance technological capabilities, tailor pharmaceutical solutions to local health needs, and drive long-term competitiveness in the global market.

Accreditation & Standards Authority [500]

A well-functioning national drug regulatory authority is crucial for ensuring compliance with health and safety standards, which builds consumers' confidence. A well-functioning drug regulatory authority also builds confidence among exporting countries. It ensures that manufacturers meet not only national regulatory requirements but also the stricter standards set by drug regulatory authorities in importing countries, especially those in developed markets. This capacity to align with higher-quality standards enhances the country's potential for international market access.

Table 6.3

Index Analysis in Regards to Ethiopia's Top Priorities for Pharmaceutical Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Domestic Market Scale	Ethiopia's domestic pharmaceutical market is growing, driven by rising healthcare needs, but remains smaller than those in more developed markets.	31/54	3
Logistics	Logistics Ethiopia has some logistical infrastructure improvements, such as industrial parks, but lacks advanced hubs and seamless integration into global supply chains.	2.84/7	3

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Skilled Labor force	Ethiopia offers a competitive and cost-effective workforce, but specialized skills for pharmaceutical manufacturing are limited.	3.64/7	3
University - R&D Collaboration	Collaboration between universities and the pharmaceutical sector is limited, with insufficient emphasis on R&D and innovation.	33.4/100	2
Accreditation & Standards Authority	Ethiopia's drug regulatory authority has foundational capabilities but needs significant enhancement to align with international standards.	21/100	2

Among the five key factors, Ethiopia's domestic market scale and labor force availability serve as key strengths in attracting investment to the pharmaceutical sector. However, significant gaps exist in logistics infrastructure, university-industry R&D collaboration, and regulatory capabilities, limiting the sector's global competitiveness. To address these challenges, Ethiopia should prioritize investment in logistics hubs, foster partnerships between academia and industry, and strengthen the national drug regulatory framework. These improvements would enhance Ethiopia's attractiveness and position it as a competitive destination for pharmaceutical FDI.

6.5.4 Agro-Industry

6.5.4.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's agro-industry sector is advancing through the development of four Integrated Agro-Industrial Parks (IAIPs).[501] These parks adopt a comprehensive approach to ensure sustainability by integrating input supply, raw material sourcing, on-farm production, and backward market linkages. Investors benefit from ready-to-use land equipped with essential infrastructure like power substations, water supply systems, telecommunication centers, and complementary services such as police stations, health centers, and one-stop shops for permits and quality checks. Although agriculture accounts for half of Ethiopia's manufacturing, agro-industries currently contribute only 5% of GDP.[502] With the operational IAIPs and supportive policies like duty-free imports of agricultural equipment, Ethiopia aims to attract $1.5 billion in investments, generate 400,000 jobs, and create 400 new business opportunities. Additionally, value-added production focuses on strategic crops such as coffee, wheat, sesame, and dairy, enhancing productivity and supporting the sector's contribution to economic

growth and poverty reduction. [503]

Top Five Attracting Factors for Foreign Investment

Agro-process Inputs [504]

The availability of raw materials is a key driver of FDI in the agro-processing sector. Countries with abundant agricultural resources, such as crops and livestock, offer a reliable supply of inputs for food processing industries. This availability reduces the cost of raw materials, making it easier for foreign investors to set up and operate efficient production processes. Additionally, countries with a strong agricultural base tend to have established supply chains that can support large-scale production, further incentivizing investment. Such resource-rich environments are particularly appealing to investors seeking to optimize costs and enhance the competitiveness of their products in global markets. For example,[505] Thailand, with its vast agricultural resources, including rice, sugarcane, and tropical fruits, has successfully attracted foreign investment to its agro-processing sector by leveraging these abundant raw materials.

Domestic Market Scale [506]

The size and growth potential of the domestic market are pivotal considerations for investors in the agro-industry. A larger population and higher GDP per capita signal greater demand for agricultural products and processed foods, creating lucrative opportunities for market-seeking investments. Countries with expanding consumer bases provide a stable platform for agro-industrial growth, attracting investors aiming to capitalize on rising domestic consumption.

Market access [507]

Market access plays a crucial role in attracting FDI to a country. Investors often engage in FDI to "jump" tariffs by establishing operations within the host country, avoiding import duties and gaining direct access to local markets. Additionally, a host country with preferential tariffs or trade agreements with third-party nations becomes more appealing to investors seeking to leverage those benefits. Participation in regional trade agreements or customs unions, such as NAFTA or the EU, AGOA creates new investment opportunities by enhancing connectivity and reducing trade barriers. Furthermore, policies that liberalize trade and improve market access tend to complement FDI, as open markets encourage foreign investors to establish a presence and benefit from the broader trade advantages.

Logistics [508]

The availability and quality of infrastructure significantly impact the feasibility of agro-industry investments. Additionally, robust logistics infrastructure, such as roads, ports, and cold storage facilities, enables efficient transportation of agricultural products and processed goods. Countries that prioritize infrastructure development, like

Brazil, demonstrate how investments in logistics and energy systems can attract substantial FDI and drive sectoral growth.

Cluster Development [509]

The presence of well-established agricultural clusters is a strong pull factor for foreign investors. These clusters integrate producers, processors, and exporters, creating economies of scale and fostering innovation. By co-locating along the value chain, agricultural clusters reduce costs and improve coordination between stakeholders. Successful examples, such as Brazil's agro-processing clusters, highlight how strategic investments in cluster development can attract FDI while enhancing sectoral competitiveness.[510] However, sustainable practices must be prioritized to avoid issues like environmental degradation and displacement of local communities.

Table 6.4

Index Analysis in Regards to Ethiopia's Top Priorities for Agro-Processing Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Agro-process Inputs	Ethiopia has a moderate agro-processing input, In regards to crop production and livestock resources. However, Ethiopia has a large arable land which can make the country more appealing for investors making it a competitive player in agro-processing industries.	4.3/10	3
Domestic Market Scale	Ethiopia's growing population offers a promising domestic market, but low GDP per capita limits immediate purchasing power for agro-industrial products.	31/54	3
Market access	Market access is constrained by limited trade agreements and export barriers, reducing Ethiopia's competitiveness in agro-industry exports.	3.04/16	1
Logistics	Ethiopia's transport and logistics infrastructure is improving but still needs improvement to fully support efficient agro-industrial operations and supply chains.	2.84/7	3
Cluster Development	Ethiopia is greatly improving its agro-industrial clusters; however, it still needs improvement to reach its targets.	19.1/100	1

Ethiopia's modest raw materials availability, particularly agricultural resources such as crops and livestock, combined with its growing domestic market, are strong assets in attracting foreign investment to the agro-industry sector. However, challenges in market access, transport and logistics infrastructure, and cluster development limit its full potential. To address these gaps, Ethiopia should prioritize enhancing trade access, improving logistics, and investing strategically in agro-processing clusters. These initiatives would optimize the supply of raw materials, foster value chain integration, and increase the sector's competitiveness in both domestic and international markets.

6.5.4 Tourism Sector

6.5.5.1 Current State of Ethiopia in the Sector: A Concise Review [511]

The Ethiopian tourism ecosystem is a vibrant and diverse sector offering numerous opportunities, including its rich cultural heritage and historical sites. Ethiopia's strategic geographic location in East Africa makes it a gateway to the region, providing easy access to neighboring countries and serving as a key transportation and logistics hub connecting Africa, Asia, and Europe. The country is home to nine UNESCO World Heritage Sites, ranking second in Africa, and hosts Addis Ababa, a major diplomatic hub. With the presence of the African Union (AU), the UNECA, and 115 foreign missions, Addis Ababa ranks third globally in terms of diplomatic representation, further enhancing Ethiopia's appeal as a global destination.

The tourism industry is a vital contributor to Ethiopia's economy. According to the World Travel & Tourism Council, the sector generated USD 4.23 billion in 2021, a 32.7% increase from the previous year, accounting for 5% of GDP and 34.3% of total exports. Beyond its economic contributions, tourism supported 1.56 million jobs, representing 2.9% of total employment, and saw a 4.5% growth in employment contributions between 2020 and 2021 despite challenges from the global pandemic. After experiencing a 74% decline in tourist arrivals and a 72% drop in receipts in 2020 due to the COVID-19 pandemic and political unrest in the northern region, Ethiopia's tourism sector rebounded significantly. Between July and September 2021, tourist arrivals surged by 255% compared to the same period in the previous year, signaling a revival and growing interest in the country.

Recognizing the potential of its tourism sector, Ethiopia has prioritized it as part of its new ten-year economic development plan, alongside agriculture, mining, and ICT. Several strategies and initiatives have been implemented to strengthen tourism and enhance its contribution to the economy. The National MICE (Meetings, Incentives, Conferences, and Exhibitions) Strategy for Addis Ababa (2020–2030) aims to attract investments in conference tourism. Ethiopian Tourism National Safe Travel Protocols have been established to ensure visitor safety and confidence,

while the Green Legacy Initiative focuses on ecotourism and climate change mitigation, surpassing its goal of planting 20 billion trees by 2022. Additionally, projects such as Gorgora, Koysha, Wenchi, and the Beautifying Sheger urban site initiative have been launched to improve tourism offerings and generate higher returns for stakeholders.

These efforts demonstrate Ethiopia's commitment to harnessing its rich tourism potential, ensuring sustainable growth, and positioning the country as a premier destination in the region.

Top Five Attracting Factors for Foreign Investment

Financial Market [512]

A robust financial market is essential for attracting investment in tourism. Investors seek well-developed financial institutions that provide access to competitive loans, efficient banking services, and stable currency exchange mechanisms. These features enable businesses to manage startup costs effectively and ensure smooth financial operations. The presence of private sector funding options, such as venture capital or tourism-focused investment funds, also boosts investor confidence by diversifying financing opportunities and reducing dependency on public subsidies.

Sustainable Development [513]

Sustainability has become a major consideration for tourism investors. They increasingly prioritize projects that minimize environmental impact, preserve local ecosystems, and uplift communities, provided financial viability is maintained. Sustainable tourism investments not only enhance the destination's appeal but also align with global trends toward responsible travel. Projects that balance environmental preservation with community development are more likely to attract forward-thinking investors who value long-term benefits.

Transport Infrastructure [514]

The quality of physical infrastructure is a decisive factor in attracting tourism-related investments. Well-developed transportation networks, such as airports, roads, and railways, are crucial for facilitating tourist access to destinations. Additionally, investment in tourism-specific infrastructure, including attractions and heritage sites, ensures a competitive edge. Public investment in physical and digital infrastructure enhances the overall visitor experience and makes destinations more attractive to investors.

Skilled Labor Force [515]

A skilled labor force attracts FDI in tourism by ensuring high-quality services, operational efficiency, and enhanced visitor experiences. Moreover, investments in education, vocational training, and skills development tailored to tourism-related fields, such as hospitality management, cultural heritage, and eco-tourism, make a destination more appealing to foreign investors. By fostering a robust pipeline of qualified

professionals. This enhances the global reputation of the tourism sector and fosters international partnerships.

Domestic Market scale [516]

A large domestic market size is a critical factor in attracting FDI as it offers foreign investors access to a substantial consumer base, opportunities for economies of scale, and higher revenue potential. Investors are often drawn to destinations with significant market demand, which reduces risks and enhances profitability in sectors like tourism and hospitality. For example, in Singapore, where per capita income is high, market size has been shown to have a positive and significant impact on FDI inflows. Similarly, in Indonesia, a growing domestic market has contributed to increased investment, highlighting the universal appeal of market size as a key determinant of FDI.

Table 6.5

Index Analysis in Regards to Ethiopia's Top Priorities for Agro-Processing Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Financial Market	Ethiopia's financial market is underdeveloped, limiting access to competitive loans and diverse financing options needed for robust tourism investment.	29/100	2
Sustainable Development	Sustainable Development Ethiopia has rich natural and cultural heritage resources, aligning with sustainable tourism trends. Efforts to enhance eco-tourism and community-based projects are ongoing.	54.5/100	3
Transport Infrastructure	The road and transport network remains inadequate, with limited accessibility to key tourist sites, although improvements are being made.	25.4/100	2
Skilled Labor Force	Ethiopia has a growing pool of labor for the tourism sector, but the need for more specialized training and vocational programs remains.	3.64/7	3
Domestic Market Scale	Ethiopia's growing population offers a promising domestic market, and fast-growing GDP per capita, which indicates the growing purchasing power of the population.	31/54	2

Ethiopia's tourism sector benefits from its emphasis on sustainable development and the availability of a growing labor force, making it a promising destination for foreign investment. However, the sector is constrained by an underdeveloped financial market, insufficient road and transport infrastructure, and limited access to a growing domestic market. Targeted investments in transportation networks, financial incentives, and strategies to capitalize on domestic tourism demand are essential to unlock the sector's full potential. Additionally, enhancing vocational training and leveraging eco-tourism opportunities will solidify Ethiopia's global competitiveness in tourism.

6.5.6 Mining Sector

6.5.6.1 Current State of Ethiopia in the Sector: A Concise Review [517] [518]

Ethiopia's abundant and diverse mineral resources remain largely untapped, offering vast opportunities for exploration and development. These resources include tantalum, potash, gemstones, gold, iron ore, and a variety of industrial, energy, and construction minerals. With over 30 known reserves of metallic, industrial, agro-, and construction minerals, along with rare gemstones, oil, and gas, Ethiopia presents a significant potential for investors. The Geological Survey of Ethiopia (GSE), one of the continent's oldest geological institutions, provides valuable data that facilitates exploration and the acquisition of brownfield projects.

The mining sector is projected to grow by 33% annually, establishing itself as a backbone for agriculture and a catalyst for industrial growth, job creation, and export earnings. It is currently Ethiopia's fastest-growing economic sector, achieving a growth rate of 115% in 2021 and 91% in 2020. This rapid expansion resulted in a five-fold increase in its contribution to GDP. For instance, gold exports generated USD 672 million in 2021, marking a 25-fold increase in just two years. Additionally, the sector created 54,000 jobs in 2020, underlining its crucial role in employment generation and economic development.

This promising potential is further supported by Ethiopia's improving government policies and regulations, making the country increasingly attractive to international mining investors and developers. As part of the Home-Grown Economic Reform Agenda, mining is a priority sector, with measures focused on encouraging private sector investments[519], streamlining regulatory procedures, updating policies, and building institutional capacity.

The government has also introduced specific reforms for the mining sector, including formalizing and supporting artisanal and small-scale mining, reviewing gold pricing to deter contraband trade, and addressing political and legal challenges with local communities. Other initiatives aim to resolve technical and institutional barriers to large-scale mining projects and

develop policies to ensure a sustainable and inclusive mining sector. These efforts also focus on strengthening geological data and diversifying mineral products to enhance industrial inputs.

Top Five Attracting Factors for Foreign Investment

Skilled Labor Force [520]

Relatively cheap labor serves as a significant driver of FDI in Africa's mining sector. Investors are attracted to regions where low labor costs reduce operational expenses, particularly in labor-intensive activities like mineral ore extraction. This competitive advantage enhances profitability and encourages multinational corporations to establish operations in these regions. Furthermore, the combination of abundant mineral resources and cost-effective labor makes Africa a preferred destination for mining investments, challenging the conventional focus on market size or petroleum resources as primary FDI drivers.

Transport Infrastructure [521]

Efficient Road and transport infrastructure is critical for attracting FDI in the mining sector as it ensures the seamless movement of raw materials, equipment, and finished products. Inadequate transportation networks increase operational costs and delay project timelines, making countries less attractive to investors. By contrast, countries with well-developed roads, railways, and ports allow mining companies to access global markets more efficiently, reducing logistical bottlenecks. This infrastructure also supports shared usage across multiple industries, promoting broader economic development and enhancing the competitiveness of the mining sector.

Financial Market [522]

The financial sector plays a pivotal role in enhancing a country's attractiveness for FDI in the mining sector by ensuring the availability of credit, efficient capital markets, and risk management instruments. A robust financial infrastructure facilitates funding for exploration and development activities, offers insurance for mining-related risks, and promotes transparency and investor confidence. Additionally, financial institutions can structure tailored investment vehicles and incentives, making it easier for international investors to navigate the local regulatory and economic landscape, thus boosting the mining sector's growth potential.

Natural Resource [523]

The availability and quality of natural resource deposits significantly influence FDI decisions in the mining sector. A 2019 PwC study notes that regions with proven reserves of high-demand commodities, such as gold, copper, and cobalt, are particularly attractive to foreign investors. However, the ability to capitalize on these resources also depends on transparent exploration processes, fair allocation of mining rights, and an efficient regulatory framework for resource extraction.

Cluster development [524]

Cluster development is a significant factor in attracting FDI in the mining sector. Establishing mining clusters that integrate multinational enterprises (MNEs) with local firms fosters backward linkages to suppliers and input providers. Policies that encourage joint ventures and require local content play a critical role in this process by addressing information gaps, reducing the costs of technology upgrades, and building strong connections between MNEs and local enterprises. These measures create a supportive ecosystem that enhances efficiency and sustainability, making the mining sector more attractive for foreign investors. For example, countries that have successfully implemented mining clusters often benefit from increased technology transfer, local capacity building, and long-term economic growth.

Table 6.6

Index Analysis in Regards to Ethiopia's Top Priorities for Agro-Processing Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Skilled Labor Force	Ethiopia benefits from a relatively affordable labor force, though gaps in technical expertise and productivity hinder its full potential for the mining sector.	3.64/7	3
Transport Infrastructure	Limited road and transport infrastructure increases operational costs and delays, reducing the competitiveness of Ethiopia's mining sector for foreign investors.	25.4/100	2
Financial Market	Ethiopia's low financial market score reflects limited access to financial services, making it difficult for developers and buyers.	29/100	2
Natural Resource	Ethiopia ranks 125th out of 186 countries (higher rank indicates higher income from natural resource) in natural resource income, indicating moderate income generated from natural resources such as minerals, precious metals and forests. This ranking reflects the country's potential for resource-driven economic contributions while highlighting opportunities for further development in the sector.	125/186	4

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Cluster Development	Ethiopia is greatly improving its mining clusters; however, it still needs improvement to reach its targets	19.1/100	1

Ethiopia's mining sector offers potential for FDI, particularly due to its affordable labor force and abundant natural resources. However, significant barriers, such as poor road and transport infrastructure, limited energy supply, and underdeveloped cluster development, hinder the sector's appeal to foreign investors. To unlock its potential, Ethiopia needs to prioritize investments in infrastructure development, energy reliability, and fostering mining clusters that integrate local firms with multinational enterprises. Strengthening these areas can enhance Ethiopia's position as a competitive destination for mining-related FDI.

6.5.7 Digital Economy

6.5.7.1 Current State of Ethiopia in the Sector: A Concise Review

The digital economy refers to economic activities that leverage enhanced connectivity and digital platforms to create new opportunities for innovation, efficiency, and inclusion. It is built on two fundamental technological advancements: them Internet and IP-enabled communication systems such as mobile networks, electronic payment systems, and public service networks.[525] At its core, the digital economy fosters innovation by creating new goods and services, repurposing existing - technologies for novel uses, and introducing these technologies to new geographies and users.

In Ethiopia, the digital economy is in its early stages, with significant room for growth, particularly in attracting FDI. While Ethiopia is the largest economy in East Africa, its digital sector has attracted only 6% of the region's total venture capital funding over the last decade, a stark contrast to Kenya, which dominates with 69% of funding.[526] ICT services exports account for just 3% of Ethiopia's total services exports [527] [528], significantly below the sub-Saharan African average. Ethiopian startups face notable challenges in accessing capital, limiting their capacity to scale and innovate.

Recognizing these gaps, Ethiopia has made strides in improving the infrastructure and policy environment necessary for a thriving digital economy. Investments in network expansion and mobile penetration have driven substantial improvements. Internet coverage grew from 1.1% in 2011 to 18.6% in 2017, [529] with 3G networks covering 98% of the population and 4G coverage reaching 33% by 2023. However, Ethiopia's broadband subscription rate, at 7.1%, still lags behind the regional average of 24.8%,[530] underscoring the need for continued infrastructure development.

The financial technology sector also reflects these incremental improvements. While mobile subscriptions increased from 15.6% in 2011 to 60% by 2017, only 41% of these were active subscriptions, and mobile money services remain in the early stages of adoption. As of 2021, 46% of Ethiopians had financial accounts, driven mainly by traditional financial institutions.[531] However, mobile money services have shown promising growth and are expected to play an increasingly critical role in financial inclusion.

As a result, the mobile sector makes a significant contribution to the Ethiopian economy. It is estimated that, in 2023, the telecommunications sector contributed close to ETB 700 billion (8% of GDP) to the Ethiopian economy when the ecosystem, indirect and productivity impacts are taken into account. Moreover, this generated ETB 57 billion in taxes.[532]

To support its vision for a thriving digital economy, the Ethiopian government has implemented significant strategies and reforms. The Ethiopian government has introduced several key strategies to accelerate digital transformation:[533]

- **Digital Ethiopia 2025 Strategy**: Launched in 2020, this strategy envisions leveraging digital technology for growth and innovation.
- **Home-Grown Economic Reform (HGER) 2.0**: Focused on the digital sector, this reform includes initiatives such as the rollout of a National Digital ID scheme, improved digital payment systems, targeted support for digital startups, promotion of e-commerce, and strategic e-government projects to enhance public service delivery.
- **Ten-Year Development Plan (2021-2030)**: This plan aims to expand mobile and internet access to 100% by 2030, cover 95% of public institutions with electronic networks, and increase electronically delivered public services from 176 to 2,500. It also focuses on boosting private sector jobs in technology from 50% to 80%.
- **Regulatory Frameworks**: The Communications Service Proclamation No. 1148/2019 established the Ethiopian Communications Authority (ECA) as an independent regulator, opened the telecom sector to competition, and introduced universal access policies to expand services nationwide.

Top Five Attracting Factors for Foreign Investment [534]

Skilled Labor Force

A robust base of skilled professionals is essential for attracting FDI in the digital economy. The report emphasizes that nations like India have consistently drawn investment due to their abundant pool of highly skilled ICT workers. India's Digital India initiative, backed by $1.6 billion annual investments in digital skills training, has helped the country secure over 54% of its ICT-related FDI in software industries between 2016 and 2020. Similarly, countries focusing on

upskilling workers in areas like data analytics, artificial intelligence, and cybersecurity can position themselves as attractive destinations for digital investments.

ICT Infrastructure

The availability of high-quality digital infrastructure, including widespread broadband access and 5G networks, is critical for digital economy growth. The study highlights Singapore as a standout example, where the government's focus on rolling out nationwide 5G services by 2025 has made it a hub for global tech giants like Google and Alibaba. Investments in fiber optic networks and data centers have further solidified Singapore's position as a leader in digital connectivity. Such investments enable seamless communication and data transfer, attracting multinational enterprises to establish regional headquarters and operations.

University–industry R&D collaboration [535]

University research and development (R&D) plays a vital role in attracting FDI, particularly in R&D-intensive industries. High-quality university research, both applied and basic, creates knowledge spillovers and innovation ecosystems that foreign firms can leverage for their R&D activities. Applied research attracts development-focused investments due to its practical relevance, while basic research draws research-focused FDI by expanding firms' knowledge bases and enabling innovation.

Additionally, universities that produce doctoral graduates in relevant fields and conduct impactful research aligned with industry needs further enhance the attractiveness of a region for FDI. This alignment between university research orientation and firms' R&D priorities underpins their role as key drivers of regional economic development and FDI inflows.

Startup Ecosystem

Encouraging innovation through startup incubators, research funding, and innovation-friendly policies can create a thriving digital ecosystem. The report cites South Korea's success as an Innovation Hub, driven by its focus on developing cutting-edge technology and supporting startups through government-backed programs. By fostering environments where entrepreneurs can thrive, countries can attract FDI aimed at technology design, product development, and commercialization of digital solutions.

Electricity

Affordable and reliable electricity is vital for attracting foreign investors to the Digital economy, as these industries depend on energy-intensive infrastructure like data centers, network cables, and semiconductors. The growing demand for data processing, power equipment, and cooling systems makes access to reliable, affordable electricity crucial for investment in these sectors. [536] [537]

Table 6.7

Index Analysis in Regards to Ethiopia's Top Priorities for Digital Economy Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Skilled Labor Force	Ethiopia has a growing workforce but requires substantial investment in upskilling to meet the demands of the digital economy, particularly in advanced ICT fields.	3.64/7	3
ICT Infrastructure	Ethiopia's ICT infrastructure is underdeveloped, with limited broadband access significantly hindering its ability to attract FDI in the digital economy.	17/100	1
University–industry R&D collaboration	Collaboration between universities and industries is limited, affecting the country's ability to support innovation and attract research-intensive FDI.	33.4/100	2
Startup Ecosystem	Ethiopia lacks strong startup ecosystems, innovation policies, and funding mechanisms, which restrict its attractiveness for entrepreneurial and innovation-focused investments. However new reforms are being made in this area which is expected to grow this sector.	111/119	1
Electricity	Ethiopia offers the cheapest electricity in Africa, but grid stability and reliability remain concerns despite dedicated industrial power stations.	143/147	5

Ethiopia's digital economy holds promise, driven by its growing labor force and the availability of cheap electricity, which provides a competitive edge for energy-intensive digital infrastructure. However, critical gaps in ICT infrastructure, university–industry collaboration, and support for innovation and entrepreneurship undermine its ability to attract substantial FDI in this sector. To unlock its potential, Ethiopia must prioritize investments in modern digital infrastructure, digital skills training, and policy frameworks that nurture innovation ecosystems. By addressing these challenges, Ethiopia can position itself as an emerging hub for digital economy investments in Africa.

6.5.8 Telecom and ICT Sector

6.5.8.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's ICT and telecom sector is undergoing rapid transformation. It is

estimated that, in 2023, the telecommunications sector contributed close to ETB 700 billion (8% of GDP) to the Ethiopian economy when the ecosystem, indirect and productivity impacts are taken into account. Moreover, this generated ETB 57 billion in taxes.[538] ICT is increasingly recognized as a vital tool for fostering economic growth, enhancing productivity, and driving innovation across sectors. The Ethiopian government has prioritized ICT development in its socio-economic plans, beginning with the first Growth and Transformation Plan (GTP I), which focused on upgrading ICT infrastructure and expanding telecommunications services to ensure inclusive access. The second Growth and Transformation Plan (GTP II) (2015/16-2019/20) also emphasized the ICT sector, though it did not achieve the expected results. In 2019, the Home-Grown Economic Reform (HGER) identified ICT as a critical driver for modernizing public services, promoting e-commerce, digitizing finance and logistics, and expanding infrastructure across the country.[539]

Despite having one of the oldest public telecommunications operators, established in 1894, Ethiopia's telecom sector remains one of the least developed globally.[540] However, the government has been actively reforming the sector since 2018, ending the telecom monopoly in 2021 when the Ethiopian Communications Authority (ECA) granted Safaricom Ethiopia the first private operator license. Safaricom Ethiopia began operations in 2022, quickly gaining over 300,000 subscribers.[541] In terms of foreign involvement, Ethiopia's telecom sector has attracted investment from global firms like Huawei and ZTE, which have contributed to enhancing the country's connectivity. [542]

Top Five Attracting Factors for Foreign Investment

Domestic Market Scale

Market size and economic potential are key to attracting FDI in the telecom and ICT sector. Larger populations and growing GDPs offer a strong customer base and scalability, making countries with rising incomes and robust growth. This is evident in Latin America, where Mexico's substantial market size has allowed companies like América Móvil to dominate the regional telecommunications industry.[543]

Intellectual Property Rights

Intellectual property rights are crucial for attracting foreign investors to the ICT and telecom sectors, as these industries are knowledge-intensive and rely on a combination of technologies. Strong IPR protection ensures that investors' innovations, products, and technologies are safeguarded.[544] [545]

Information and communication technologies (ICTs) infrastructure

Modern telecom infrastructure and technological adoption are critical for attracting FDI. Countries that facilitate

access to advanced mobile technologies and internet connectivity provide a competitive edge for investors seeking to establish a presence in the telecom sector. The study points out that governments that prioritized infrastructure modernization attracted higher investment volumes. India serves as a prime example, where the rapid adoption of mobile technologies, supported by government initiatives, has driven significant investments and the growth of companies like Bharti Airtel.[546]

Skilled Labor Force

The presence of a skilled and technically trained workforce is critical for investors seeking to establish operations in technology-driven sectors. Educational initiatives focusing on ICT-related skills development directly enhance FDI appeal. South Africa's focus on ICT training and education has made it a prime destination for technology outsourcing and FDI in telecommunications.[547]

Electricity

Affordable and reliable electricity is vital for attracting foreign investors to the ICT and telecom sectors, as these industries depend on energy-intensive infrastructure like data centers, communication towers, and semiconductors. The growing demand for data processing, power equipment, and cooling systems makes access to reliable, affordable electricity crucial for investment in these sectors.[548]

Table 6.8

Index Analysis in Regards to Ethiopia's Top Priorities for Telecom and ICT Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Domestic Market Scale	Ethiopia's large population offers a favorable domestic market scale for the ICT and telecom sector, creating significant growth potential.	31/54	3
Intellectual Property Rights	Ethiopia scored low on intellectual property rights, indicating weak protection and enforcement of patents, copyrights, and trademarks, which can hinder innovation in the ICT and telecom sector.	3.2/10	2
ICT Infrastructure	Ethiopia has scored poorly in ICT infrastructure, hindering the country's digital growth.	17/100	1

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Skilled Labor Force	Ethiopia's lower score on the skill labor force index indicates challenges in the quality and availability of skilled labor necessary for the ICT and telecom sector.	3.64/7	3
Electricity	Ethiopia's extremely low score on electricity infrastructure reveals limited availability of power, a key obstacle for expanding telecom networks and other electricity-intensive ICT operations.	145/147	5

Ethiopia benefits from a favorable domestic market scale due to its large population size. However, the country faces challenges, scoring low on intellectual property rights, ICT infrastructure, skilled labor force, and electricity infrastructure. To address these issues, Ethiopia needs to strengthen intellectual property laws, invest in ICT development, improve education, and expand and modernize its electricity infrastructure.

6.5.9 Commercial Agriculture Sector

6.5.9.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's agricultural sector has experienced significant commercialization over the past decade, driven by various policy reforms and investments.[549] Between 2012 and 2019, the average marketed share of crop production increased by 6 to 10 percentage points, reflecting a rise in the proportion of agricultural output sold in the market rather than consumed at home.[550]

This commercialization is further demonstrated by Ethiopia's agricultural export performance, which has become a cornerstone of its economy. In 2022, agricultural exports contributed $2.6 billion, making up a significant portion of the country's total export value of $4.42 billion.[551] [552] Major export commodities include coffee, which alone generated $1.5 billion, fresh-cut flowers at $591 million, fresh vegetables at $248 million, sesame seeds at $184 million, & pulses at $137 million.[553] These figures highlight the critical role agriculture plays in Ethiopia's trade balance & underscore the sector's progress toward market orientation.

Despite Ethiopia's vast agronomically favorable land and conducive climate factors that position the country as an attractive hub for agricultural investment agriculture accounted for only 55 licensed FDI projects between 2019 and December 2023, according to data from the EIC. With 74.3 million hectares of land suitable for agriculture & over 476,821 hectares already allocated for crop

cultivation, the sector has substantial potential for growth. However, these opportunities have not translated into higher foreign investment, with agriculture accounting for just 4.89% of the total 1,125 FDI projects during the period. This suggests that even within the broader agricultural sector, commercial agriculture continues to attract relatively limited foreign investment, particularly in comparison to sectors like manufacturing, which accounted for 788 projects.[554] [555]

Top Five Attracting Factors for Foreign Investment

Arable Land

Availability of arable land is a critical factor for attracting FDI in commercial agriculture, as it offers investors access to untapped resources and high-return opportunities. Sub-Saharan Africa's vast agricultural potential, combined with low-cost local inputs like land, makes it particularly appealing for leveraging idle or marginal lands to boost productivity and profitability.[556]

Low-cost Labor

Access to a plentiful and cost-effective labor force is a key driver for FDI in commercial agriculture. Regions like Sub-Saharan Africa attract investors by offering a large, unemployed workforce, enabling reduced production costs and efficient resource utilization to maximize returns.[557]

Market Access

Access to international markets is a key factor for attracting FDI in commercial agriculture, as investors often prioritize exporting high-demand agricultural products, such as grains and animal feed, back to their home countries.[558] This focus on export-oriented production drives investment decisions, highlighting the importance of reliable market access to maximize profitability and meet global demands.

Logistics

Efficient logistics and transportation systems play a pivotal role in enhancing export performance, a key factor in attracting foreign investors to the commercial agriculture sector.By ensuring the smooth movement of agricultural products, including perishables, logistics services boost trade competitiveness in emerging economies.[559]

Domestic Market Scale

A substantial domestic market scale is a key factor in attracting foreign investment to the commercial agriculture sector. Investors are drawn to large domestic markets because they offer immediate opportunities for sales and revenue generation without the complexities of international trade. A study published in the American Journal of Industrial and Business Management highlights that domestic market size and growth are major determinants of FDI in the agricultural sector. [560]

Table 6.9

Top Five Attracting Factors for Commercial Agriculture Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Arable Land	Ethiopia's abundant arable land presents vast opportunities for commercial agriculture, attracting foreign investors seeking scalable and sustainable ventures.	3.2/6	3
Low-cost Labor	Ethiopia has a large and cost-competitive labor force. However, skill levels need further improvement.	161/171	5
Market Access	Ethiopia's market access index reflects room for improvement in trade and export opportunities, as the country faces challenges with infrastructure and regional integration.	3.04/16	1
Logistics	Ethiopia implemented targeted logistics reforms, opening the sector to FDI and investing in rail and road infrastructure. Industrial parks and Ethiopian Airlines enhance transport efficiency, but port access and high logistics costs remain major challenges.	2.84/7	3
Domestic Market Scale	Ethiopia's growing population offers a promising domestic market, but low GDP per capita limits immediate purchasing power for agro-industrial products.	31/54	3

While Ethiopia offers significant opportunities for commercial agriculture, with abundant arable land, domestic market scale and a large labor force, challenges in market access, and logistics require targeted investments and policy reforms. Enhancing infrastructure, and improving regional integration can attract foreign investment, boost productivity, and improve the efficiency of the agricultural sector. Addressing these gaps will be essential for realizing Ethiopia's potential as a competitive hub for commercial agriculture.

6.5.10 Transport and Logistics

6.5.10.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's transport and logistics sector was historically dominated by the public sector, with the government controlling key areas such as road infrastructure development, railways, maritime, and logistics services, as well as aviation.

Private sector involvement was largely confined to public and freight transport services, freight forwarding, and small-scale chartered flight operations.[561] However, the sector has undergone significant liberalization in recent years, opening new opportunities for private investment.[562] Notably, in 2023, Ethiopia's service exports totaled approximately 7.22 billion USD, with transport services contributing 78.73% of this figure. This dominance highlights the sector's pivotal role in Ethiopia's economy, placing the country ahead of its neighbors, including Kenya (4.66 billion USD in total service exports) and Uganda (1.85 billion USD).[563]

Despite this strong export performance, data from the EIC reveals a contrasting trend in attracting FDI. Up to December 2023, FDI in the transport and logistics sector, excluding communications, remained notably low compared to other sectors. Of the total 1,125 licensed FDI projects since January 2019, only 10 projects (less than 1%) were in this sector. This is significantly lower than the manufacturing sector, which accounted for 788 projects (approximately 70% of the total), and agriculture, which had 55 projects (5%). These figures highlight the untapped potential of the transport and logistics sector, despite its critical importance in supporting economic activities & industrial competitiveness.[564]

However, with the recent liberalization under the 2020 investment law and Ethiopia's strategic location at the crossroads of global trade routes, the sector is now primed for transformation.

Ethiopian Airlines, Africa's largest carrier and a global leader in air freight, connects the country to 127 international passenger destinations and 44 freighter destinations, underscoring its logistical strength. Combined with ambitious infrastructure projects such as logistics cities, dry ports, and the Addis-Djibouti railway, Ethiopia is well-positioned to attract significant FDI in the transport and logistics sector.[565]

Top Five Attracting Factors for Foreign Investment

Transport Infrastructure

Well-integrated infrastructure such as ports, airports, highways, and logistics hubs is crucial for efficient operations. Investors prefer locations with modern systems that minimize delays and costs. Countries like Singapore and the Netherlands attract higher FDI due to their strong infrastructure supporting large-scale activities like warehousing and distribution.[566]

Domestic Market Scale

Access to a large, growing market is key for demand in transport and logistics. Foreign investors prioritize locations with strong trade links, large consumer bases, and export-driven economies for scalability and sustainability.[567] In addition, market demand in the transport sector drives infrastructure investments, with high-demand regions offering lower risks and better returns, highlighting the role of local and regional markets in attracting FDI.[568]

Information and communication technologies (ICTs) infrastructure

ICTs enhance operational efficiency, reduce costs, and improve customer satisfaction through advanced data management and real-time tracking systems.[569] It enables quick responses to market changes, improves coordination among partners, and helps firms evolve with demand. These capabilities, supported by real-time data & predictive analytics, optimize logistics performance and resource allocation.[570] For example, the European Union's transport sector, which generates 7% of its GDP, has reaped significant benefits from digital transformation, including increased operational efficiency & reduced costs.[571]

Trade Volume

Countries with high export production and strong foreign market access experience increased demand for logistics services. As businesses expand to meet export needs, the demand for efficient transport and logistics networks grows. [572]

Additionally, imports play a crucial role in logistics demand, as the influx of goods necessitates warehouse space for storage, processing, and distribution.[573] This creates an attractive environment for foreign investors, as they seek to capitalize on the expanding logistics sector driven by rising international trade and economic growth.

Skilled Labor Force

A skilled labor force is crucial for attracting foreign investors in the logistics sector globally. Skilled professionals ensure operational efficiency, adopt advanced technologies, and meet international service standards, making markets more attractive for investment. Training programs and policy reforms to develop a capable workforce bolster competitiveness, streamline supply chains, and reduce costs for investors. The availability of skilled labor enhances investor confidence by offering the expertise needed for complex logistics operations, fostering economic growth.[574]

Table 6.10

Index Analysis in Regard to Ethiopia's Top Priorities for Transport and Logistics Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Road Infrastructure	Ethiopia's transport infrastructure needs further development, as indicated by the low score of 25.4/100. This reflects the current limitations in the sector, which can impact the efficiency of transportation services for potential foreign investors.	25.4/100	2

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Domestic market scale	Ethiopia's large population presents a favorable domestic market scale for investors in the transport and logistics sector. The score indicates significant potential for growth in this sector, driven by demand for goods transportation and logistics services.	31/54	3
ICT Infrastructure	Ethiopia's ICT infrastructure remains underdeveloped, which limits its effectiveness in enhancing the transport and logistics sector. The lack of robust digital connectivity and communication systems can hinder operational efficiency, making it a challenging area for foreign investors.	17/100	1
Trade Volume	Ethiopia ranks 26th out of 53 African countries in trade volume, reflecting moderate engagement in international trade. However, Ethiopia is working towards increasing its export in the coming few years.	26/53	3
Skilled Labor Force	Ethiopia has a growing workforce but requires substantial investment in upskilling to meet the demands of the modern logistical processes.	3.64/7	3

The transport and logistics sector in Ethiopia presents opportunities for foreign investment, particularly due to the large domestic market and a moderate-skilled labor force. However, the sector faces challenges in infrastructure, ICT connectivity, and market access, which require significant improvements. To attract more investment, focused efforts on infrastructure development, digital systems enhancement, and policy reforms are necessary to unlock the sector's full potential and ensure sustained growth.

6.5.11 Real Estate

6.5.11.1 Current State of Ethiopia in the Sector: A Concise Review

In recent years, Ethiopia's real estate sector has experienced significant growth and development, driven by rapid urbanization, population expansion, and economic progress. The country's real estate market is further projected to grow at an annual rate of nearly 10% between 2024 & 2028. Key trends shaping it are the rising demand for affordable housing, the increasing popularity of mixed-use developments, & growing interest in commercial & industrial properties to support the country's industrial and manufacturing sectors.[575] The real-estate sector has contributed 12.5% to GDP growth in the past 10 years. The growth was largely attributed to an 8.9% expansion in real estate & construction.[576]

To attract substantial FDI, enhance foreign exchange reserves, and accelerate economic development in the real estate sector, the Ethiopian government has announced plans to finalize a new law allowing foreigners to own real estate without specific investment requirements. This represents a significant shift, as property ownership in Ethiopia was previously restricted to Ethiopian citizens and the diaspora, limiting foreign investment in the sector. This reform is expected to transform the real estate landscape significantly. [577] [578] A similar example can be seen in Mauritius, where half of all traditional FDI has gone into real estate since it was gradually opened in the 2000s.[579] In 2022, Mauritius received net FDI of $250 million, equivalent to 1.9 percent of its GDP, showcasing the potential benefits of liberalizing the sector.[580]

Top Five Attracting Factors for Foreign Investment

Physical Property Rights

Strong physical property rights are essential for attracting investment in real estate. Weak property rights can hinder entrepreneurs and investors from acquiring land and developing housing projects.[581] Well-specified property rights give property owners the confidence to invest in and improve their land, knowing they will benefit from their efforts. [582]Mauritius provides a compelling example of how strong property rights can attract FDI in the real estate sector. Constitutional protections for property rights have increased investor confidence, with real estate receiving 56.5% of total FDI from 2018 to 2022. [583] [584]

Low-cost Labor

Skilled labor is essential for the real estate sector, as a shortage of qualified workers can hinder development projects. The construction sector, for example, relies on skilled workers to successfully complete projects. Their expertise ensures quality and efficiency, which is critical for the growth and sustainability of the entire real estate industry.[585] [586]

Domestic Market Scale

Market size plays a crucial role in attracting foreign investors to a host country's real estate market, as it reflects the availability of diverse investment opportunities. Larger markets provide more potential profitability, making them more appealing to foreign investors.[587] [588] Additionally, economic growth, rapid urbanization, and favorable demographic trends serve as strong drivers for attracting real estate investment.[589]

Urban Land

Land availability is crucial for real estate development, as it provides the foundation for all property ventures. Developers acquire and rezone land to increase its value and create residential, commercial, and mixed-use properties, meeting the growing demand for housing and business spaces. Sufficient land supply supports urbanization and drives successful real estate projects. [590] [591]

Financial Market

Well-developed financial markets play a vital role in attracting investors to the real estate sector by providing a stable funding environment and enabling growth. Capital markets, for instance, offer diverse investment vehicles such as Real Estate Investment Trusts (REITs) and alternative approaches, which help mobilize new sources of investment and broaden the investor base. These financial tools not only attract investors but also add value to local economies by promoting sustainable growth in the real estate sector.[592]

Table 6.11

Index Analysis in Regards to Ethiopia's Top Priorities for Real Estate Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Physical Property Rights	Ethiopia is ranked among lower-performing countries on physical property rights, which can create uncertainty for investors in the real estate sector.	3.6/10	2
Low-cost Labor	Ethiopia's lower score on the skill labor force index indicates challenges in the quality and availability of skilled labor, which can affect construction quality and real estate management.	161/171	5
Domestic Market Scale	Ethiopia's large population offers a favorable domestic market for the real estate sector, driving demand.	31/54	3
Urban Land	Ethiopia's vast land area presents significant opportunities for real estate development.	173/ 212	5
Financial Market	Ethiopia's low financial market score reflects limited access to financial services, making it difficult for developers and buyers.	29/100	2

Ethiopia's weak property rights, challenges in skilled labor, and limited access to financial services pose hurdles for the real estate sector. However, its large population and vast land area present significant growth opportunities for real estate development.

6.5.12 Financial Sector

6.5.12.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's financial sector is experiencing growth, but it remains underdeveloped, facing significant challenges in terms of structural, operational, and technical efficiencies. In 2024, the total assets of

the financial system reached 3,409.4 billion Birr, reflecting a 15.1% increase from 2023. However, the total assets as a percentage of GDP decreased to 29.5%, an 8.1% drop from the previous year. The banking sector dominates Ethiopia's financial landscape, accounting for 96.1% of the total financial system. By June 2024, bank deposits totaled nearly 2.5 trillion Birr, with total loans and bonds amounting to just under 2.2 trillion Birr. Although both deposits and loans increased during the year, their growth rates slowed compared to the previous year—deposit growth fell from 24.6% to 15.4%, and loan and bond growth from 24.3% to 16.1%.[593]

For decades, Ethiopia's banking & finance sector was almost entirely closed to foreign participation, with stringent regulations that restricted ownership & operations to domestic investors.[594] However, recognizing the need for modernization & the infusion of foreign capital, a significant shift occurred in 2024. The Council of Ministers approved a new Banking Business Proclamation, which opened the financial sector to foreign investment for the first time.[595] This reform is part of Ethiopia's HGER 2.0, aimed at liberalizing the economy & attracting FDI. The introduction of foreign banks is expected to bring new capital, advanced technologies, & innovative financial products, potentially boosting the sector's efficiency & contributing to Ethiopia's overall economic growth.[596] Given Kenya's experience in liberalization of its financial sector, it can serve as a relevant example of the growing presence of FDI in the sector. The finance and insurance activities sector in Kenya has been the leading recipient of FDI in recent years, with FDI stock reaching USD 3.18 billion at the end of 2022.[597] Furthermore, Kenya's capital markets are considered the deepest and most sophisticated in East Africa, with its Nairobi Securities Exchange (NSE) attracting significant foreign investor participation, reflecting international confidence in the exchange.[598]

Top Five Attracting Factors for Foreign Investment

Information and Communication Technology Infrastructure

Advances in Information and Communication Technology (ICT) significantly facilitate foreign investment in the financial sector by enhancing the overall ecosystem in which financial services operate. These advancements, particularly in mobile communications, broadband internet access, and data processing, lower operational costs, improve accessibility, and foster innovation within the financial services sector. As a result, foreign investors are attracted to countries with robust ICT infrastructure, which signals a modernized and efficient market capable of supporting financial growth. [599]

Skilled Labor Force

A skilled workforce is crucial for attracting foreign investors in the financial sector, as financial services rely heavily on highly skilled talent to drive innovation, adapt to

evolving market trends, and succeed in a competitive global environment.[600] [601] Foreign companies often bring advanced technologies and expertise when investing in a host country, creating a demand for highly skilled workers who can operate these technologies and support their operations.[602] For example, a skilled workforce has been crucial to Singapore's success as a global financial hub. The availability of highly trained financial professionals has been a key reason why major financial institutions choose to operate there.[603]

Domestic Market Scale

A large population plays a critical role in financial sector development by enhancing both scale and networking effects. In larger economies, the increased demand for financial products and services allows institutions to spread costs over a broader customer base, improving efficiency. [604] [605]

Financial sector[606]

Reflected in strong financial infrastructure, is a key determinant in attracting FDI into the financial sector globally. Enhanced financial infrastructure reduces operational risks and facilitates better management of country-specific challenges, enabling foreign institutions to evaluate and mitigate risks more effectively. Reforms such as financial liberalization and deregulation provide foreign institutions access to previously restricted markets, promoting the integration of local financial firms into global markets. Improved infrastructure and policy reforms also enable foreign institutions to manage stress scenarios through localized funding and advanced risk mitigation techniques. For example, in regions like Latin America and Central and Eastern Europe, improved financial infrastructure has contributed to foreign banks accounting for a significant share of total banking assets, demonstrating the global applicability of these dynamics.

Physical Property rights

Well-defined property rights are crucial for the development of the financial sector & are one of the most influential factors for the state & quality of a financial center. Clear property rights boost investor confidence by providing security over assets, reducing transaction costs, & expanding credit availability.[607] [608]

Table 6.12

Index Analysis in Regards to Ethiopia's Top Priorities for Financial Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
ICT Infrastructure	Ethiopia has scored poorly in ICT infrastructure, which hinders the development of digital financial services and modern banking technologies.	17/100	1

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Labor Force	Ethiopia's lower score on the skilled labor force index indicates challenges in attracting and developing the talent needed for an advanced financial sector.	3.64/7	3
Domestic Market Scale	Ethiopia benefits from a favorable domestic market scale due to its large population, offering a significant customer base for financial services.	31/54	3
Financial Market	Ethiopia's low financial market score reflects limited access to financial services, making it difficult for foreigners to engage in financial acWtivities. However, recent reforms are expected to change this significantly	29/100	2
Physical Property Rights	Ethiopia is ranked among lower-performing countries on physical property rights, which can affect investor confidence.	3.6/10	2

Ethiopia's strengths in ICT infrastructure, skilled labor, and electricity availability lay a strong foundation for the development of its financial sector. Recent reforms aimed at liberalizing and modernizing the financial industry are expected to attract significant FDI, further enhancing the sector's growth and competitiveness.

6.5.13 Health Sector

6.5.13.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's health sector has experienced significant progress over the past decade, driven by government investments that have improved health outcomes.[609] [610]However, this progress has been uneven, with challenges in both the quality of healthcare services & equitable access to care, particularly in rural areas.

Despite advancements, communicable diseases such as HIV/AIDS, tuberculosis, malaria, & hepatitis B and C, continue to pose a major threat to public health. Additionally, Ethiopia faces a high burden of premature deaths, suboptimal quality of life, & nutrition-related diseases, which remain persistent challenges for the healthcare system. As Ethiopia's middle class grows, the country is also witnessing a rising incidence of non-communicable diseases such as cancer, diabetes, heart disease, & high blood pressure. The Ethiopian health sector faces several significant challenges, including a lack of foreign exchange for importing essential medical equipment, which hampers modernization efforts. Bureaucratic delays, particularly in the bidding process, along with a shortage of skilled manpower &

technology within regulatory bodies and healthcare providers, weaken the system's effectiveness. Additionally, poor data management and reporting hinder informed decision-making, further straining healthcare delivery. [611]

From an economic standpoint, the health and social work sector's GDP at constant prices increased by 11% from 29.4 billion birr in 2021/22 to 32.65 billion birr in 2022/23.[612] However, FDI in the health and social work sector has been limited. Between 2019 and 2023, only 13 health-related projects were initiated, with five currently operational, creating 185 employment opportunities, most of which are permanent positions. The capital investment for these operational projects amounted to 748.4 million birrs, underscoring the need for greater private sector engagement to drive further improvements.[613]

Top Five Attracting Factors for Foreign Investment

Skilled Labor Force

A skilled workforce is essential for attracting investment to the health sector. Skills gaps and labor shortages can lead to inefficiencies, such as longer patient waiting times and poorer quality of care, which may deter potential investors. Furthermore, the development of the health workforce requires forward planning, as training skilled health professionals, especially in specialized fields like medicine, takes several years. For example, India's competitive advantage lies in its large pool of well-trained medical professionals.[615]

Living Conditions

Higher income levels, reflecting better living conditions and the ability to pay for healthcare services, have emerged as a key factor attracting foreign investments in the hospital sector, as evidenced by the concentration of private investment in high-income regions.[616]

Research and Development

Research and Development is vital to the health sector as it drives innovation in patient care, treatments, and medical technologies. By addressing unmet medical needs and improving treatment efficacy, R&D contributes to better patient outcomes and advances the quality of healthcare. It also fosters breakthroughs that can revolutionize healthcare delivery, ensuring the sector continues to evolve and meet emerging health challenges.[617]

Domestic Market Scale

Growing demand is a key factor in attracting foreign investment to the health sector, as investors are drawn to markets with rising healthcare needs. In Africa, for example, the healthcare sector has become a priority for international investors due to increasing demand fueled by the continent's expanding middle class, fast population growth, and persistent high disease burden, particularly non-communicable diseases.[618]

Intellectual Property Rights

Intellectual property rights are crucial in the health sector as they protect innovations and discoveries, such as new treatments, medical devices, and technologies. These protections allow healthcare companies to secure their investments and incentivize continued research and development. By safeguarding intellectual property, companies can recover the costs of innovation, which encourages further investment in medical advancements. [619]

Table 6.13

Index Analysis in Regards to Ethiopia's Top Priorities for Health Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Labor Force	Ethiopia's moderate score on the skilled labor force index indicates room for improvement in the availability of trained healthcare professionals, which could influence the overall quality of services.	3.64/7	3
Living Conditions	Ethiopia has a high MPI score, indicating its citizens experience multiple deprivations at rates above the global average.	8/47	1
Research and Development	Ethiopia has a low score on research and development, hindering medical innovation.	1.4/100	1
Domestic Market Scale	Ethiopia's large population creates strong demand for healthcare services, offering growth potential.	31/54	3
Intellectual Property Rights	Ethiopia scored low on intellectual property rights, which may deter investment in medical innovations.	3.2/10	2

Ethiopia faces challenges in the health sector due to a shortage of skilled labor, inadequate electricity infrastructure, and low research and development capacity, which hinder service quality and medical innovation. However, its large population creates strong demand for healthcare services, offering growth potential, while weak intellectual property rights may discourage investment in medical innovations.

6.5.14 Wholesale and Retail Sector

6.5.14.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's wholesale and retail sector has experienced significant growth over the past decade, becoming a key driver of the country's economic development. Contributing about 15% to GDP, the sector plays

a vital role in employment, engaging over 42% of the active population, particularly in informal and unskilled labor, with a high proportion of female and part-time workers. This growth has been fueled by rapid economic expansion, urbanization, population increase, rising incomes, and political stability, leading to the emergence of supermarkets and larger retail outlets, primarily in the capital, Addis Ababa. Despite these advancements, the retail market remains relatively immature, with limited consumer spending compared to neighboring markets. Fresh products are mostly sourced through informal channels, as supermarkets mainly stock processed goods. The wholesale market in Ethiopia exhibits a dual structure, with traditional wholesalers coexisting alongside more modern, specialized chains. Traditional wholesalers still play a major role, supplying retailers and processors through farmer and trader networks. However, modern retail stores are increasingly setting up direct procurement systems, bypassing traditional intermediaries.[620]

In March 2024, Ethiopia enacted Directive No. 1001/2024, significantly liberalizing its trade sector by opening 32 previously restricted sectors, including export, import, retail, and wholesale trades, to foreign investors. This move marks a departure from the Investment Regulation No. 474/2020, which had limited foreign participation in these areas. The directive aims to attract foreign capital, enhance market competitiveness, and stimulate economic growth by allowing foreign businesses to establish operations in these newly accessible sectors.[621]

In terms of economic contribution, the sector remains the largest component of Ethiopia's services sector, accounting for 36.3% of the total in 2022/23. The sector's GDP at constant prices rose by 7.6%, from 327.26 billion birr in 2021/22 to 352.24 billion birr in 2022/23.[622]

Top Five Attracting Factors for Foreign Investment

Domestic Market Scale

Local market scale drives foreign investment in the retail and wholesale sectors, especially in developing countries. Investors favor direct investment over exporting to reduce transportation costs, cater to local preferences, and use locally sourced inputs.[623] India's 2006 decision to open the retail sector to FDI boosted growth, driven by a large, young, and working population, increased consumer demand, and rising disposable incomes, making it an attractive destination for foreign investment.[624]

Transport Infrastructure

Investments in roads and bridges significantly enhance the output of wholesale and retail services, which depend heavily on transportation to move goods. These sectors rely on truck transport for large shipments. Well-developed infrastructure improves the efficiency of goods movement, reduces

operational costs, and strengthens supply chain reliability, making the sector more attractive to investors. [625] [626] [627]

Living Conditions

Improved living conditions, especially the rise of middle- and high-income households, attract investors to the wholesale and retail sectors. As disposable incomes grow, demand for branded products and modern retail formats increases, offering expansion opportunities. [628] [629] For example, the rise of the middle class in Kazakhstan has boosted modern retailing, with an increasing preference for formal retail outlets.[630]which reduces consumer

State of cluster development

Clustering benefits the retail & wholesale sector by encouraging agglomeration, search costs. When stores of different types are located close together, they enable multipurpose shopping, allowing consumers to purchase a variety of products in one trip. This convenience lowers travel costs and increases foot traffic, benefiting retailers.[631]

Logistics[632]

Quality logistics is crucial for attracting foreign investors by ensuring efficient supply chains, reduced costs, and faster delivery times. The Logistics Capability Index emphasizes the role of infrastructure, regulatory environment, and logistics service quality in boosting investor confidence. Locations with strong logistics infrastructure offer better operational efficiency, making sectors like wholesale and retail more attractive to multinational corporations.

Table 6.14

Index Analysis in Regards to Ethiopia's Top Priorities for Wholesale and Retail Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Domestic Market Scale	Ethiopia benefits from a large population, creating a significant domestic market for the retail and wholesale sector.	31/54	3
Transport Infrastructure	Ethiopia's road infrastructure is low, which can hinder the distribution of goods in the retail and wholesale sector.	25.4/100	2
Living Conditions	Ethiopia has a high MPI score, indicating its citizens experience multiple deprivations at rates above the global average.	8/47	1
State of cluster development	Ethiopia's state of cluster development is low, which could hinder consumer convenience.	19.1/100	1

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Logistics	Ethiopia implemented targeted logistics reforms, opening the sector to FDI and investing in rail and road infrastructure. Industrial parks and Ethiopian Airlines enhance transport efficiency, but port access and high logistics costs remain major challenges.	2.84/7	3

Ethiopia's large population offers a significant domestic market for retail and wholesale, but challenges such as poor road infrastructure, high deprivation levels, and low cluster development limit sector growth, consumer convenience, and e-commerce potential.

6.5.15 Energy Sector

6.5.15.1 Current State of Ethiopia in the Sector: A Concise Review

Ethiopia's energy sector plays a critical role in the country's economic growth and development, with significant potential for expansion in the medium term.[633] According to the Ethiopian Electric Power Corporation (EEPCO), the country boasts an estimated hydropower potential of 45,000 MW, a geothermal potential of 10,000 MW, and an impressive 1.3 million MW potential for wind energy. However, Ethiopia's current energy generation is predominantly reliant on hydropower, due to the suitability of its nine major rivers for hydroelectric power production.[634] However, despite this potential, the country's existing hydropower systems are producing below their stated capacity due to recurring drought conditions, further highlighting the need for diversification in energy production.[635]

Despite this reliance on hydropower, Ethiopia is actively seeking to diversify its energy mix to address the increasing demand for electricity and overcome capacity shortfalls. The government is focusing on expanding renewable energy production, particularly in wind, geothermal, and solar energy.[636] [637] The country's geographical position near the equator makes it an ideal candidate for harnessing solar energy.[638] [639] In 2022/23, Ethiopia generated around 17.7 billion KWH of electricity, representing a 14.2 percent increase from the previous year. Of this, 96.7 percent was produced from hydropower, while 3.3 percent came from wind sources.[640] Ethiopia also exports electricity to neighboring countries, including Djibouti, Sudan, and Kenya, generating foreign exchange revenue.[641] In 2022/23, export earnings from electricity grew by 3.2 percent, reaching USD 96 million, with a 5.1 percent rise in export volume. Electricity exports now account for 2.7 percent of the country's total merchandise export earnings, up from 2.3 percent the previous year. The total volume of electricity exported was approximately 1,750 million KWH, further emphasizing the sector's growing importance not only

in meeting domestic energy needs but also in boosting Ethiopia's foreign exchange earnings.[642] Recent regulatory changes in Ethiopia have aimed to attract more foreign investment. A 2018 law allowed foreign companies to join public-private partnerships (PPPs) for power projects, while a 2023 directive (No. FXD/86/2023) guarantees foreign currency convertibility for repatriation and loan repayments, & permits offshore bank accounts to mitigate forex shortages.[643] Key countries involved in Ethiopia's energy projects include China, Italy, Norway, India, France, and Germany.[644]

Top Five Attracting Factors for Foreign Investment

Labor Force

A skilled labor force is essential for the energy sector, where a higher percentage of jobs require specialized expertise compared to other industries. With around 60% of energy jobs that cannot be offshored, developing a skilled local workforce is critical to sustaining growth & maximizing the sector's potential benefits.[645] The need for skilled workers will only increase as the sector expands.[646]

Economic Complexity

Economic complexity significantly impacts the energy sector by shaping the structure and intensity of energy consumption. As economies diversify from agriculture and extractive industries to more sophisticated products and services, their energy demands grow and become more complex. Thus, as countries advance and diversify their economies, the energy sector must evolve to meet the rising and varied demands. [647] [648]

Physical Property Rights

Secure physical property rights are crucial for attracting investors to the energy sector. In areas with weak land rights or poor land governance, energy projects are more likely to face costly land conflicts, which can derail progress. Investors prefer settings where land rights —both formal and customary—are secure, as this minimizes the risks of disputes and challenges from affected communities. Secure land rights provide stability, reducing the likelihood of disruptions and increasing the chances of a favorable return on investment, making the energy sector more attractive to investors.[649]

Domestic Market Scale

The scale of a domestic market significantly contributes to attracting investors in the energy sector. As economies and populations grow, particularly in developing countries, energy demand rises sharply. This growing demand creates a promising opportunity for investors looking to supply energy infrastructure, products, and services. A larger domestic market offers the potential for higher returns on investment due to increased consumption of electricity and other energy resources.[650] [651]

Living Condition

Improved living conditions impact the energy sector by driving increased energy demand. Low energy consumption often correlates with environmental degradation, poor healthcare, and women and children hardship. For example, electricity demand is set to grow strongly in emerging and developing economies, driven by rising living standards and widespread ownership of electrical appliances. [652] [653] [654]

Table 6.15

Index Analysis in Regards to Ethiopia's Top Priorities for Energy Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Labor Force	Ethiopia's lower score on the skill labor force index highlights a shortage of trained professionals in the energy sector, which could hinder the development and maintenance of energy infrastructure.	3.64/7	3
Economic Complexity	Ethiopia's low score on the economic complexity index suggests a lack of diversified economy, limiting the energy sector.	36/145	2
Physical Property Rights	Ethiopia is ranked among lower-performing countries on physical property rights, deter investment in energy infrastructure.	3.6/10	2
Domestic Market Scale	Ethiopia's large population presents significant demand for energy services, offering growth opportunities.	31/54	3
Living Condition	Ethiopia has a high MPI score, indicating its citizens experience multiple deprivations at rates above the global average.	8/47	1

Ethiopia faces challenges in the energy sector due to a shortage of skilled professionals, a lack of economic diversification, weak property rights, and high deprivation rates, although its large population creates significant demand and growth potential for energy services.

6.5.16 Education Sector

6.5.16.1 Current State of Ethiopia in the Sector: A Concise Review

Since the establishment of the Education and Training Policy in 1994, education has been a priority sector and remains a key focus as Ethiopia strives toward middle-income status.[655]

The Ethiopian government has consistently emphasized the importance of effective leadership, management, and governance at all levels of the education and training system, as reflected in the GTP II and the Education Sector Development Programs.[656] Significant progress has been made toward achieving universal primary education, with a net enrollment rate of 88.7 percent in the 2021/22 school year. However, the quality of learning remains a major challenge, as 90 percent of 10-year-olds are unable to read or comprehend a simple text-based sentence. Rural areas face additional hurdles, where children are less likely to attend school, remain in school, or perform well academically. The combined effects of COVID-19, conflict, and climate change have further exacerbated these challenges, leaving at least 13 million children out of school, with long-term consequences for their future.[657]

With over 360 higher education institutions, education remains a top priority for the Ethiopian government, which allocates approximately $1 billion annually to the sector.[658] The economic significance of education is also reflected in its contribution to the national GDP, which reached 47.6 billion Birr at constant prices in 2022/23.[659] FDI in the education sector saw six projects between 2019 and 2023, including two operational projects with a capital investment of 28.3 million Birr, highlighting the sector's growing importance for the nation's economic and social development.[660]

Top Five Attracting Factors for Foreign Investment

Skilled Labor Force

A skilled workforce is essential for attracting investors to the education sector, as effective teaching has a direct impact on student achievement. Teachers who are well-trained in using diverse instructional techniques, such as ICT, differentiated instruction, and evidence-based strategies, help eliminate achievement gaps and improve learning outcomes. Additionally, teachers must be able to use high-quality curricula and instructional materials that align with rigorous academic standards. [661] [662]

ICT Infrastructure

ICT infrastructure is crucial in attracting foreign investors to the education sector by enabling digital learning tools and expanding access to education. According to the World Bank, digital technologies can enhance the learning process, improve educational quality, and provide scalable solutions, making the sector more attractive to investors.[663] Strong ICT infrastructure fosters innovation, attracting global investment in EdTech and educational services.

Living Condition

Improved living standards play a key role in attracting foreign investors to the education sector. As families experience rising incomes, they are more likely to seek private education options that cater to their specific needs, especially when

public schools fall short. Additionally, as socioeconomic status improves, parents' willingness and ability to invest in better educational opportunities increases, making the education sector a more attractive option for investors looking to tap into growing demand.[664] [665] [666]

Domestic Market Scale

Large domestic size can be a strong driver for attracting foreign investors to the education sector. In countries with high population growth, particularly among school-age children, the demand for teachers, educational facilities, and resources increases significantly. This growing need for education infrastructure presents a compelling opportunity for foreign investors, as it creates a large market for private education providers. Additionally, population-driven structural changes increase the scale of education systems and the need for financial investment, making the education sector attractive for investors seeking sustainable, long-term growth opportunities.[667] [668]

Intellectual Property Rights

Intellectual property rights (IPR) play a critical role in attracting investors to the education sector by fostering an environment of innovation and creativity. Strong IPR protection incentivizes researchers, academics, and students to engage in cutting-edge research and create original works, knowing that their intellectual efforts will be legally protected and could lead to financial rewards. This legal framework not only encourages innovation but also increases the appeal of higher education institutions to potential investors, funding agencies, and charitable organizations.[669] [670]

Table 6.16

Index Analysis in Regards to Ethiopia's Top Priorities for Education Sector Investors

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Labor Force	Ethiopia's low score on the skilled labor force index highlights a shortage of qualified educators, impacting the quality of education.	3.64/7	3
ICT Infrastructure	Ethiopia has scored poorly in ICT infrastructure, which hinders the development of digital financial services and modern banking technologies.	17/100	1
Living Conditions	Ethiopia has a high MPI score, indicating its citizens experience multiple deprivations at rates above the global average.	8/47	1

Factors	Availability in Ethiopian case	Global score	Ethiopia's suitability
Domestic Market Scale	Ethiopia's large population creates offering growth opportunities for the sector.	31/54	3
Intellectual Property Rights	Ethiopia scored low on intellectual property rights, which may deter investment in educational content.	3.2/10	2

Ethiopia faces challenges in the education sector due to a shortage of qualified educators, low standard of living, & weak intellectual property protection, though its large population presents growth opportunities.



Comparative Analysis of Ethiopia's Performance Against Regional Peers

7

EIC
ETHIOPIAN INVESTMENT COMMISSION
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7. Comparative Analysis of Ethiopia's Performance Against Regional Peers

The following analysis aims to analyze Ethiopia's performance in key prioritized sectors, to six regional peers' sectors: Kenya, South Africa, Morocco, Tanzania, Rwanda, and Uganda. The objective is to leverage the experiences of the best-performing countries to understand the reforms and strategies that have driven their success, ultimately informing what it would take for Ethiopia to become a leading investment destination in these sectors.

To achieve this, the analysis will follow a structured methodology. The first step involves evaluating three critical factors: security, infrastructure, and policies for doing business, across the selected countries. Next, a comparative assessment will be conducted across different sectors using the top five indicators. Each indicator will be evaluated and assigned a normalized score out of five for each of the seven countries, where a higher score (closer to 5) indicates stronger performance, and a ranking of 1 signifies the most competitive country in that indicator. The total score for each country will be calculated out of 25 (i.e., five indicators, each scored out of five). This aggregated score will serve as the basis for the comparative analysis, allowing for a structured evaluation of competitiveness across the selected countries.

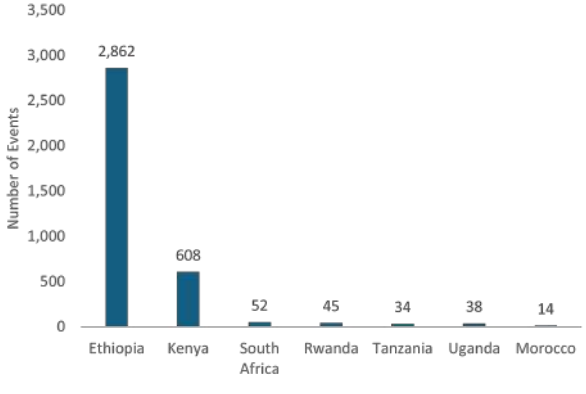
7.1 Assessment Of The Three Binding Factors For Investment In The Selected Six Countries

7.1.1 Political stability

Political stability plays a crucial role in shaping the feasibility and sustainability of business opportunities and a country's ability to service its debts. Political risk, defined as the risk that investment returns could suffer due to low institutional quality and instability, typically has a negative impact on FDI.[671] This risk increases uncertainty in the economic environment, reducing the incentives for foreign investors. The reduction in FDI levels can happen through higher rates of divestment, as foreign firms withdraw due to rising risks, or through lower rates of new investment, as firms hesitate to enter uncertain markets.[672]

Figure 7.1

Reported Conflicts (2014-2023)[673]



A comparison of conflict incidences between Ethiopia and its peers based on data from the Uppsala Conflict Data Program (UCDP) between 2014 and 2023 shows that Ethiopia had the largest number of conflicts reported, with 2,862 incidents, while Morocco had the fewest with only 14 incidents.[674] Despite this, correlation analysis revealed a weak but positive relationship between FDI inflows and conflict in Ethiopia, suggesting that other factors may have played a stronger role in attracting FDI.[675]

Despite the weak correlation between conflict and FDI levels, the high number of reported conflicts in Ethiopia, particularly in 2021 and 2022, with 729 and 879 incidents respectively, had a tangible impact on investors.[676] The conflict between the Ethiopian government and the Tigray People's Liberation Front (TPLF) was one of the most frequently reported conflicts during these years, placing significant pressure on investors. Many businesses, particularly those operating in conflict-affected areas, were forced to halt their operations to avoid further financial and operational losses.[677] Production in the manufacturing sector was severely disrupted, along with the distribution and sale of goods outside factories becoming nearly impossible for extended periods. Furthermore, it has also created an environment of uncertainty that raises critical concerns about investment security. Investors have reported heightened fears about the safety of their assets and personnel. [678]

Another example of the impact of conflict is the violence in Oromia, which, while different from the conflict with the TPLF, remains serious.

The Oromo Liberation Army (OLA), though fragmented, had created a climate of insecurity in this economically important region, sometimes fighting as close as 25 kilometers from the capital. Concerns have been raised about attacks on investors in Oromia. Additionally, Ethiopia's key supply routes to the port of Djibouti, which are vital for the country's trade, pass through this area, further increasing the risks to the overall business environment.[679]

Similarly, Kenya had the second-largest number of conflicts reported, with 608 incidents between 2014 and 2023,[680] including threats from groups like Al-Shabaab. Frequent terrorist attacks have resulted in casualties, property destruction, and a significant reallocation of government resources from growth-enhancing investments to national security. The increasing frequency of such incidents has raised operational costs for businesses, including higher insurance premiums, enhanced security measures, and labor expenses. These impacts have disrupted productivity, damaged infrastructure, and weakened economic growth resulting in heightened uncertainty in Kenya's investment climate and discouraging FDI.[681]

In conclusion, political stability emerges as a critical factor in attracting FDI across all sectors and sub-sectors. This is evident in countries like Ethiopia and Kenya, where the high incidence of

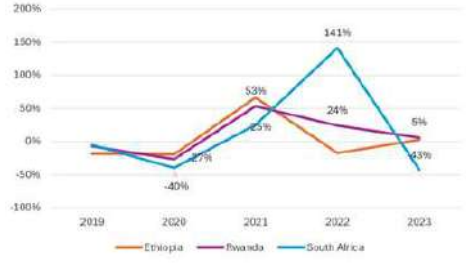
conflicts has led to tangible impacts such as operational disruptions and heightened investor concerns about asset security. This highlights the need for a stable political environment to maintain investor confidence.

7.1.2 Policies for doing business

Countries that experience strong FDI growth often implement a range of policies to enhance their investment climate. While multiple factors contribute to FDI trends, examining the ease of doing business reforms in countries that have achieved higher FDI growth rates than Ethiopia between 2020 and 2023 can provide valuable insights. This section will focus on the business environment improvements undertaken by these countries, South Africa and Rwanda, identifying key reforms that may have contributed to enhancing their regulatory efficiency, reducing bureaucratic barriers, and improving investor confidence. By understanding their approaches, we aim to explore potential strategies that could further strengthen Ethiopia's business environment and investment attractiveness.

Figure 7.2

FDI growth rate (2019-2023)[682]



Note: When calculating South Africa's FDI growth rate for 2021, we have excluded the one-time US$37 billion Financial transaction, which inflated the increase to 895%. This exclusion adjusted the growth rate to a more realistic 25%.[683]

Rwanda's Business Climate and Investment Reforms Since 2020

Despite the discontinuation of the World Bank's Doing Business Index, Rwanda has continued to receive global recognition for its pro-business policies and investor-friendly environment. In 2024, the inaugural World Bank Business Ready (B-READY) Report ranked Rwanda among the top-performing economies globally, assessing 50 countries based on three key pillars: regulatory frameworks, public service delivery, and operational efficiency. Rwanda performed exceptionally well in Operational Efficiency, scoring 81.31 (3rd globally), followed by 67.37 in Public Services (8th globally), and 70.35 in Regulatory Framework (17th globally).[684] These rankings highlight Rwanda's sustained efforts in improving the business environment and position it as the top-performing country in Sub-Saharan Africa in terms of ease of doing business.

To enhance its investment climate, the Rwandan government introduced significant policy reforms between 2020 and 2022 aimed at stimulating economic growth, increasing competitiveness. A key milestone was the enactment of the Investment Promotion and Facilitation Law (Law N°006/2021) in February 2021, which revamped the country's investment framework. This law introduced a range of tax incentives, particularly to position Kigali as a regional financial hub and encourage philanthropic and angel investments in strategic projects.[685]

Under this framework, Rwanda introduced preferential corporate income tax rates to attract businesses. Companies establishing regional headquarters or those recognized as philanthropic investors benefit from a 0% corporate tax rate upon approval by the private investment committee. Financial services entities operating under the Kigali International Financial Centre (KIFC) receive a 3% corporate tax rate, provided they meet asset, expenditure, and employment criteria. Additionally, investors in strategic sectors such as energy, transport, affordable housing, ICT, and financial services are eligible for a 15% corporate tax rate. Further tax incentives include 0% withholding tax on dividends, interest, and royalty payments for companies benefiting from the KIFC tax regime and a capital gains tax exemption for investments under this financial framework.[686] These incentives make Rwanda an attractive destination for international businesses and philanthropic ventures.

Rwanda has also made significant strides in reducing bureaucracy and improving business processes, making it one of Africa's fastest and most efficient countries for company registration. The Rwanda Development Board (RDB) has implemented a fully online business registration system, allowing businesses to register in a matter of hours, a stark contrast to the global averages of 32 days for domestic firms and 39 days for foreign firms. This "one-stop" registration system has consistently simplified the process of starting a business and reinforced Rwanda's status as a regional leader in business efficiency.[687]

The Rwandan government has also embraced digital transformation to enhance administrative processes and improve service delivery. Key innovations include the Integrated Electronic Case Management System (IECMS), which allows for online case filing and dispute resolution, significantly expediting commercial litigation.[688] Additionally, the introduction of the electronic land registration certificate system (e-Titles) has streamlined property transactions by eliminating the need for physical land title deeds, reducing paperwork, and improving efficiency in land administration.[689]

Through these comprehensive reforms, Rwanda has strengthened its position as one of Africa's most business-friendly economies, demonstrating a strong commitment to transparency, efficiency, and investment facilitation. The country's policy-driven approach and technology-driven public service improvements continue to attract both regional and global investors, solidifying Rwanda's reputation as a leading investment destination in Africa.

South Africa's Post-2020 Reforms to Improve Business Climate

Since 2020, South Africa has implemented significant reforms to streamline business registration, improve tax administration, & enhance public service delivery, reducing bureaucratic delays.

The BizPortal online platform was launched to simplify company registration, cutting the process from 40 days to just one day by integrating name reservation, tax (PAYE, UIF, SDL), and company registration into a single step.[690] Additionally, in the area of construction permits, since April 2019, the City of Johannesburg has created a Temporary One-Stop Shop (TOSS) for Site Development Plans (SDPs) and Building Plans. Architects no longer need stamps of approval on their SDP from various departments, as these are now obtained by the TOSS within 15 days, reduced from 28 days for commercial properties.[691] These improvements were supported by municipal reforms, including pre-surveyed land data, which eliminated the need for separate geotechnical surveys in permit applications.

In tax administration, the South African Revenue Service (SARS) significantly improved turnaround times—VAT refunds were reduced from 15 weeks to 4–5 weeks, while corporate income tax audit times were halved from 32 weeks to 17 weeks, easing the compliance burden for businesses. Property registration was also streamlined, with the City of Johannesburg introducing an e-clearance system to allow online access to municipal rates clearance certificates, reducing the time and cost of property transactions.[692]

To tackle regulatory inefficiencies, a Red Tape Reduction Team was established in 2022 under the Presidency, focusing on streamlining business licensing processes in critical sectors such as mining, tourism, and business visas. One of its key objectives was ensuring all government agencies comply with the 30-day payment rule for suppliers, improving cash flow for businesses.[693]

New Regulatory Changes and Tax Incentives (2020–2024)

To enhance South Africa's investment appeal, the corporate tax rate was reduced from 28% to 27%, effective for fiscal years ending in 2023 onward.[694] Alongside this, special investment incentives continued to be offered to encourage FDI, particularly in strategic sectors. The 12I Tax Allowance, which supported large-scale industrial projects, remained in use until its sunset in 2022.[695] To further incentivize private investment in renewables, the government introduced a 125% tax deduction in 2023, allowing businesses to claim deductions for capital investments in solar, wind, and other renewable energy projects.[696]

This initiative reduced bureaucratic bottlenecks, making it easier and faster for international companies to set up operations in South Africa.

Business-friendly policies are a binding factor for attracting foreign investment, as seen in Rwanda and South Africa. Streamlined regulations, tax incentives, and digital transformation reduce bureaucratic barriers and enhance investor confidence.

7.1.3 Physical infrastructure

Investment in infrastructure plays a critical role in attracting FDI by enhancing a country's productive capacities and improving connectivity, which is vital for business operations. Investors seek markets where they can maximize benefits and minimize production costs, which is more achievable when infrastructure is well-developed and supportive of business needs. Countries with strong physical infrastructure, such as highways, ports, and bridges, are more likely to attract higher levels of FDI due to the improved logistics and lower operational costs they offer. [697]

South Africa has performed relatively better than its peers in transport infrastructure, scoring 38.7/100 on the Productive Capacities Index in 2022.[698] In 2021, South Africa's FDI surged to 40.2 billion USD, one of the highest inflows in recent years.[699] One contributor to this success has been the country's ongoing investment in infrastructure, which enhances connectivity and supports business operations across key sectors. One significant example is the Mt Edgecombe Interchange, finalized in 2018, in the north of Durban, which has not only eased severe traffic congestion caused by population growth and new developments in the Umhlanga and La Lucia Ridge areas but also unlocked broader economic opportunities. The interchange facilitates crucial links between coastal development and inland areas such as Verulam and Tongaat, which are central to agricultural, agro-processing, and tourism activities. Its connection to King Shaka International Airport and the Dube Cargo Terminal further enhances export opportunities for fresh produce, underscoring the value of improved infrastructure in supporting economic growth.[700]

Additionally, South Africa's continued efforts to enhance its transport network were evident in the 47 projects undertaken by SANRAL in 2020/21, focused on road construction, rehabilitation, and improvements.[701] These investment initiatives, along with other investments and factors, improved connectivity across key regions, which generally supports South Africa's appeal as a destination for investors.

In terms of seaport service efficiency, Kenya received a moderate score of 4.24/7 in the Global Competitiveness Index (GCI) in 2019.[702] This focus on improving logistics and infrastructure may have contributed to Kenya's significant rise in FDI in 2022, which reached 1.6 billion USD. Investments in critical infrastructure projects, such as the LAPSSET Corridor Program, have been key to enhancing trade and transport connectivity between Kenya, Ethiopia, and South Sudan. The program is part of Kenya's Vision 2030 strategy, the country's long-term development policy that aims to transform Kenya into a newly industrializing, middle-income nation.[703]

A key component of LAPSSET is the Lamu Port, which became operational in May 2021 with the inauguration of its first berth. Strategically located at the

convergence of major global shipping routes, the port positions Kenya as a vital economic gateway to Africa, attracting international trade and investment.[704] The construction of Lamu Port was designed to boost trade opportunities, particularly in special economic zones and the transport and logistics sectors. Additionally, the infrastructure development will reduce reliance on the Northern Corridor by creating a second transport and economic corridor, further facilitating trade and investment.[705]

On the other hand, Ethiopia's low electricity costs have been one of the key factors in attracting FDI, especially in energy-dependent sectors such as textiles, apparel, footwear, and leather.[706] PVH Corp., the world's second largest apparel company, provides a strong example of this. When selecting a location for its first investment in Africa, PVH evaluated several countries based on eight critical parameters: local cotton availability, power cost and quality, wage cost, port connectivity, general infrastructure, government proactivity in attracting textile investments, political stability, and law and order. Ethiopia scored particularly well in terms of power cost and quality, which was significantly lower than other countries. This, combined with the Ethiopian government's proactive approach and commitment to maintaining competitive electricity rates for industrial parks, made Ethiopia an attractive destination for PVH, surpassing other shortlisted countries such as Kenya and Ghana. The availability of affordable, reliable power, along with government support, was pivotal in PVH's decision, underscoring the crucial role electricity costs play in attracting FDI and driving industrial growth in Ethiopia.[707]

In conclusion, infrastructure is a critical factor in attracting FDI by enhancing connectivity and creating a supportive environment for business operations. Efficient transport networks, reliable energy supplies, and modern logistics systems lower production and operational costs, making a country more appealing to investors. Well-developed infrastructure facilitates the movement of goods and services, supports economic activities, and improves access to regional and global markets.

7.2 Ethiopia's Competitiveness Standing

As stated in the introduction, this section will conduct a comparative evaluation of Ethiopia's seven key sectors and three potential sectors against six peer countries using five distinct indicators for each sector. Each indicator will be assessed and assigned a normalized score out of five, with higher scores (closer to 5) indicating stronger performance. The total score for each sector will be calculated out of 25 (i.e., five indicators, each scored out of five). This total score will then be used to rank countries within each sector, identifying the most competitive country. This approach provides a structured evaluation of Ethiopia's competitiveness relative to its peers.

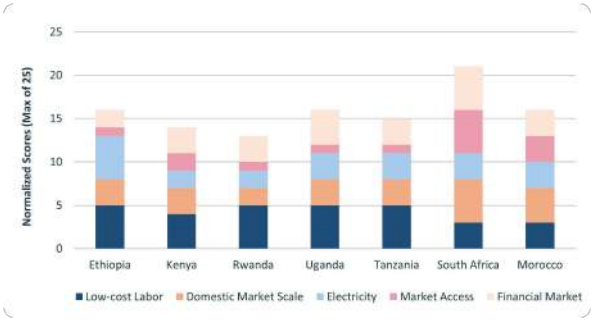
1. Textile and Garment Sector

Based on a regional competitiveness analysis of the textile and garment sector across seven African nations, Ethiopia ranks second alongside Uganda and Morocco, highlighting its strong competitive position in the region. Ethiopia effectively outperforms Kenya, Rwanda, and Tanzania, which are ranked 6th, 7th, and 5th respectively. However, it is outperformed by South Africa, which secures the top position with a ranking of number one. While Ethiopia shares the 2nd rank with Uganda and Morocco, a closer look at the indicator level reveals more nuanced insights.

Ethiopia's key strengths lie in Low-cost Labor and Electricity, where it achieves the highest normalized score of 5. This highlights Ethiopia's attractiveness due to its cost-effective labor force and favorable electricity sector conditions for textile and garment manufacturing. In contrast, Ethiopia faces challenges in Market Access, scoring the lowest normalized score of 1. This suggests that market access condition is a limiting factor for the sector's competitiveness compared to regional peers. Additionally, the Financial Market indicator shows a relatively lower normalized score of 2, indicating room for improvement in financial infrastructure and market sophistication to further bolster the sector's appeal.

Figure 7.3

Top 5 indicators for the textile and garment sector along with their scores



2. Leather & Leather Products Sector

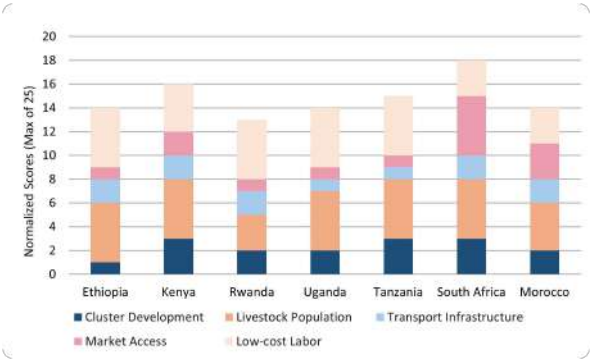
Ethiopia presents a moderate competitive position, securing a joint 4th rank in the leather and leather products. This rank is shared with Uganda and Morocco, indicating a middle-ground performance within the regional landscape. Ethiopia outperforms only Rwanda, which holds the 7th rank in this sector. However, Ethiopia is outperformed by Kenya (Rank 2), Tanzania (Rank 3), and South Africa (Rank 1). It is important to note that while Ethiopia shares the 4th rank with Uganda and Morocco, the nuances in indicator performance provide further insights.

A closer examination of the indicators reveals Ethiopia's strengths and Shortcomings: Ethiopia exhibits strong performance in Livestock Population and Low-cost Labor, achieving the highest normalized score of 5 in both. This underlines Ethiopia's advantage due to its abundant livestock resources relevant to the leather industry and a cost-effective labor force. Nevertheless, Ethiopia scores particularly low in Cluster Development and Market Access, both with a normalized score of 1. This suggests significant challenges in the sector's development in terms of industry

clustering, specialized infrastructure, and access to markets compared to regional peers. Transport Infrastructure also presents a moderate area for improvement with a normalized score of 2.

Figure 7.4

Top 5 indicators for the Leather and Leather Products sector along with their scores.



3. Pharmaceutical Sector

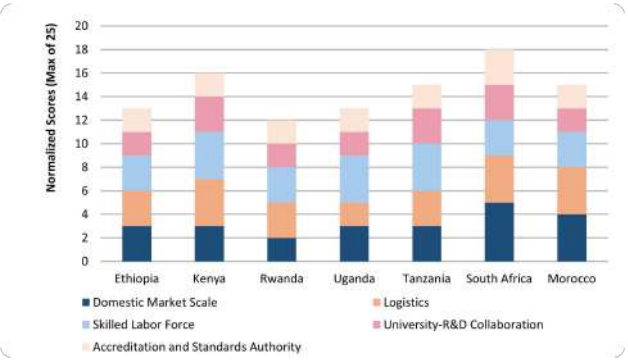
For the Pharmaceutical sector, Ethiopia is ranked 5th along with Uganda. This places Ethiopia in the lower-middle tier of competitiveness within the region for this sector. Ethiopia outperforms only Rwanda, which is ranked 7th in this sector. However, Ethiopia is outperformed by Kenya (Rank 2), Tanzania (Rank 3), South Africa (Rank 1), and Morocco (Rank 3). Notably, while Ethiopia shares the 5th rank with Uganda, a deeper dive into the indicator scores reveals distinct performance profiles.

Ethiopia shows a moderately good performance in Skilled Labor Force, achieving a normalized score of 3, placing it on par with Morocco and South Africa and slightly below Kenya, Uganda & Tanzania.

On the other hand, Domestic Market Scale and Logistics are also at a normalized score of 3, indicating an average level for the region, but lower than Morocco's score of 4 in both indicators. Ethiopia's main challenges appear in University-R&D Collaboration and Accreditation and Standards Authority in this sector, both scoring a normalized score of 2. This highlights significant Shortcomings in linkages between universities and research & development activities relevant to the pharmaceutical industry, as well as potential deficiencies in accreditation and standards frameworks compared to regional competitors. These are areas where Ethiopia scores the lowest amongst the compared nations.

Figure 7.5

Top 5 indicators for the pharmaceutical sector and their scores.



4. Commercial Agriculture Sector

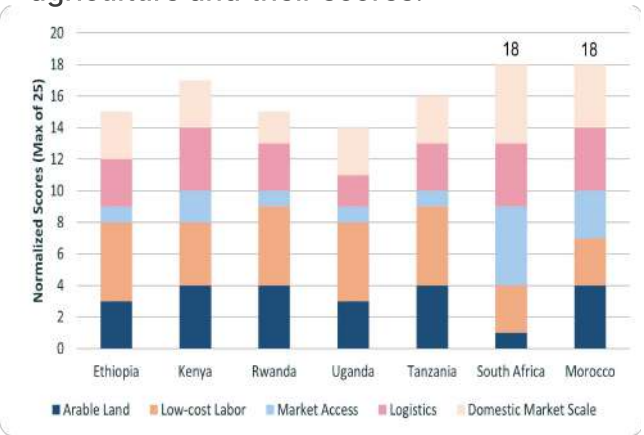
Ethiopia occupies a joint 5th rank for the Commercial Agriculture sector, sharing this position with Rwanda. This indicates a below-average competitive standing within the region, suggesting room for significant improvement compared to leading peers.

Ethiopia outperforms Uganda and Tanzania, which are ranked 7th and 6th, respectively. However, it is outperformed by Kenya (Rank 3), South Africa (Rank 1), and Morocco (Rank 1).

Ethiopia's primary strength remains Low-cost Labor, where it achieves the highest normalized score of 5. This is a consistent advantage across sectors, highlighting Ethiopia's labor cost competitiveness for agricultural investments. However, Market Access is a critical shortcoming, with Ethiopia receiving the lowest normalized score of 1. This mirrors findings in other sectors and points to persistent challenges in market access for commercial agriculture products, likely hindering investment attractiveness. Arable Land and Logistics also present areas of moderate challenges, both scoring a normalized score of 3. While not the lowest, these scores indicate that Ethiopia is not leveraging these factors to its full potential compared to more competitive nations. Domestic Market Scale also scores 3, reflecting average performance.

Figure 7.6

Top 5 indicators for the Commercial agriculture and their scores.



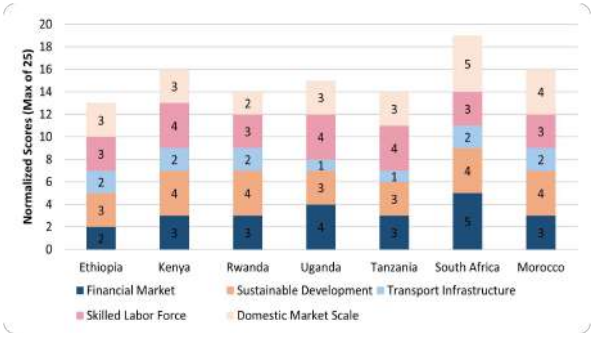
5. Tourism Sector

Ethiopia exhibits a relatively lower competitive position in the Tourism Sector, ranking 7th. This places Ethiopia at the bottom of the competitive landscape for tourism amongst the analyzed regional peers, indicating significant room for improvement to attract tourism investments. Ethiopia does not outperform any of the analyzed countries. It is outperformed by all six regional peers: Kenya (Rank 2), Rwanda (Rank 5), Uganda (Rank 4), Tanzania (Rank 5), South Africa (Rank 1), and Morocco (Rank 2). This underlines a significant competitive gap that Ethiopia needs to address in its tourism sector.

Ethiopia consistently scores low across all five indicators. Notably, Transport Infrastructure receives the lowest normalized score of 1, indicating a severe limitation in this crucial area for tourism. Financial Market & Sustainable Development both score a normalized 2, suggesting further challenges in financial infrastructure to support tourism businesses & in aligning tourism development with sustainability principles. Skilled Labor Force and Domestic Market Scale achieve a normalized score of 3, indicating slightly better but still below-average performance in these areas compared to regional competitors.

Figure 7.7

Top 5 indicators for the Tourism sector and their scores.



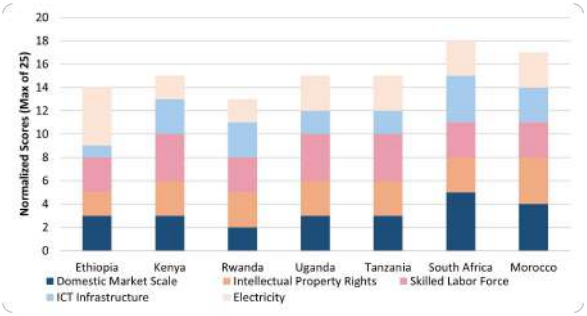
6. Telecom and ICT Sector

On the Telecom and ICT sector, Ethiopia demonstrates a less competitive position, ranking 6th. This places Ethiopia in the lower tier of competitiveness within the region's Telecom and ICT landscape, indicating considerable scope for improvement to attract investment and foster sector growth. Ethiopia outperforms only Rwanda, which is ranked 7th in this sector. However, Ethiopia is outperformed by Kenya (Rank 3), Uganda (Rank 3), Tanzania (Rank 3), South Africa (Rank 1), and Morocco (Rank 2). Notably, there is a three-way tie for the 3rd rank among Kenya, Uganda, and Tanzania, highlighting a cluster of moderately competitive nations, above which South Africa and Morocco stand out.

Ethiopia's key strength in this sector is Electricity, achieving the highest normalized score of 5. This indicates a significant advantage in providing reliable and potentially affordable electricity for the energy-intensive Telecom and ICT sector. However, Ethiopia faces significant challenges in ICT Infrastructure, receiving the lowest normalized score of 1. This suggests a major bottleneck in the sector's competitiveness due to underdeveloped or inadequate ICT infrastructure. Intellectual Property Rights also presents a lower position, with a normalized score of 2, indicating potential concerns regarding the protection of intellectual property within the Telecom and ICT domain. Domestic Market Scale and Skilled Labor Force both receive a normalized score of 3, reflecting average performance but suggesting areas for potential enhancement to improve overall attractiveness.

Figure 7.8

Top 5 indicators for the Telecom and ICT sector and their scores.



7. Real Estate Sector

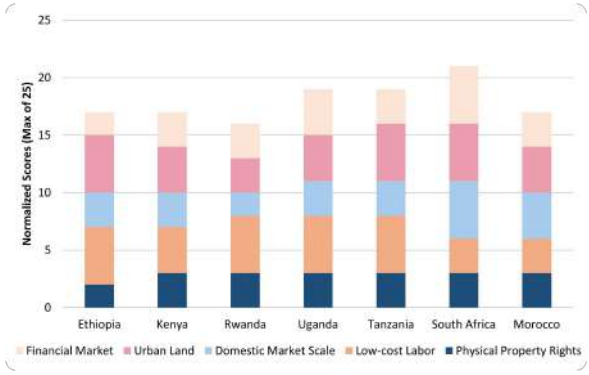
Ethiopia demonstrates a moderate competitive position in the Real Estate sector, ranking joint 4th. This rank is shared with Morocco and Kenya, indicating a mid-level performance within the regional real estate landscape, suggesting both strengths to build upon and Shortcomings to address for enhanced competitiveness.

Ethiopia outperforms Rwanda and Tanzania, which are ranked 7th and joint 2nd respectively. However, Ethiopia is outperformed by Uganda and South Africa, who are ranked joint 2nd and 1st, respectively. It shares the 4th rank with Kenya and Morocco, indicating a similar level of overall competitiveness with these two nations.

Ethiopia's most significant strength is Urban Land, achieving the highest normalized score of 5. This highlights Ethiopia's potential attractiveness due to the availability or accessibility of urban land suitable for real estate development. Low-cost Labor is another strong point, also achieving a normalized score of 5, indicating cost-effectiveness in labor for construction and related real estate activities. Nevertheless, Physical Property Rights is an area of shortcoming, scoring a normalized 2. This suggests potential concerns or challenges related to the security and enforcement of property rights, which can be a critical factor for real estate investment. Financial Market also receives a low normalized score of 2, indicating room for improvement in the financial infrastructure and accessibility of financing for real estate projects. Domestic Market Scale scores a normalized 3, reflecting an average performance, suggesting potential for further growth in the domestic real estate market to enhance overall attractiveness.

Figure 7.9

Top 5 indicators for the Real estate sector and their scores.



8. Mining Sector

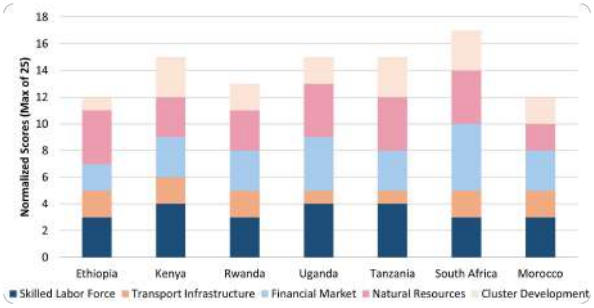
Ethiopia presents a relatively diminished competitive position in the Mining Sector when compared to regional peers, ranking 6th, sharing this rank with Morocco. This indicates that Ethiopia's Mining sector is positioned in the lower tier of regional competitiveness, suggesting significant areas for improvement to attract investments and enhance sector performance. Ethiopia outperforms only Rwanda, which is ranked 5th in this sector. Notably, Kenya, Uganda, and Tanzania share the 2nd rank, highlighting a cluster of moderately competitive nations above Ethiopia, with South Africa leading the region.

Ethiopia's relative strength lies in Natural Resources, where it achieves a normalized score of 4. This signifies that Ethiopia possesses reasonably attractive natural resource endowments relevant to the mining sector compared to some regional peers. However, Cluster Development is a significant shortcoming for Ethiopia, scoring the lowest normalized score of 1. This suggests a

lack of developed industry clusters, specialized infrastructure, or supporting ecosystems for mining operations, hindering its competitiveness. Financial Market and Transport Infrastructure both receive low normalized scores of 2, indicating limitations in financial access and infrastructure crucial for the mining sector. Skilled Labor Force receives a normalized score of 3, reflecting average performance but still suggesting room for improvement in skills availability to further enhance sector attractiveness.

Figure 7.10

Top 5 indicators for the Mining sector and their scores.



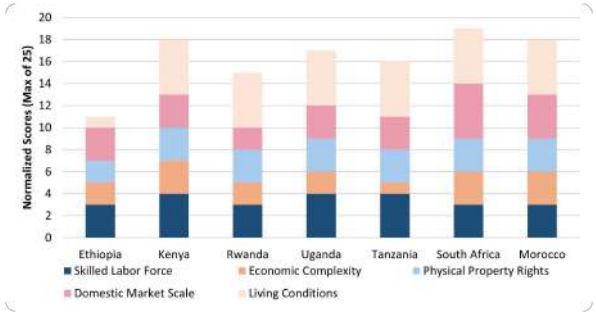
9. Energy Sector

Ethiopia demonstrates a relatively lower competitive position on the Energy sector, ranking 7th. This places Ethiopia at the very bottom of the competitive landscape for the Energy sector compared to its regional peers, indicating substantial areas needing improvement to attract investment and foster sector development. Ethiopia does not outperform any of the analyzed countries. It is outperformed by all six regional peers: Kenya (Rank 2), Rwanda (Rank 6), Uganda (Rank 4), Tanzania (Rank 5), South Africa (Rank 1), and Morocco (Rank 2).

Ethiopia scores low across all five indicators. Living Conditions receives the lowest normalized score of 1, indicating a significant challenge in providing suitable living conditions for individuals involved in the Energy sector. Economic Complexity and Physical Property Rights both score low at a normalized 2, suggesting shortcomings in the sophistication of the economy and concerns regarding the security of property rights relevant to energy investments. Skilled Labor Force and Domestic Market Scale achieve only a normalized score of 3, representing average performance but still lagging behind more competitive nations in these crucial aspects for sector development.

Figure 7.11

Top 5 indicators for the Energy sector and their scores.



10. Agro-Industry Sector

Ethiopia demonstrates a below-average competitive position on the Agro-industry sector, ranking 5th, sharing this rank with Uganda. This indicates that Ethiopia's Agro-Industry sector falls into the lower-

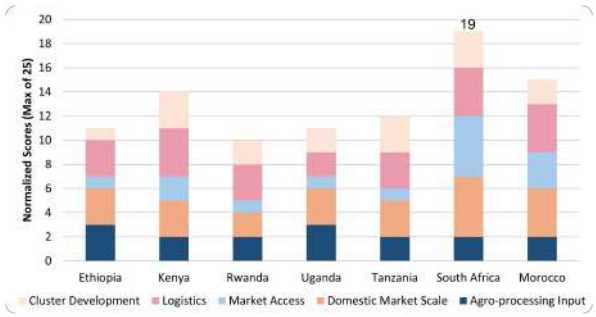
middle tier of regional competitiveness, suggesting there are significant opportunities for improvement to attract investment and boost sector growth. Ethiopia outperforms Rwanda, which is ranked 7th in this sector. However, Ethiopia is outperformed by Kenya (Rank 3), Tanzania (Rank 4), South Africa (Rank 1), and Morocco (Rank 2).

Ethiopia's relative strength lies in Agro-processing Input, where it achieves a normalized score of 3, which is average compared to the highest possible score, but on par with Uganda and Morocco and better than Rwanda and Tanzania for this indicator. Domestic Market Scale and Logistics also achieve a normalized score of 3, representing average performance, but not significant weaknesses compared to some peers. Nevertheless, Market Access is a significant shortcoming for Ethiopia, scoring the lowest normalized score of 1. This suggests a major constraint on the Agro-Industry sector's competitiveness, likely due to challenges in accessing markets, trade barriers, infrastructure, or market information systems. Cluster Development is also another shortcoming, scoring a normalized 1, indicating a lack of developed industry clusters & specialized support systems critical for Agro-Industry success.

An assessment of Ethiopia's regional competitiveness in comparison to South Africa, Rwanda, Kenya, Tanzania, Uganda, & Morocco across the 10 prioritized sectors has revealed 15 key Indicators where Ethiopia is comparatively less competitive.

Figure 7.12

Top 5 indicators for the Agro-Industry sector and their scores.



These indicators highlight critical areas that require attention and improvement to enhance Ethiopia's standing in the region and close the competitiveness gap with its peers. These include:

- Domestic Market Scale
- Financial Market
- Skilled Labor Force
- Accreditation and Standards Authority
- Logistics
- Intellectual Property Rights
- Physical Property Rights
- Living Conditions
- Market Access
- Cluster Development
- University-R&D Collaboration
- Arable Land
- Sustainable Development
- ICT Infrastructure
- Economic Complexity



Conclusion & Recommendations

8

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8. Conclusion & Recommendations

Ethiopia's sectoral prioritization is the result of a comprehensive competitiveness analysis that evaluated key industries against critical investment factors. Seven high-performing sectors have been identified for immediate investment promotion due to their current strengths, while three additional sectors have been included for their long-term potential with targeted reforms.

Table 8.1

Prioritized Sectors

Prioritized Sectors High Competitiveness for FDI	Sectors with Transformative Growth Potential
1. Textile and Garment 2. Leather and Leather Products 3. Pharmaceuticals 4. Commercial Agriculture 5. Tourism 6. Telecom and ICT 7. Real Estate	8. Mining 9. Energy (Renewables) 10. Agro-Processing

These sectors have been prioritized based on their resource availability, market potential, and existing government support. Strengthening Ethiopia's investment competitiveness in these sectors requires a unified and strategic reform approach.

Strategic recommendations have been provided below to enhance Ethiopia's performance across the prioritized sectors. Additionally, Annex 1 provides insights from the experiences of Ethiopia's regional peers for some of the reform areas and offers additional recommendations, highlighting valuable lessons and best practices.

1. Textile and Garment Sector

The textile and garment sector stands out due to Ethiopia's abundant, low-cost labor force and renewable energy-powered industrial parks that provide "plug-and-play" factory facilities. The establishment of world-class parks has attracted major global apparel brands. Ethiopia's competitive edge also lies in its focus on sustainable production, with industrial parks utilizing eco-friendly infrastructure, such as Zero Liquid Discharge (ZLD) systems. The sector also benefits from preferential trade agreements, such as duty-free access to the European Union through the Everything But Arms (EBA) initiative.

Priorities for reform:

- **Financial Sector Liberalization and Forex Access:** Ethiopia has taken significant steps toward financial sector liberalization, evidenced by recent policy changes aimed at improving forex management. In July 2024, the NBE transitioned from a managed floating exchange rate system to a fully flexible one, allowing the Ethiopian birr's value to be determined by market forces.[708] However, to deepen these reforms and enhance investor confidence, additional efforts are recommended. These include expanding financial market liberalization in a phased approach, and developing hedging instruments to help businesses manage currency risks.

- **Workforce Development:** Investments in technical and vocational training programs tailored to the textile sector are essential to address the skills gap. Drawing from Uganda's approach to tailoring training programs to specific industry needs,[709] can adapt these strategies to the textile industry, ensuring they address the evolving demands of garment design, machine operation, and supply chain management. Additionally, collaborating with international training institutions and private sector investors to create curriculum frameworks focused on garment design, machine operation, and supply chain management will enhance labor productivity and reduce turnover.
- **Value Chain Strengthening:** Expanding domestic textile production by incentivizing investment in fabric manufacturing, dyeing, and finishing facilities will reduce import dependence. Policies such as tax incentives and land grants for integrated textile production facilities can create a stronger value chain and improve Ethiopia's competitive position.
- **Market Access and Trade Agreements:** Ethiopia should strengthen its position within regional trade blocs, such as COMESA, AfCFTA, and WTO and explore new preferential trade agreements to diversify export markets. This approach will enable the country to fully leverage the benefits of preferential agreements, unlocking new markets and expanding export opportunities, as seen in the successful example of South Africa[710] in utilizing similar agreements.

2. Leather & Leather Products Sector

The leather and leather products sector is a critical component of Ethiopia's industrialization strategy, driven by the country's abundant livestock resources. Ethiopia has one of the largest livestock populations in Africa, producing high-quality hides and skins—particularly sheepskins, which are highly sought after in international markets for their softness and durability. The sector benefits from government support through incentives such as duty-free imports of machinery, capital goods exemptions, and access to export financing.

Despite these advantages, Ethiopia's leather sector remains underdeveloped due to supply chain inefficiencies, poor-quality raw materials resulting from inadequate animal husbandry practices, outdated tannery technology, and limited cluster development. Additionally, weak market linkages between tanneries, leather product manufacturers, and global buyers impede value addition and market expansion.

Priority reform areas:

- **Cluster Development and Value Chain Integration:** The development of integrated leather clusters, co-locating tanneries, manufacturers, and suppliers, can enhance collaboration and improve operational efficiency. Policies that strengthen backward

linkages with local suppliers and support the formalization of artisanal producers will bolster the supply chain and improve raw material quality.

- **Technology Upgrades:** Providing financing mechanisms and tax incentives to modernize tannery equipment and adopt cleaner, more efficient processing technologies will boost productivity and enhance product quality. Partnerships with international leather machinery firms can facilitate technology transfer and improve environmental compliance.
- **Animal Husbandry and Raw Material Quality:** Improving animal health and husbandry practices through farmer training programs, vaccination initiatives, and the modernization of slaughterhouses will reduce defects in hides and skins. Investments in veterinary services and post-slaughter care are crucial to enhancing the quality of leather inputs.
- **Market Access and Branding:** Ethiopia should strengthen its leather branding by promoting its unique sheepskins and high-quality leather products in global markets. Establishing leather trade promotion agencies and participating in international trade fairs will increase visibility and attract international buyers.

3. Pharmaceutical Sector

The pharmaceutical sector presents significant investment opportunities due to Ethiopia's expanding population, rising healthcare needs, and government policies that prioritize local manufacturing.

The market for pharmaceutical products is projected to grow as the middle class expands and non-communicable diseases increase. Local production of essential medicines can reduce the country's reliance on imports, improve access to affordable healthcare, and enhance public health resilience.

The sector currently benefits from investment incentives such as tax holidays, duty exemptions, and simplified regulatory processes for new investors. However, regulatory inefficiencies, weak research and development (R&D) capabilities, and poor logistics infrastructure limit the sector's growth. Ethiopia's pharmaceutical regulatory body requires further capacity-building to align with international standards and streamline drug approval processes. Additionally, limited cold storage and distribution networks increase costs and delay the delivery of life-saving medicines.

Priority reform areas:

- **Regulatory Strengthening:** Reforms to modernize and digitize the drug approval process will reduce regulatory bottlenecks and improve investor confidence. Providing technical assistance and training for regulatory agencies, as well as harmonizing regulations with regional and international standards, will enhance compliance and market access.

- **R&D and Innovation:** Public-private partnerships (PPPs) for research and innovation should be established to develop locally relevant pharmaceutical products. Investments in academic partnerships, clinical trials, and technology transfer agreements will boost local R&D capacity and attract FDI from global pharmaceutical firms seeking regional production hubs.
- **Logistics Infrastructure:** Investments in logistics and cold chain infrastructure are critical to support pharmaceutical manufacturing and distribution. Building regional logistics hubs, improving transport links to industrial parks, and incentivizing private-sector investments in cold storage facilities will enhance the efficiency of pharmaceutical supply chains.
- **Local Supplier Development:** Developing domestic suppliers of pharmaceutical ingredients and packaging materials can reduce dependency on imports and lower production costs. Supportive policies, such as grants and low-interest loans for local manufacturers, can strengthen supply chains and increase sector competitiveness.

4. Commercial Agriculture

Ethiopia's commercial agriculture sector stands out due to its abundant arable land, diverse agro-climatic zones, and access to a large labor force. The government has also implemented supportive policies, such as duty-free imports of agricultural machinery and tax exemptions for agro-processors, making Ethiopia an attractive destination for agricultural investment.

However, the sector faces challenges that limit its full potential. Market access remains constrained due to insufficient participation in regional and global trade agreements, while underdeveloped logistics infrastructure—particularly cold storage and transport networks—results in high post-harvest losses and limited competitiveness. Fragmented value chains and weak collaboration between producers, processors, and distributors further hinder the efficiency of agro-processing operations.

Priority reform areas:

- **Logistics Infrastructure Development:** Investments in cold storage facilities, rural road networks, and transport hubs will reduce post-harvest losses and improve access to domestic and international markets. The development of dedicated export corridors for perishable goods will further enhance the efficiency of supply chains.
- **Agro-Processing Cluster Development:** Strengthening ongoing initiatives in agro-processing clusters that co-locate farmers, processors, and distributors will foster collaboration and improve economies of scale. Incentives such as grants and preferential financing can attract private investors to develop these clusters, leading to increased productivity and value addition.

- **Market Access and Trade Facilitation:** Expanding Ethiopia's participation in regional trade blocs such as the AfCFTA and securing new bilateral trade agreements will open up larger markets for agricultural exports. Streamlining customs procedures and enhancing export facilitation will also reduce bottlenecks at key border points.
- **Land Use Efficiency:** Strengthening land tenure systems and improving land-use planning will encourage private investment in commercial agriculture by reducing disputes and ensuring long-term security for investors.

5. Tourism Sector

Ethiopia's tourism sector is known for its rich cultural heritage, diverse ecosystems, and historical landmarks, including nine UNESCO World Heritage Sites. The country's strategic location as a diplomatic hub and the home of the African Union enhances its appeal for conference and business tourism. The government has made significant progress in promoting tourism through initiatives such as the "Beautifying Sheger" project in Addis Ababa and the National MICE (Meetings, Incentives, Conferences, and Exhibitions) Strategy, which aims to position Ethiopia as a leading conference tourism destination.

However, the sector faces constraints in terms of infrastructure, service quality, and skilled labor. Road and air connectivity to key tourist sites remain limited, while the availability of modern accommodations and trained hospitality professionals does not meet growing demand. Marketing and promotion efforts in global tourism markets have also been insufficient, limiting international awareness of Ethiopia's unique offerings.

Priority Reform areas:

- **Infrastructure Development:** Expanding road and air transport networks to improve access to major tourist destinations is essential. Investments in regional airports, road upgrades, and transport services can enhance visitor mobility and reduce travel times.
- **Hospitality Workforce Development:** Establishing training centers and partnerships with international hospitality institutions will improve service quality and ensure a steady pipeline of skilled workers for the tourism industry. By aligning these training programs with the identified skill gaps in the sector, as Uganda[711] has done, Ethiopia can ensure that the training is not only relevant but also responsive to the evolving demands of the tourism job market. Training programs focused on language skills, customer service, and cultural tourism will enhance visitor experiences.
- **Public-Private Partnerships (PPPs):** Encouraging PPPs for the development of hotels, resorts, and eco-tourism facilities will accelerate the expansion of tourism infrastructure. Offering tax incentives and streamlined approval processes for private investors can further boost investment.

- **Digital Marketing and Global Promotion:** Strengthening Ethiopia's digital presence through online campaigns, virtual tours, and collaborations with international travel platforms will increase global visibility and attract more international tourists. Participation in global travel expos and partnerships with renowned tour operators will also enhance Ethiopia's brand as a premier travel destination.

6. Telecom and ICT Sector

Ethiopia's telecom and ICT sector has undergone significant transformation, driven by market liberalization and the entry of private operators. The introduction of Safaricom Ethiopia as a new telecom operator has increased competition, improved service quality, and accelerated digital connectivity. The government's "Digital Ethiopia 2025 Strategy" outlines ambitious goals to expand internet penetration, enhance digital financial services, and support e-government initiatives. The expansion of mobile money platforms and investments in telecom infrastructure have also improved financial inclusion and access to digital services.

Despite these advancements, the sector faces challenges related to limited broadband infrastructure, weak support for startups, and low levels of research and development (R&D). Internet access, particularly in rural areas, remains low, while the lack of venture capital and innovation hubs has constrained the growth of the startup ecosystem.

Intellectual property (IP) protections also need strengthening to encourage innovation and attract global technology firms.

Priority Reform areas:

- **Intellectual Property (IP) Protections:** Enhancing IP regulations and enforcement mechanisms will attract foreign tech companies by ensuring that their innovations are protected. Simplifying IP registration processes and offering legal support for startups will also foster innovation.
- **Broadband Expansion:** Accelerating the rollout of fiber-optic networks and expanding 4G and 5G coverage in rural and urban areas will enhance connectivity and support digital service delivery. Ethiopia can follow Rwanda's model[712] by forming a public-private partnership (PPP) with a global telecom provider, similar to Rwanda's collaboration with Korea Telecom, to facilitate faster infrastructure development. Additionally, incentives for private sector participation in infrastructure development can expedite progress.
- **University-Industry Collaboration:** Strengthening partnerships between universities and the private sector will boost R&D and the development of locally relevant digital solutions. To further enhance this, Ethiopia could adopt an incentive structure similar to South Africa's Technology and Human Resources for Industry Programme (THRIP)[713], which provides financial support for university-industry

collaborations, in its ICT sector. These incentives will foster joint research projects, promote the commercialization of academic innovations, and enhance Ethiopia's ICT capabilities.

7. Real Estate Sector

Ethiopia's real estate sector has experienced rapid growth, driven by urbanization, population expansion, and rising demand for residential, commercial, and industrial properties. The government's plans to introduce legal reforms allowing foreign ownership of real estate are expected to significantly enhance investor confidence and drive substantial FDI inflows. The sector's growth has also been supported by public investments in urban infrastructure and housing projects aimed at addressing the country's housing deficit. The expansion of mixed-use developments and commercial real estate projects in Addis Ababa has further positioned the real estate market as a key contributor to economic growth.

However, challenges related to weak property rights enforcement, bureaucratic delays in land acquisition, and limited access to mortgage financing have constrained the sector's full potential. Investors often face lengthy procedures for land registration and permits, creating uncertainty and increasing transaction costs. Additionally, the lack of formal investment vehicles, such as Real Estate Investment Trusts (REITs), has limited the sector's attractiveness for institutional investors.

Priority Reform areas

- **Foreign Ownership Legislation:** Finalizing and implementing the proposed legal reforms to allow foreign ownership of real estate will unlock new sources of FDI. Clear guidelines on ownership rights, property taxation, and dispute resolution will be essential to ensure a transparent and attractive investment environment.
- **Property Rights and Land Registration:** Ethiopia can enhance its existing land administration system by adopting best practices from Rwanda's Land Administration Information System (LAIS),[714] which includes strengthening the digitization of land transactions and linking land ownership records with other national systems, such as tax collection. This would reduce administrative irregularities, minimize opportunities for corruption, streamline processes, and improve public access to land information. Implementing digital land registries and simplifying regulatory procedures for land transactions will enhance transparency and efficiency.
- **Mortgage Financing and Capital Markets:** Expanding access to mortgage financing through partnerships with financial institutions and the introduction of innovative financing instruments, such as REITs, will increase homeownership rates and attract institutional investors. Financial sector reforms that enable long-term lending for real estate projects will further support growth.

- **Urban Planning and Infrastructure Development:** Developing smart urban planning frameworks that include zoning regulations, transport connectivity, and essential services will create more attractive and livable urban areas. Strategic investments in public infrastructure, such as roads, utilities, and green spaces, will support real estate developments and improve the quality of urban living.

8. Mining Sector

The mining sector is a high-potential industry due to Ethiopia's abundant reserves of gold, potash, gemstones, and industrial minerals. Recent government reforms, including the introduction of updated mining regulations and efforts to improve geological data transparency, have increased investor interest. Ethiopia's Geological Survey provides detailed resource mapping, which supports exploration and development projects. The mining sector has also benefited from improved export procedures & government commitments to formalize artisanal mining activities, which has contributed significantly to gold exports.

Despite these positive developments, the sector faces constraints related to poor transport and logistics infrastructure, limited cluster development, and a shortage of skilled labor for large-scale mining operations. Additionally, community relations & environmental compliance remain critical issues that can affect project timelines & investor confidence.

Priority reform areas

- **Transport Infrastructure Development:** Investments in transport corridors, such as railways and roads connecting mining sites to ports, will reduce operational costs and improve export efficiency. Expanding dry ports and logistics hubs will further support mining operations.
- **Cluster Development and Local Content:** Establishing mining clusters that integrate exploration, extraction, and processing activities will foster value addition and create economies of scale. Policies that promote local content, such as supplier development programs and joint ventures, will enhance backward linkages and increase local participation in the mining value chain.
- **Workforce Development:** Expanding technical training programs for mining engineers, geologists, and machinery operators will address the skills gap and improve the efficiency of mining operations. By following Uganda's example of aligning training programs with sector needs, Ethiopia can ensure that these programs meet the specific demands of the mining industry.[715] Partnerships with international mining companies and academic institutions can facilitate knowledge transfer and capacity-building.
- **Environmental and Social Governance (ESG) Standards:** Strengthening environmental regulations & community engagement frameworks will ensure that mining projects align with

international ESG standards. Clear guidelines for resettlement, benefit-sharing, and environmental protection will enhance investor confidence and community support.

9. Energy (Renewables) Sector

Ethiopia's renewable energy sector offers immense potential due to its vast hydropower, wind, solar, and geothermal resources. The country's low electricity costs provide a competitive advantage for energy-intensive industries and regional energy exports. Major projects, such as the Grand Ethiopian Renaissance Dam (GERD), have reinforced Ethiopia's ambitions to become a renewable energy powerhouse in Africa. Recent regulatory changes, such as the introduction of PPPs for power generation projects and priority currency convertibility guarantees, have increased private sector participation in the energy sector.

However, the sector faces challenges related to regulatory barriers, grid instability, and limited energy storage solutions. Ethiopia's energy production is heavily reliant on hydropower, making it vulnerable to droughts and climate variability. Additionally, the energy transmission and distribution infrastructure requires significant upgrades to support industrial demand and rural electrification.

Priority Reform areas

- **Regulatory Framework Enhancement:** Strengthening the regulatory framework to streamline licensing and approval processes for energy projects will reduce delays and improve investor confidence. Introducing competitive bidding processes for renewable energy contracts will also attract international investors.
- **Grid Modernization and Stability:** Investing in grid upgrades and the development of energy storage solutions, such as battery systems, will improve grid reliability and support the integration of intermittent renewable energy sources like wind and solar.
- **Diversification of the Energy Mix:** Expanding investments in non-hydro renewables, such as geothermal and solar projects, will reduce dependency on hydropower and increase resilience to climate-related disruptions.
- **Regional Energy Trade:** Strengthening partnerships with neighboring countries through regional energy trade agreements will enhance Ethiopia's role as a key energy exporter. Investments in cross-border transmission lines and power interconnections will facilitate regional energy integration and boost foreign exchange earnings.

10. Agro-Processing Sector

Agro-processing is a key pillar of Ethiopia's industrialization strategy, contributing to value addition and export diversification. The sector benefits from the government's establishment of Integrated Agro-Industrial Parks (IAIPs), which provide ready-to-use infrastructure and support services for agro-processors.

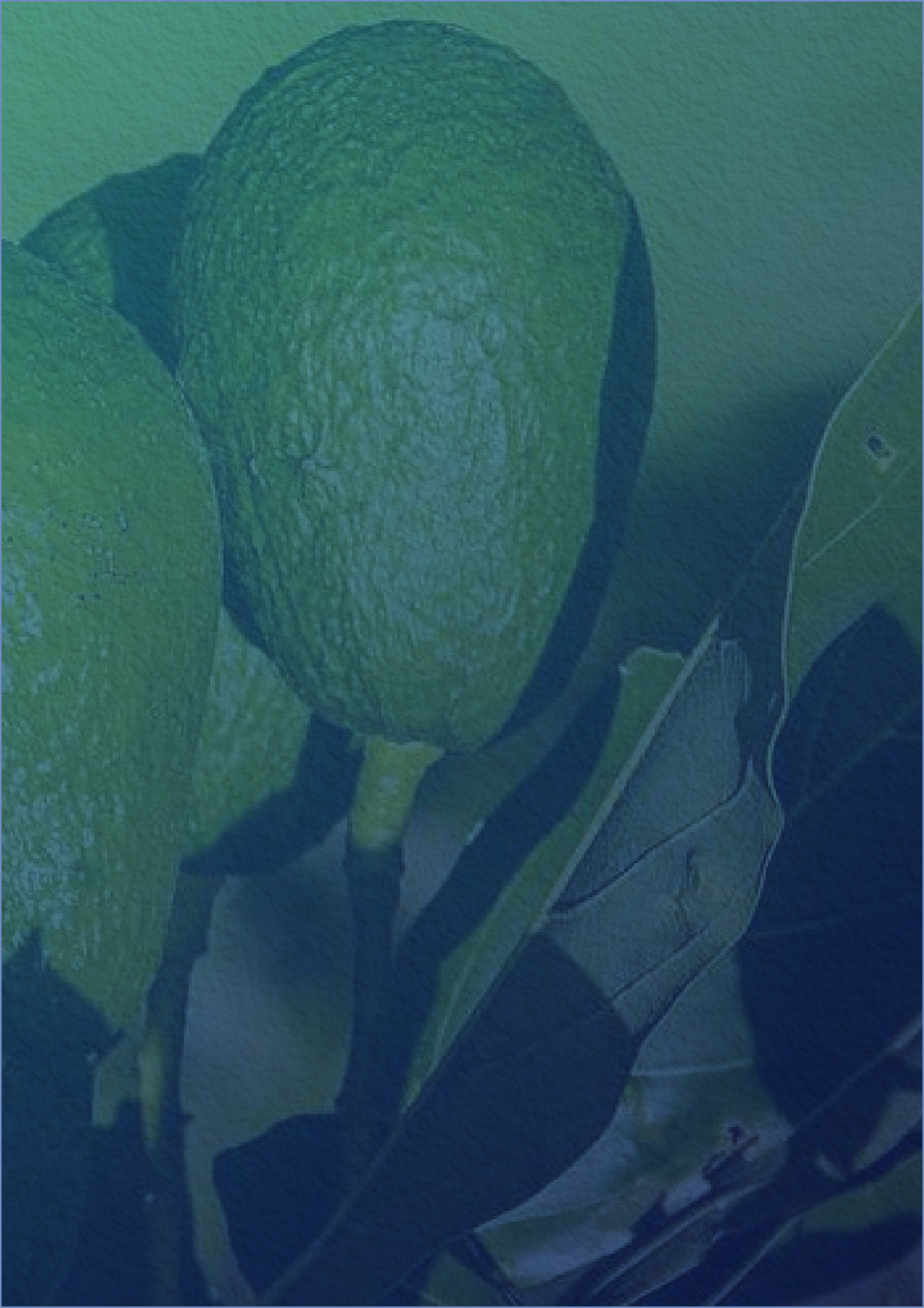
Ethiopia's agricultural resource base,

including coffee, sesame, dairy, and pulses, offers significant potential for processing and export growth. Recent reforms have also included duty-free imports of agro-processing equipment and preferential access to finance for investors in the sector.

However, the agro-processing sector faces challenges related to fragmented value chains, insufficient cold storage facilities, and limited access to international markets. Logistics constraints, particularly in rural areas, increase the cost of transporting raw materials to processing facilities. Additionally, weak linkages between farmers and processors result in inconsistent supply and quality of raw materials.

Priority Reform areas

- **Value Chain Integration:** Strengthening partnerships between farmers, cooperatives, and agro-processors will improve supply chain coordination and ensure a consistent flow of raw materials. Supportive policies, such as contract farming schemes and capacity-building programs for smallholder farmers, will enhance productivity and quality.
- **Logistics & Cold Storage Development:** Investments in rural logistics networks, cold storage facilities, and agro-processing hubs will reduce post-harvest losses and improve the competitiveness of processed agricultural products. Establishing dedicated transport corridors for agricultural exports will further enhance market access.
- **Export Market Development:** Expanding Ethiopia's participation in regional and international trade agreements will increase export opportunities for agro-processed goods, similar to how South Africa[716] has leveraged its trade agreements to enhance market access and boost exports. Strengthening partnerships with trade promotion agencies and participating in global food expos will also raise the visibility of Ethiopian products.
- **Cluster Development:** Developing agro-processing clusters that co-locate processing facilities with suppliers and service providers will create economies of scale and attract private investment. Financial incentives, such as tax holidays and grants for cluster development, can further enhance investment attractiveness.



Annex & Notes

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Annex: Experiences from Regional Peers

An assessment of Ethiopia's regional competitiveness in comparison to South Africa, Rwanda, Kenya, Tanzania, Uganda, and Morocco across the 10 prioritized sectors has revealed 15 key indicators where Ethiopia is comparatively less competitive. These indicators highlight critical areas that require attention and improvement to enhance Ethiopia's standing in the region and close the competitiveness gap with its peers. Experiences from regional peers across these 15 indicators are provided below, offering insights into best practices and potential strategies for Ethiopia.

1. Market Access

Experience from South Africa

Preferential Market Access

South Africa benefits from preferential market access to the European Union (EU) under the EU-Southern African Development Community (SADC) Economic Partnership Agreement. This agreement provides South African exporters with permanent, full, and free access to the EU market for 98.7% of goods, with customs duties removed under specific quantity quotas.[717] [718]

As the EU's largest trading partner in Africa, South Africa enjoys a significant trade relationship, with the EU accounting for 25% of South Africa's trade.[719]

While the trade agreement is reciprocal, South Africa and other SADC countries benefit from greater preferential access to the EU, with the ability to maintain tariffs on sensitive sectors. In 2021, South Africa's exports to the EU increased by 30% and this was the first time since 2004 that South Africa recorded a trade surplus. Furthermore, more value-added goods were directed to the EU markets from South Africa in comparison to other areas of the world, marking a significant shift from primary commodities to manufactured goods.[720]



South Africa

FDI Inflows (2023): $5.2 billion

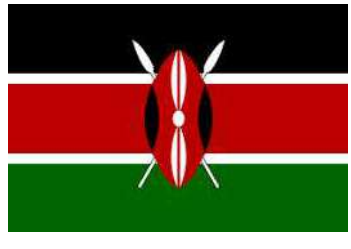
Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

Experience from Kenya

Standard Certification

Standard application and certification have proven to be valuable tools for boosting market access and improving the investment environment, as seen in Kenya's tea and horticulture sectors. In a bid to enhance its horticultural industry, the Kenyan government undertook a comprehensive benchmarking of its national horticulture production standards against the EU's GlobalGAP sustainability standards. This effort led to the creation of KenyaGAP, a certification tailored to the country's specific needs but aligned with international best practices.[721] [722]

GlobalGAPs are international best practices and sets standards for Good Agricultural Practices (GAP) that govern the production process until the produce leaves the farm. In addition to maintaining market access, KenyaGAP has raised awareness among farmers about the safe and effective use of plant protection products and improved the overall quality of produce.[723]



Kenya

FDI Inflows (2023): $1.5 billion

Major Sector Attracting FDI (2022): Wholesale and Retail, ICT, and Manufacturing sectors

Recommendations

Adopt and Tailor International Standards and Certifications: Ethiopia can enhance its market access and competitiveness by aligning its production standards with recognized international best practices, as seen in Kenya's development of the KenyaGAP certification. By adopting recognized standards, Ethiopia can improve the quality and sustainability of its products, which can enhance its access to international markets and competitiveness in global markets. Additionally, Ethiopia can tailor these certifications to its specific local context, addressing national challenges and opportunities while still adhering to global benchmarks. This dual approach will help Ethiopia meet international market requirements while supporting its domestic production practices.

2. Financial Market

Experience from South Africa

Financial Market Infrastructure

South Africa's financial market infrastructure is broadly adequate for the size and demands of its markets, supported by a range of advanced systems. Key among these is the real-time gross settlement system (RTGS), the South African Multiple Option Settlement System (SAMOS), and a regional cross-border RTGS system, all managed by the South African Reserve Bank (SARB).[724] This enables the immediate settlement of funds on an order-by-order basis, removing delays typically associated with batch processing. Many of its features are considered best in class and have been adopted and implemented globally.[725]

Additionally, South Africa was one of the first countries to implement same-day batch clearing for electronic fund transfers (EFT), real-time clearing (RTC), early debit order collections, and, more recently, authenticated electronic mandate management and

early collections functionality. These innovations have significantly improved the country's payment infrastructure, making financial transactions faster and more reliable.[726]

Adoption of International Best Practices

South Africa has a sound and well-established legal and regulatory framework for financial institutions, governed by the independent South African Reserve Bank (SARB). This framework follows international best practices, such as the Basel standards,[727] which ensure that banks maintain built-in capital and liquidity buffers to absorb shocks during times of financial stress.[728] South Africa has a robust and resilient banking system with adequate levels of capital and liquidity buffers to withstand stress – a key part of the country's shock absorbers during uncertain economic times.[729]

South Africa's resilience has been tested repeatedly, with the financial system demonstrating its strength in the face of both global and domestic challenges, including the recent COVID-19 pandemic. The SARB's proactive policy response to the pandemic helped stabilize financial markets and mitigate the risk of a financial crisis.[730]



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

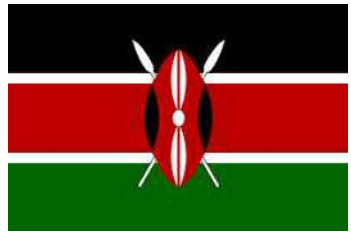
Experience from Kenya

ESG Framework[731]

Kenya's financial market has witnessed a growing focus on Environmental, Social, and Governance (ESG) matters, driven by increasing demand from investors and stakeholders for greater transparency and accountability. The modern investor is no longer solely concerned with financial performance but also seeks comprehensive disclosures on governance, social, and environmental issues. The COVID-19 pandemic, global environmental challenges, the shift toward renewable energy, and heightened attention to human rights have accelerated the integration of ESG principles by corporations.

Kenya's financial market has witnessed a growing focus on Environmental, Social, and Governance (ESG) matters, driven by increasing demand from investors and stakeholders for greater transparency and accountability. The modern investor is no longer solely concerned with financial performance but also seeks comprehensive disclosures on governance, social, and environmental issues. The COVID-19 pandemic, global environmental challenges, the shift toward renewable energy, and heightened attention to human rights have accelerated the integration of ESG principles by corporations.

- **Invest in Modern Financial Infrastructure:** Ethiopia can improve its financial market efficiency by investing in advanced infrastructure and systems, similar to those implemented in South Africa. Modernizing financial infrastructure can reduce transaction delays, enhance the speed of payments, and improve the overall reliability of financial transactions. This would not only boost investor confidence but also facilitate smoother international trade, making Ethiopia's financial system more competitive and integrated into global markets.
- **Adopt Global Best Practices:** Ethiopia could significantly strengthen its banking sector by adopting globally recognized best practices, such as the Basel standards that are designed to enhance financial resilience. Adopting international standards would help improve the overall confidence in Ethiopia's financial sector, attracting foreign investment and encouraging more robust economic growth. By focusing on resilience, Ethiopia can create a more stable, secure, and competitive financial environment that can support long-term development.
- **Adoption of ESG Reporting Framework for Financial Markets:** Ethiopia should consider adopting a comprehensive Environmental, Social, and Governance (ESG) reporting framework to enhance the transparency, accountability, and sustainability of its financial markets. As global investors increasingly prioritize ESG criteria in their investment decisions, integrating these principles into Ethiopia's corporate and financial practices would attract more international investment and align the country with global trends in responsible and sustainable finance.



Kenya

FDI Inflows (2023): $1.5 billion

Major Sector Attracting FDI (2022): Wholesale and Retail, ICT, and Manufacturing sectors

3. Cluster Development

Experience from Tanzania

Fostering Collaboration among Academic Institutions, Entrepreneurs and Government Authorities[732]

The Fostering Innovation for Sustainable Socio-Economic Development program (2017-2020), funded by Sida, aimed to contribute to building Tanzania's National Innovation System by promoting collaboration between academic institutions, entrepreneurs, and government authorities in a Triple Helix configuration. This was designed to connect entrepreneurs with research and higher education institutions to support science and technology-driven innovations. Involving government authorities in these collaborations ensures that innovations are aligned with national policy goals and that policies are designed to facilitate innovation.

Historically, there has been a considerable gap between universities/research institutions and the community of entrepreneurs and innovators, making it challenging for entrepreneurs to access research outputs that could enhance their businesses and livelihoods. The Sida-supported cluster program has been instrumental in closing this gap, fostering stronger linkages between research institutions and the entrepreneurial community, thereby enabling the practical application of research findings.

One example of this impact can be seen in Tanzania's leather sector. The initiative had managed to link small-scale leather processors with research institutes and government authorities. Where small-scale processors previously had limited access to research institutes or government support, they could now directly engage with these institutions to discuss challenges. This has also increased industries' trust in the ability of research outputs to address their challenges—especially in the leather sector, where such trust was previously limited.



Tanzania

FDI Inflows (2023): $1.3 billion

Major Sector Attracting FDI (2022): Finance and Insurance, Mining and Quarrying and Manufacturing

Experience from Uganda

Business Linkages Programme[733]

Uganda's Business Linkages Programme is an initiative designed to promote the growth and sustainability of local Small and Medium Enterprises (SMEs) by fostering connections between SMEs/clusters and larger companies, including Trans-National Companies (TNCs). The program focuses on enhancing the capacity and capability of SMEs to meet regional and international business standards. It also encourages TNCs to source products and services locally from SME clusters rather than relying on foreign suppliers.

The programme targets sectors such as agriculture, telecommunications, building and construction, real estate development, manufacturing, and the oil and gas industries.

Through these linkages, Uganda aims to strengthen local supply chains, boost the competitiveness of SMEs, and stimulate economic growth by integrating local businesses into larger value chains.



Uganda

FDI Inflows (2023): $2.8 billion

Major Sector Attracting FDI (2022): Mining, Transportation (pipeline), ICT, and Finance

Recommendations

- **Strengthen University-Industry Collaboration:** Ethiopia can enhance its cluster development by adopting a model for collaboration, as demonstrated in Tanzania. By creating stronger linkages between academic institutions, entrepreneurs, and government authorities, Ethiopia can better align research outputs with industry needs and policy goals. This would help bridge the gap between research and practical applications and stimulate sectoral growth.
- **Establish a Cluster Linkages Program:** Ethiopia can create a program to connect local clusters with larger firms, including Trans-National Companies (TNCs). This program should focus on capacity-building for SMEs, improving their ability to meet national and international standards, thus making them more competitive and capable of supplying goods and services locally.

4. Skilled Labor Force

Experience from Uganda

A Demand-Driven Approach to Workforce Development[734] [735]

The Uganda Skills Development Project (USDP), funded by the World Bank, aims to enhance the capacity of institutions to provide high-quality, demand-driven training in key sectors, including agriculture, construction, and manufacturing. The project focuses on creating a scalable model for vocational and technical training that is directly linked to labor market needs, addressing skill gaps and promoting economic growth. One key component of the project is the Skills Development Facility (SDF), which focuses on employer-led, short-term training to address skill gaps between what universities and tertiary institutions provide and the skills needed by employers to increase productivity, profitability, and competitiveness.

One of the key initiatives under the SDF is related to the upgrading of skills for the formal sector (medium and large enterprises. This initiative provides short-term training for existing employees, potential hires, and subcontractors, with a focus on enhancing productivity, competitiveness, and profitability. Companies partner with trainers to deliver customized, advanced technical skills aligned with international standards.

This led to the creation of over 2,000 new jobs and the training of 13,794 workers across six priority sectors. A total of 4,234 trainees were certified by the Directorate of Industrial Training (DIT), enabling them to seek employment domestically and abroad. The program also resulted in new products entering the market, such as gates, windows, bicycle frames, and food products, developed by trained workers.

In addition, 17 companies obtained certification from the Uganda National Bureau of Standards (UNBS). The training also led to improved customer care in the tourism sector, a reduction in material wastage in production, and better safety practices, contributing to a more efficient and competitive workforce. Furthermore, 92.6% of the companies had increased productivity as a result of reduced wastage of production materials and time lost due to accidents and injuries that happened before the training.



Uganda

FDI Inflows (2023): $2.8 billion

Major Sector Attracting FDI (2022): Mining, Transportation (pipeline), ICT, and Finance

5. University-R&D Collaboration

Experience from South Africa

Fostering University-Industry Collaboration Through Financial Incentives[736] [737]

South Africa has facilitated university-R&D collaboration through its Technology and Human Resources for Industry Programme (THRIP). THRIP is a grant designed to enhance the competitiveness of South African industries by supporting research and technology development. It operates on a cost-sharing basis, where industry partners and research institutions collaborate on science, engineering, and technology research that addresses the technological needs of participating firms.

A key feature of THRIP is its system of incentives, which play a crucial role in fostering collaboration.

These incentives are designed to promote partnerships between universities and firms. The program offers advance or pre-payment grants of up to 90% of approved project costs, with funding ranging from R5 million to a maximum of R15 million per approved project, paid through milestones. Moreover, THRIP covers researcher remuneration costs, including those of research assistants and post-doctoral fellows, further incentivizing academic involvement in industry-relevant research.

THRIP has contributed meaningfully to technology development in terms of, e.g., the production of new applied knowledge in health, mining, and the manufacturing industry. Furthermore, it has been instrumental in driving technological advancements in areas such as big data, predictive analytics, metal matrix composites, and smart city technologies like the Internet of Things.



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

6. Accreditation and Standards Authority

Experience from South Africa

Mutual Recognition Arrangements for Accreditation[738] [739]

Mutual Recognition Arrangements for Accreditation[1] [2]

The South African National Accreditation System (SANAS) is recognized by the government as the sole national accreditation body for conformity assessments in South Africa. SANAS plays a critical role in providing internationally recognized accreditation services to conformity assessment bodies, supporting both government initiatives and the South African industry.

One of SANAS' major achievements is ensuring that test reports or certificates issued in South Africa are confidently accepted by regulators in other countries. This is made possible by SANAS' status as a signatory to the International Laboratory Accreditation Cooperation (ILAC) Arrangement. This agreement promotes the

mutual acceptance of accredited test and calibration data among member signatories, helping to reduce or eliminate the need for retesting in the importing country, which in turn boosts efficiency in trade. SANAS's agreement covers a broad scope of accreditation, including Calibration (ISO/IEC 17025), Testing (ISO/IEC 17025), Medical Testing (ISO 15189), Inspection (ISO/IEC 17020), Proficiency Testing Providers (ISO/IEC 17043), and Reference Material Producers (ISO 17034).



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

In addition to ILAC, SANAS is a signatory of the International Accreditation Forum (IAF), which establishes multilateral arrangements to recognize certifications issued by other signatories. Both ILAC and IAF aim to foster mutual recognition of accreditation systems, which reduces the need for redundant tests, inspections, and certifications when products and services cross national borders. This reduces bureaucratic obstacles, cuts costs for businesses, and enhances operational efficiency, supporting South Africa's competitiveness in the global market.

Recommendations

Strengthening International Accreditation Participation and Recognition: Ethiopia can enhance its global competitiveness by following the model of SANAS. Ethiopia can enhance its global competitiveness by following the model of SANAS. Specifically, Ethiopia should prioritize becoming a full signatory to both the ILAC (by incorporating Proficiency Testing Providers (ISO/IEC 17043) and Reference Material Producers (ISO 17034) into its agreement) and the IAF agreements. This would enable mutual recognition of Ethiopia's conformity assessments and certifications, allowing Ethiopian products and services to be accepted in foreign markets without the need for additional testing or certification.

7. Arable Land

Experience from Rwanda

Digital Platforms for Land Administration[740]

Rwanda's Land Administration Information System (LAIS) has significantly transformed land governance by reducing administrative irregularities and simplifying the management of land resources. LAIS is a land ownership and cadastral database that plays a critical role in the country's land administration framework, helping to overcome challenges such as inefficient land management and the risks of fraud or corruption.

This transition has not only streamlined processes but also enhanced the transparency and accountability of land administration. By digitizing land-related data, Rwanda has minimized irregularities between land service seekers and public administrators, fostering trust in the land administration system. This shift has proven particularly effective in reducing bureaucratic red tape and eliminating opportunities for corruption, which often undermine the credibility of land management institutions.

With LAIS, every land transaction is recorded in a centralized digital system, which includes essential details such as the date, Unique Parcel Identifier (UPI), transaction type, and status. This creates a transparent, auditable trail of land transactions, ensuring that all processes are traceable and secure. The system's ability to store and organize data has also contributed to greater efficiency in managing land records and resolving disputes.



Rwanda

FDI Inflows (2023): $523 million

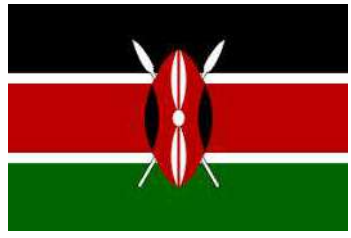
Major Sector Attracting FDI (2023): Financial Sector, Manufacturing, and ICT

Experience from Kenya

Land Commercialization Initiative (LCI)

The Land Commercialization Initiative (LCI), launched by Kenya's Ministry of Agriculture and Livestock Development (MoALD), aims to transform underutilized state-owned land into productive agricultural hubs. Operating under the Agricultural Sector Growth and Transformation Strategy (ASTGS 2019–2029), the LCI seeks to lease over 500,000 acres of idle public land to private investors for large-scale commercial farming. This initiative focuses on enhancing food security, attracting private investment, and creating employment opportunities in the agricultural sector.[741]

The LCI offers investors long-term lease options, providing the security needed for sustainable agricultural ventures. By converting these lands into productive use, the initiative aims to attract approximately Kshs. 65 billion in private investments, reduce the national staple food deficit by at least 50%, and generate around 1.1 million jobs. The LCI represents a significant step toward revitalizing Kenya's agricultural landscape and bolstering economic growth through strategic public-private partnerships.[742]



Kenya

FDI Inflows (2023): $1.5 billion

Major Sector Attracting FDI (2022): Wholesale and Retail, ICT, and Manufacturing sectors

Experience from Morocco

State-Owned Land Allocation for Agricultural Investment

Morocco has undertaken significant initiatives to enhance investor access to arable land, particularly through the allocation of 5,200 hectares of state-owned agricultural land. Spearheaded by the Agricultural Development Agency (ADA), this program includes 96 agricultural projects across nine regions, such as Casablanca-Settat, Marrakech-Safi, and Draâ-Tafilalet. The land is designated for tree plantations, vineyards, livestock farming, and annual crops, with lease agreements of up to 40 years, depending on the project type. This initiative aims to attract private investment, modernize farming practices, and revitalize rural economies, especially in areas facing climate-related agricultural challenges.[743]

Farmland Leasing for Investors

Additionally, Morocco's "Green Generation" strategy (2020-2030) reinforces efforts to modernize agriculture and increase rural employment by facilitating private sector involvement in land use. Historically, the government has offered long-term farmland leases at 20-50% below market value, providing affordable access to agricultural land for investors while encouraging the adoption of advanced farming technologies. These reforms not only enhance productivity and food security but also create employment opportunities and boost agribusiness investments, positioning Morocco as a leading agricultural hub in North Africa.[744] [745]



Morocco

FDI Inflows (2023): $2.1 billion

Major Sector Attracting FDI (2022): Manufacturing, Real Estate, Tourism

Statista. (2023). Foreign direct investment (FDI) in Morocco 2022, by sector.

Recommendations

- **Land Commercialization Initiative for Agricultural Investment:** Ethiopia can improve access to land for investors by adopting a Land Commercialization Initiative (LCI) similar to Kenya's model. Establishing an LCI would allow Ethiopia to unlock underutilized state-owned land and lease it to private investors for large-scale commercial farming. This approach would provide long-term lease agreements, ensuring investment security while optimizing land use for productive agriculture. By implementing an LCI framework, Ethiopia could attract private investment and increase agricultural productivity. The initiative should align with national food security and economic growth goals, offering incentives for infrastructure development, mechanization, and irrigation expansion. A well-structured LCI could drive billions in private investment, enhance job creation in rural areas, and modernize Ethiopia's agricultural sector.

- **State-Owned Land Allocation and Leasing for Agricultural Investment:** Ethiopia can enhance investor access to agricultural land by adopting a state-owned land allocation program similar to Morocco's model. By identifying underutilized public land and structuring a long-term leasing framework, Ethiopia could attract private investment in commercial farming, livestock production, and agroforestry. Implementing a transparent and investor-friendly leasing system, would provide land tenure security and encourage sustainable agricultural expansion, particularly in regions vulnerable to climate-related challenges. Additionally, Ethiopia could introduce incentivized farmland leasing, offering competitive rates and tax benefits to encourage investment in advanced farming technologies, irrigation, and agro-processing industries. Morocco's "Green Generation" strategy demonstrates how affordable farmland leasing at below-market rates can enhance productivity, strengthen food security, and generate employment opportunities. Ethiopia could adopt a similar structured policy, integrating sustainability-focused agribusiness investments to improve land utilization, attract foreign direct investment (FDI), and position itself as a key agricultural hub in Africa.

8. Logistics

Experience from Morocco

Digital Innovation[746] [747] [748]

Morocco's PortNet tool represents a significant step toward modernizing and enhancing the efficiency of the country's logistics and foreign trade operations. Established in 2012, PortNet was born out of the need to simplify and streamline the processes associated with foreign trade operations. PortNet serves as a national single-window platform designed to integrate the information systems of various stakeholders involved in foreign

trade, including customs, airport & port authorities, shipping agents, freight forwarders, importers, exporters, and public administrations. It enables paperless processes, real-time document exchanges, and the end-to-end integration of the supply chain on a national and regional scale.

Since its initial launch at Casablanca port in 2011 and subsequent expansion to all commercial ports by 2012, PortNet has undergone several phases of development, each introducing new functionalities and engaging more stakeholders.

The platform has brough significant advantages for private sector stakeholders, especially shippers and consignees, key benefits include enhanced transparency and minimized opportunities for unequal or preferential treatment in the processing of import and export documentation, a significant factor in Morocco's discussions on the system's impact. Additional advantages include: (i) increased efficiency in logistics chains for both economic operators and public and private service providers, (ii) faster cross-border movement of goods for import and export, (iii) fostering an environment that enhances the competitiveness of economic operators, allowing them to operate in tighter, more efficient flows, (iv) reduced uncertainty around lead times and logistics costs, and (v) improved traceability, anticipation, and planning capabilities due to better information flow and communication.



Morocco

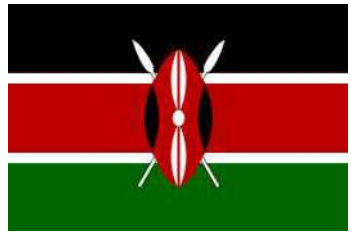
FDI Inflows (2023): 1 billion

Major Sector Attracting FDI (2022): Manufacturing, Real Estate

Experience from Kenya

Multi-Stakeholder Coordination[749]

The Mombasa Port and Northern Corridor Community Charter is a multi-stakeholder coordination mechanism aimed at transforming the Port of Mombasa and the Northern Corridor into a globally competitive trade and transport hub. Launched on 30th June 2014, the Charter provides a permanent framework for collaboration among members, binding them to collective actions, obligations, targets, and timelines. Its creation was driven by the need to move away from a "silo mentality" and establish a platform for discussion, negotiation, and joint planning among stakeholders, with the goal of reducing transport costs and addressing logistics inefficiencies. It comprises of cargo handlers, logistics service providers, shippers, trade associations, regulators, civil society, regional economic communities, and development partners.



Kenya

FDI Inflows (2023): $1.5 billion

Major Sector Attracting FDI (2022): Wholesale and Retail, ICT, and Manufacturing sectors

Recommendations

- **Digitization and Coordination:** Ethiopia can implement a comprehensive digitization and streamlining of border-crossing processes to improve its seaport logistics and competitiveness. By adopting a modern, digital platform similar to Morocco's PortNet, Ethiopia can enhance the efficiency of seaport services and significantly reduce the time required for goods to move across borders. Key to this improvement is facilitating better coordination between customs authorities, transporters, and regulatory bodies. Such coordination will foster transparency and ensure smoother operations throughout the logistics chain. Additionally, providing real-time data and traceability will allow stakeholders to plan more effectively, reduce transit times, and lower overall logistical costs.
- **Coordination Framework:** Ethiopia could benefit from establishing a similar multi-stakeholder coordination framework to enhance trade facilitation and logistics efficiency. This framework should involve key stakeholders such as government agencies, logistics service providers, importers, exporters, regional economic communities, customs authorities, infrastructure developers, and development partners.

9. Economic Complexity

Experience from South Africa

Manufacturing Competitiveness Enhancement Programme (MCEP)

The Manufacturing Competitiveness Enhancement Programme (MCEP) is a support initiative in South Africa that provides production incentives and financial loan facilities to strengthen the manufacturing sector. It was a response to the global economic crisis that had restricted export markets and threatened jobs. Launched by the Department of Trade and Industry (DTI) and the Industrial Development Corporation (IDC), MCEP aims to boost the competitiveness of manufacturing firms and safeguard employment in a sector that is critical to South Africa's economic growth and infrastructure development.[750] [751]



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

MCEP targets key industries including advanced manufacturing, agro-processing, chemicals, green technology, metals and mining, and pharmaceuticals, offering tailored funding to promote sustainability and innovation in these sectors.[752]

One key aspect of the program is the Distressed Business Fund, designed to assist struggling manufacturers by providing financial support for investing in modern machinery and equipment, essential for maintaining competitiveness.[753] Furthermore, MCEP also includes Industrial Financing and Loan Facilities. These facilities consist of two key components: the Pre/Post-dispatch Working Capital Facility and the Industrial Policy Niche Projects Fund. The Pre/Post-dispatch Working Capital Facility offers manufacturers up to R30 million in working capital for up to four years at a preferential fixed interest rate of 6%. On the other hand, the Industrial Policy Niche Projects Fund targets innovative projects identified by the Department of Trade and Industry (DTI) and the Industrial Development Corporation (IDC). These projects, which focus on job creation, diversification of manufacturing output, and boosting exports, may not qualify for traditional commercial or IDC funding but can receive MCEP grants. [754]

Experience from Morocco

Export support programs[755]

Morocco is enhancing its export strategy through two key initiatives led by the Ministry of Industry and Trade: the Go-To-Market program and the Support Program for First-Time Exporters. These programs aim to strengthen the international presence of Moroccan companies and diversify exports. The Support Program for First-Time Exporters provides tailored financial assistance over two years to help local companies establish a solid export foundation, targeting 100 companies over the period 2024-2026.

It supports non-exporting companies or those with limited export experience, offering up to 1.5 million dirhams per company. The Go-To-Market program, developed in partnership with various government bodies, focuses on companies with over 5 million dirhams in annual export turnover, providing up to 2.5 million dirhams in support. This initiative encourages market prospecting, participation in international trade events, and investment in product marketing. The program also includes an Export Task Force, which has identified 100 billion dirhams of untapped export potential, aiming to expand Moroccan exports, including Africa.



Morocco

FDI Inflows (2023): 1 billion

Major Sector Attracting FDI (2022): Manufacturing, Real Estate

Recommendations

- **Manufacturing Competitiveness Program:** Ethiopia should develop a program similar to MCEP to boost its manufacturing sector's competitiveness. This program would offer production incentives and financial support to help manufacturers modernize, invest in advanced technology, and improve efficiency. A dedicated fund for distressed businesses could also provide financial assistance for machinery and equipment upgrades. Additionally, Industrial Financing and Loan Facilities could offer working capital at preferential rates, and support innovative projects focused on job creation, diversification, and exports.
- **Export Support Program:** Ethiopia can boost its export strategy by introducing a comprehensive support program for both first-time and established exporters. For SMEs with export potential, a First-Time Exporters Support Program would offer financial assistance, training, and market access tools to help them build a sustainable export foundation. For established exporters, a "Go-To-Market" Program could provide support for market prospecting, trade fair participation, and product development to access new international markets.

10. Living Conditions

Experience from Morocco

***Teaching at the Right Level (TaRL)*[756]**

Morocco has introduced a remedial education system based on the Teaching at the Right Level (TaRL) method, which focuses on re-teaching essential skills to students grouped by learning level rather than age or grade, allowing for targeted skill development. The program uses interactive and engaging activities to help students catch up on the basics in subjects like mathematics, French, and Arabic. It emphasizes active, experiential learning through interactive activities, games, and exercises that make learning engaging and enjoyable. It also ensures that students fully understand foundational skills before progressing to more advanced concepts, following the idea that strong basics are essential for future learning success.

A baseline test involving 300,000 pupils was conducted in September 2023 revealing that nearly 80% of students failed to master the fundamental skills from the previous academic year, leaving them highly vulnerable to future educational challenges. After eight weeks of the program, a follow-up test showed significant improvements in mathematics, French, and Arabic, with many students catching up on 1 to 2 years of schooling.



Morocco

FDI Inflows (2023): $1 billion

Major Sector Attracting FDI (2022): Manufacturing and Real Estate

Experience from Rwanda

***4×4 Reform*[757]**

In 2023, Rwanda launched the 4×4 Reform, a bold strategy aimed at significantly increasing the country's healthcare workforce over the next four years. The plan aims to meet the WHO recommendation of at least 4 healthcare professionals per 1,000 population by 2028, adding 32,973 healthcare workers across various professions, including general practitioners, dental surgeons, nurses, midwives, and allied health sciences personnel.

To achieve this ambitious goal, the Rwandan government has fostered collaboration among key stakeholders. In November 2023, the Ministry of Health and Ministry of Education signed a Memorandum of Understanding (MoU) with 31 institutions, including universities, teaching hospitals, and professional councils, to pool resources and enhance training efforts. Additionally, five new healthcare training programs were introduced at the University of Rwanda to fast-track the implementation of the reform.

Beyond increasing numbers, the initiative focuses on improving training quality by recruiting local and visiting faculty and upgrading teaching facilities. By enhancing both the quantity and quality of healthcare professionals, Rwanda aims to strengthen its health sector and improve healthcare access nationwide.



Rwanda

FDI Inflows (2023): $523 million

Major Sector Attracting FDI (2023): Financial Sector, Manufacturing, and ICT

Recommendations

- **Remedial Education System:** Ethiopia could benefit from adopting a remedial education system similar to Morocco's TaRL method. By grouping students according to their actual learning levels rather than their age or grade, Ethiopia can target specific skill gaps and offer more focused interventions. The use of interactive and engaging activities such as games, exercises, and hands-on learning can make the process enjoyable, encouraging deeper student engagement. Furthermore, implementing a system that ensures students fully master foundational skills before advancing to more complex subjects would help address learning gaps and improve overall educational outcomes.

- **Healthcare Workforce Expansion:** Ethiopia can adopt a strategy similar to Rwanda's 4×4 Reform to address its healthcare workforce shortages and significantly increase the number of healthcare professionals. This could involve expanding training programs for doctors, nurses, midwives, pharmacists, and allied health workers in collaboration with higher learning institutions and teaching hospitals.

11. Physical Property Rights

Experience from Uganda

Educational Resources[758]

Uganda has made significant efforts to raise awareness about property rights, particularly in relation to land ownership, tenure systems, and legal frameworks. A notable initiative in this regard is the Handbook on Land Ownership, Rights, Interests, and Acquisition in Uganda, produced by the Uganda Consortium on Corporate Accountability. This handbook serves as a key resource that outlines Uganda's land tenure system, providing essential information about the policies and legal frameworks governing the acquisition of land rights and interests. It also explains the requirements for compulsory land acquisition by the government, helping landowners and communities understand their rights.

Experience from Uganda

By focusing on the domestic policy and legal framework, the handbook simplifies complex concepts related to land ownership and provides clear guidance on land-related issues for various stakeholders, including communities, landholders, and policymakers.

The aim of this resource is to reduce instances of land grabbing that arise from a lack of awareness or misunderstanding of land rights. By empowering communities with knowledge, the handbook promotes Free, Prior, and Informed Consent in land-related transactions, ensuring that individuals and communities are fully informed and engaged in decisions affecting their land. This initiative is a crucial step toward increasing transparency and protecting the property rights of vulnerable groups in Uganda



Uganda

FDI Inflows (2023): $2.8 billion

Major Sector Attracting FDI (2022): Mining, Transportation (pipeline), ICT, and Finance

Recommendations

- **Enhancing Transparency and Awareness:** Ethiopia should develop a handbook to raise awareness and enhance transparency in land governance, similar to Uganda's initiative. This handbook would simplify Ethiopia's land tenure system, legal frameworks, and compulsory acquisition policies, ensuring stakeholders and communities clearly understand their rights.

12. Domestic Market Scale

Experience from Morocco

Financial Inclusion

Access to affordable financial products and services—such as transactions, payments, savings, credit, and insurance—is crucial for enabling individuals and businesses to manage financial risks, build wealth, and invest in economic activities. Financial inclusion ensures that these services are accessible and tailored to the needs of all segments of the population, delivered responsibly and sustainably. [759]



Morocco

FDI Inflows (2023): $1 billion

Major Sector Attracting FDI (2022): Manufacturing and Real Estate

Recognizing the importance of financial inclusion, Morocco has implemented extensive measures to expand financial access, with a strong focus on financial education and microfinance. The Moroccan Foundation for Financial Education (FMEF), established by Bank Al-Maghrib in 2013, serves as a cornerstone of the country's financial literacy strategy. The foundation collaborates with public and private stakeholders to promote financial awareness among various demographics, including children, youth, women, rural populations, and entrepreneurs.[760]

One of its major initiatives, the Financial Literacy Program for Entrepreneurs, aims to empower micro-entrepreneurs with essential financial management skills to enhance economic resilience. The program consists of eight modules covering topics such as cash management, credit, budgeting, payments, and insurance, with an e-learning platform facilitating continuous access to educational resources. Since its inception, the program has trained approximately 23,000 entrepreneurs, including 1,393 in 2021 alone, with women comprising 37% of participants. By 2022, the initiative expanded to include 8,692 micro-entrepreneurs, 1,198 artisans, and 3,030 cooperatives. Participants reported improved financial management skills, with post-training assessments showing a 90% satisfaction rate.[761]

Additionally, coordinates FMEF the Global Money Week (GMW), an initiative aimed at promoting financial education among children and youth to encourage sound financial habits from an early age. Activities include visits to financial institutions, interactive school sessions with industry professionals, and workshops on personal finance. The 11th edition in 2022 directly engaged over 651,823 children and youth, with an additional 16,858 adults participating. The program indirectly benefited approximately 3.5 million individuals, with rural participation rates rising to 30%.[762]

Through targeted financial education programs and strategic partnerships, FMEF has directly and indirectly benefited over one million Moroccans, significantly enhancing financial literacy and inclusion. These initiatives have strengthened financial decision-making, promoted entrepreneurship, and facilitated broader participation in the formal financial sector, contributing to Morocco's long-term economic resilience.[763]

Experience from South Africa

Boosting Employment

A well-employed population with reduced unemployment contributes significantly to economic growth by increasing purchasing power, which, in turn, makes the domestic market more attractive for foreign investors. When more people are engaged in productive employment, demand for goods and services rises, fostering a stable economic environment that encourages business expansion and investment. Recognizing the importance of job creation in fostering economic stability and investment appeal, South Africa has implemented several strategic initiatives to address unemployment and enhance workforce participation.

One of the key programs is the Presidential Employment Stimulus Programme (PES), launched in October 2020 as part of South Africa's Economic Reconstruction and Recovery Plan.[764] Designed to counteract the economic downturn caused by COVID-19, the PES has provided over 1.7 million employment and livelihood opportunities across multiple sectors including education, agriculture, and the arts.



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

A major component, the Basic Education Employment Initiative (BEEI), has placed young individuals in schools as assistants, improving educational outcomes while creating jobs. The program has particularly benefited youth, who make up 83% of participants, and women, accounting for 66% of beneficiaries.[765]

Another critical initiative is the Employment Tax Incentive (ETI), introduced in January 2014 to encourage businesses to hire young job seekers by reducing their labor costs. The incentive allows employers to lower their Pay-As-You-Earn (PAYE) tax payments for each qualifying employee aged 18 to 29, applicable for a 24-month period. Research suggests that the ETI has had a modest but statistically significant impact on employment growth, particularly for small businesses. Between 2014 and 2016, approximately 35,333 jobs were preserved due to the ETI, with small firms benefiting the most.[766]

Together, these initiatives reflect South Africa's commitment to reducing unemployment and enhancing labor market participation, thereby strengthening its domestic market and positioning the country as a more attractive destination for foreign investment.

Recommendations

- **Expanding Financial Inclusion:** Ethiopia can enhance its domestic market by strengthening financial literacy programs and digital financial services, following Morocco's model. Establishing a Financial Literacy Foundation and expanding microfinance access would improve financial decision-making, boost entrepreneurship, and integrate more individuals into the formal economy, making the market more attractive to investors.
- **Boosting Employment for Market Growth:** Job creation is essential for increasing consumer demand and attracting investment. Ethiopia can adopt South Africa's Employment Stimulus Program and wage incentives to encourage youth employment in key sectors. Implementing tax benefits for businesses hiring young workers and expanding public works programs would enhance labor participation, strengthening Ethiopia's economic stability and investment appeal.

13. Sustainable Development

Experience from South Africa

Green Finance and Corporate Sustainability

In 2022, South Africa's National Treasury introduced the Green Finance Taxonomy, a framework that delineates environmentally sustainable economic activities.[767] This taxonomy aligns the nation's financial practices with global green finance standards, facilitating the identification and promotion of climate-friendly investments. It also supports the country's Just Energy Transition Investment Plan (JET-IP), which aims to transition from coal dependency while safeguarding affected workers and communities. [768]

The Johannesburg Stock Exchange (JSE) has played a pivotal role by offering green, social, and sustainability bonds, directing capital towards projects in renewable energy, water conservation, and low-carbon infrastructure.[769] For instance, the Development Bank of Southern Africa (DBSA) has established a Climate Finance Facility that combines public and private funds to support sustainable infrastructure projects.[770]

South Africa has been a pioneer in mandating integrated reporting for listed companies, requiring them to disclose environmental, social, and governance (ESG) impacts. This initiative was driven by the King Code of Governance Principles for South Africa 2009 (King III), which became effective for financial years commencing on or after March 1, 2010.



South Africa

FDI Inflows (2023): $5.2 billion

Major Sector Attracting FDI (2023): Manufacturing, Mining, and Financial Services

King III recommended that organizations adopt integrated reporting on an 'apply or explain' basis, leading the Johannesburg Stock Exchange (JSE) to incorporate this requirement into its listing standards. Consequently, JSE-listed companies are obligated to produce integrated reports that encompass both financial performances.

These concerted efforts in green finance and corporate sustainability underscore South Africa's dedication to sustainable development. While challenges such as coal reliance and financial constraints persist, the nation's proactive policies and corporate initiatives lay a strong foundation for continued progress in environmental stewardship and economic resilience.

Experience from Morocco

Renewable Energy Initiatives and Water Resource Management

Renewable Energy Initiatives: A cornerstone of Morocco's sustainable development strategy is its ambitious plan to increase the share of renewables in its energy mix to 52% by 2030. This commitment is exemplified by the Noor Ouarzazate Solar Complex, one of the world's largest concentrated solar powers (CSP) plants. With a total installed capacity of 580 megawatts (MW), the complex supplies clean energy to approximately one million Moroccan households. Beyond meeting domestic energy needs, Morocco's strategic investments position the country as a potential exporter of renewable energy to Europe, leveraging its geographical proximity and robust infrastructure.[771]



Morocco

FDI Inflows (2023): $1 billion

Major Sector Attracting FDI (2022): Manufacturing and Real Estate

Water Resource Management: Addressing the pressing issue of water scarcity, Morocco has implemented innovative solutions such as renewable-powered desalination. In Agadir, a desalination plant operated by the Spanish firm Coxabengoa produces 275,000 cubic meters of water daily, with 150,000 cubic meters designated for drinking water, sufficient to meet the basic needs of one million people. The remaining water supports irrigation, bolstering local agriculture. This facility is uniquely powered entirely by renewable energy sources, including solar and wind, exemplifying how integrating green energy with desalination technology can effectively address water stress challenges.[772]

These initiatives underscore Morocco's proactive approach to sustainable development, focusing on harnessing renewable energy and innovative technologies to meet environmental and societal needs.

Recommendations

- **Strengthening Green Finance for Sustainable Development:** Ethiopia can enhance its financial system by adopting a Green Finance Taxonomy, similar to South Africa, to classify and promote sustainable investments. Establishing a framework for green, social, and sustainability bonds would help attract capital for renewable energy and climate-resilient infrastructure. Additionally, integrating Environmental, Social, and Governance (ESG) reporting into financial regulations would improve corporate transparency, making Ethiopia a more attractive destination for responsible investment.
- **Diversifying Renewable Energy and Water Management:** While Ethiopia has made significant progress in clean energy through the Grand Ethiopian Renaissance Dam (GERD) and other hydroelectric projects, expanding solar and wind energy could enhance energy security and climate resilience. Drawing from Morocco's example, Ethiopia can integrate innovative water desalination technologies powered by renewables to support industries and agriculture in water-scarce regions. These efforts would strengthen Ethiopia's green economy while ensuring long-term sustainability in energy and resource management.

14. Intellectual Property Rights

Experience from Rwanda

Intellectual Property Framework Strengthening

Rwanda has made significant progress in strengthening its intellectual property (IP) framework through a combination of legislative reforms and participation in international treaties. These efforts aim to enhance the efficiency of IP registration, provide stronger legal protections, and align the country's IP policies with global standards to foster innovation and economic development.



Rwanda

FDI Inflows (2023): $523 million

Major Sector Attracting FDI (2023): Financial Sector, Manufacturing, and ICT

The most recent and significant legislative reform was the enactment of Law No. 055/2024 on the Protection of Intellectual Property, which came into effect on July 31, 2024. This law introduced comprehensive updates to Rwanda's IP framework, including streamlined registration procedures and expanded protections across various IP categories.[773] One of its key features is the pre-grant opposition process, which allows third parties to challenge patents and industrial property applications before

rights are granted, thereby enhancing the robustness of the examination process.[774] Prior to this, Rwanda had taken steps to clarify IP registration procedures through the 2020 Guidelines for Intellectual Property Registration, published by the Rwanda Development Board's Intellectual Property Division. These guidelines aimed to improve procedural transparency but did not introduce any legislative changes.[775]

In addition to domestic legal reforms, Rwanda has reinforced its IP environment by actively engaging in key international agreements. The country is a member of the World Intellectual Property Organization (WIPO), ensuring its participation in global discussions on IP governance. Rwanda also joined the Patent Cooperation Treaty (PCT) on May 31, 2011, allowing Rwandan inventors to apply for patent protection in multiple countries through a single application.[776] Additionally, Rwanda is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, securing legal protections for authors and their creative works.[777]

These legislative improvements and international commitments highlight Rwanda's dedication to fostering a robust and globally integrated IP system. By modernizing its legal framework and adopting international best practices, Rwanda is creating an environment conducive to innovation, investment, and sustainable economic growth

Experience from Morocco

Legislative Reforms, International Cooperation, and Institutional Development

Morocco has taken significant steps to enhance its intellectual property (IP) rights environment through legislative reforms, international cooperation, and institutional development. These efforts aim to strengthen legal protections, streamline IP registration, and promote innovation, positioning Morocco as a leader in IP governance within Africa and the Arab world.



Morocco

FDI Inflows (2023): $1 billion

Major Sector Attracting FDI (2022): Manufacturing and Real Estate

Legislative Reforms: A major milestone in Morocco's IP framework was the enactment of Law No. 23-13 in 2014, which amended industrial property legislation to introduce substantive examination procedures for patents, trademarks, and industrial designs. This reform also facilitated the validation of European patent applications within Morocco, fostering stronger integration with international IP systems.

Additionally, the law bolstered enforcement mechanisms to combat counterfeiting and piracy, reinforcing Morocco's commitment to safeguarding intellectual.[778]

International Cooperation: Morocco actively participates in international IP agreements administered by the World Intellectual Property Organization (WIPO). The country hosted the diplomatic conference that led to the adoption of the Marrakesh Treaty in 2013, which facilitates access to published works for individuals who are blind or visually impaired.[779]

More recently, in 2024, Morocco signed the WIPO Treaty on Intellectual Property, Genetic Resources, and Associated Traditional Knowledge, emphasizing its commitment to protecting genetic resources and traditional knowledge.[780]

Institutional Development: To further strengthen its IP ecosystem, the Moroccan Industrial and Commercial Property Office (OMPIC) launched a comprehensive strategy for 2022-2026 aimed at fostering entrepreneurship, innovation, and creativity. This initiative includes measures to streamline IP registration processes and raise public awareness about the importance of intellectual property.[781]

These combined efforts have had a tangible impact on Morocco's innovation landscape. The country granted 644 invention patents in 2023, reflecting an increasing culture of innovation and improved IP protections.[782] Additionally, Morocco's proactive stance on IP rights has been recognized in international assessments, further reinforcing its reputation as a country with a robust and well-structured IP framework.

Recommendations

- **Enhance Enforcement and Procedural Efficiency:** Ethiopia should streamline IP registration processes and strengthen enforcement mechanisms to combat counterfeiting and piracy, following Morocco's approach. Introducing a pre-grant opposition system for patents, as seen in Rwanda, would improve the robustness of the examination process.
- **Expand International Cooperation:** Ethiopia should join key international treaties like the Patent Cooperation Treaty (PCT) to facilitate global patent applications and strengthen IP protections. Establishing a dedicated IP agency to oversee policy implementation and public awareness campaigns would further enhance IP governance.

15. ICT Infrastructure

Experience from Rwanda

Infrastructure Investments and Strategic Partnerships

Investments in Digital Connectivity: Rwanda has made remarkable strides in strengthening its digital infrastructure, positioning itself as a regional leader in digital innovation. These efforts have significantly expanded broadband access, enhanced digital services, and contributed to economic growth. One of the key milestones in this journey was the completion of the National Fiber-Optic Backbone in 2011, which spans thousands of kilometers and connects all 30 districts along with numerous institutions nationwide. This extensive network has served as the foundation for broadband accessibility, facilitating digital services, e-government initiatives, and business digitization across the country.[783]



Rwanda

FDI Inflows (2023): $523 million

Major Sector Attracting FDI (2023): Financial Sector, Manufacturing, and ICT

Building on this foundation, Rwanda has also prioritized 4G LTE network expansion through a public-private partnership with Korea Telecom, achieving over 96% national coverage as of 2020. This expansion has played a crucial role in reducing the urban-rural digital divide, ensuring that a vast majority of the population has access to high-speed wireless internet. By improving connectivity nationwide, this initiative has supported digital inclusion, enhanced access to online education, and fostered innovation in business and public services.784

Further strengthening Rwanda's digital ecosystem, the government launched the Rwanda Digital Acceleration Project (RDAP) with support from the World Bank and the Asian Infrastructure Investment Bank. This project focuses on expanding broadband accessibility, improving digital public services, and fostering digital innovation, particularly in underserved areas. In 2021, RDAP received an additional $200 million investment from international partners, further accelerating efforts to bridge digital literacy gaps and integrate digital solutions into key sectors of the economy.[785]

Through these strategic investments in digital infrastructure and policy formulation, Rwanda has established itself as a leader in connectivity and technological advancement.

Experience from Kenya

Infrastructure Investments and Strategic Partnerships

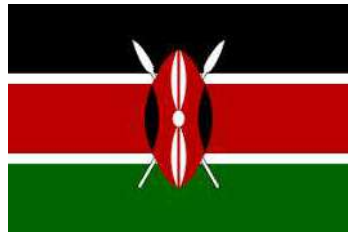
Infrastructure Investments and Strategic Partnerships

Kenya has made significant advancements in enhancing its Information and Communication Technology (ICT) infrastructure, particularly through the expansion of broadband and fiber optic networks, as well as strategic policies and initiatives that have facilitated the growth of mobile and internet penetration.

One of the most transformative milestones in Kenya's ICT landscape has been the expansion of broadband and fiber optic networks. A key development was the deployment of undersea fiber optic cables, particularly the East African Marine Systems (TEAMS). TEAMS, launched in 2009, is a 5,000-kilometer submarine cable connecting Mombasa, Kenya, to Fujairah in the United Arab Emirates. This initiative, primarily owned by Kenyan entities (85%) and Etisalat of the UAE (15%), was Kenya's first direct link to international broadband infrastructure.[786] These undersea cables were further complemented by the National Optic Fibre Backbone

Infrastructure (NOFBI), an initiative designed to extend fiber connectivity to all 47 counties in Kenya.[787]

In addition to infrastructure expansion, Kenya has also implemented comprehensive ICT policies and regulatory reforms to support its digital transformation agenda. The National ICT Infrastructure Master Plan (2019-2029) outlines a strategic framework for leveraging ICT as a driver of growth across various sectors of Kenya's economy.[788]This plan focuses on improving broadband penetration, modernizing digital services, and fostering innovation. Furthermore, the Digital Economy Blueprint, launched in 2019, aims to strengthen digital skills, infrastructure, and innovation to enhance the digital economy's contribution to GDP. By promoting a conducive environment for technological advancements, these policies have played a crucial role in positioning Kenya as a leader in ICT adoption and digital transformation.[789]



Kenya

FDI Inflows (2023): $1.5 billion

Major Sector Attracting FDI (2022): Wholesale and Retail, ICT, and Manufacturing sectors

King III recommended that organizations adopt integrated reporting on an 'apply or explain' basis, leading the Johannesburg Stock Exchange (JSE) to incorporate this requirement into its listing standards. Consequently, JSE-listed companies are obligated to produce integrated reports that encompass both financial performances.

These concerted efforts in green finance and corporate sustainability underscore South Africa's dedication to sustainable development. While challenges such as coal reliance and financial constraints persist, the nation's proactive policies and corporate initiatives lay a strong foundation for continued progress in environmental stewardship and economic resilience.

Experience from Morocco

Renewable Energy Initiatives and Water Resource Management

Renewable Energy Initiatives: A cornerstone of Morocco's sustainable development strategy is its ambitious plan to increase the share of renewables in its energy mix to 52% by 2030. This commitment is exemplified by the Noor Ouarzazate Solar Complex, one of the world's largest concentrated solar powers (CSP) plants. With a total installed capacity of 580 megawatts (MW), the complex supplies clean energy to approximately one million Moroccan households. Beyond meeting domestic energy needs, Morocco's strategic investments position the country as a potential exporter of renewable energy to Europe, leveraging its geographical proximity and robust infrastructure.[771]



Morocco

FDI Inflows (2023): $1 billion

Major Sector Attracting FDI (2022): Manufacturing and Real Estate

Water Resource Management: Addressing the pressing issue of water scarcity, Morocco has implemented innovative solutions such as renewable-powered desalination. In Agadir, a desalination plant operated by the Spanish firm Coxabengoa produces 275,000 cubic meters of water daily, with 150,000 cubic meters designated for drinking water, sufficient to meet the basic needs of one million people. The remaining water supports irrigation, bolstering local agriculture. This facility is uniquely powered entirely by renewable energy sources, including solar and wind, exemplifying how integrating green energy with desalination technology can effectively address water stress challenges.[772]

These initiatives underscore Morocco's proactive approach to sustainable development, focusing on harnessing renewable energy and innovative technologies to meet environmental and societal needs.

Recommendations

- **Strengthening Green Finance for Sustainable Development:** Ethiopia can enhance its financial system by adopting a Green Finance Taxonomy, similar to South Africa, to classify and promote sustainable investments. Establishing a framework for green, social, and sustainability bonds would help attract capital for renewable energy and climate-resilient infrastructure. Additionally, integrating Environmental, Social, and Governance (ESG) reporting into financial regulations would improve corporate transparency, making Ethiopia a more attractive destination for responsible investment.
- **Diversifying Renewable Energy and Water Management:** While Ethiopia has made significant progress in clean energy through the Grand Ethiopian Renaissance Dam (GERD) and other hydroelectric projects, expanding solar and wind energy could enhance energy security and climate resilience. Drawing from Morocco's example, Ethiopia can integrate innovative water desalination technologies powered by renewables to support industries and agriculture in water-scarce regions. These efforts would strengthen Ethiopia's green economy while ensuring long-term sustainability in energy and resource management.

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