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ETHIOPIA INVESTMENT PROMOTION STRATEGY REPOSITIONING

Diagnostics & Sectoral Prioritization Analysis Summary - 2025

Ethiopia Investment Promotion Strategy Repositioning

Diagnostics & Sectoral Prioritization Analysis Summary - 2025

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Abbreviations & Acronyms

AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AAGR	Average Annual Growth Rate
CSR	Corporate Social Responsibility
DTF	Distance to Frontier
EIC	Ethiopian Investment Commission
EIH	Ethiopian Investment Holdings
ETB	Ethiopian Birr
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam / Gross Expenditure on Research and Development (context-dependent)
HGER	Homegrown Economic Reform
ICT	Information & Communication Technology
ILO	International Labour Organization
IMF	International Monetary Fund
IP	Intellectual Property
MoPD	Ministry of Planning and Development
NBE	National Bank of Ethiopia
NQI	NaNational Quality Infrastructuretional Bank of Ethiopia
PPP	Public-Private Partnership
R&D	Research and Development
SDGs	Sustainable Development Goals
SOE	State-Owned Enterprise
STEM	Science, Technology, Engineering, and Mathematics
TYDP	Ten-Year Development Plan
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USD	United States Dollar
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

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Executive Summary

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Executive Summary

Ethiopia has established itself as a premier investment destination in Africa, attracting **$33.3 billion** in Foreign Direct Investment (FDI) over the past decade and sustaining an average annual real GDP growth rate **7.6%** (2014/15–2023/24). This economic transformation has been driven by ambitious policy reforms, sector liberalization, and a progressively investor-friendly regulatory framework. However, global and domestic challenges —including the COVID-19 pandemic, internal conflicts, and climate shocks— have highlighted the need for a more adaptive and resilient investment promotion strategy.

Over the past six years, Ethiopia has made significant strides in improving its business climate through major regulatory reforms. The introduction of the **2020 Investment Proclamation** streamlined investment regulations, ease-of-doing-business initiatives reduced bureaucratic bottlenecks, and the expansion of digital government services enhanced operational efficiency. These reforms contributed to a peak in FDI inflows of **$4.0 billion** in 2020/21, before stabilizing at **$3.9 billion** in 2023/24. However, despite this progress, Ethiopia's FDI inflows remain below the Ten-Year Development Plan target of **$7.38 billion** for EFY 2023/24, underscoring the need for a more targeted investment approach.

To strengthen its investment promotion strategy, unlock the full potential of an open and competitive economic landscape, and achieve priority FDI targets, the Ethiopian Investment Commission (EIC), with support from the Bill & Melinda Gates Foundation, has launched a strategic initiative to reposition Ethiopia's investment promotion framework. This initiative encompasses a comprehensive competitiveness analysis, identification of priority sectors, and the development of a targeted investment promotion and branding strategy that aligns with Ethiopia's evolving economic structure and global investment dynamics.

Rationale for Repositioning Ethiopia's Investment Promotion Strategy

Despite Ethiopia's robust economic expansion, with GDP reaching **$210 billion** in 2023/24, the country continues to face structural investment barriers, including bureaucratic inefficiencies, infrastructure constraints, and persistent foreign exchange shortages. Recognizing these challenges, Ethiopia is shifting from a broad-based investment attraction model to a more strategic, **sector-focused approach**. The repositioned strategy aims to prioritize high-impact sectors where Ethiopia holds a competitive advantage, transition from passive to **proactive** investor engagement through digital tools and targeted outreach, and replace the traditional one-size-fits-all model with an adaptive, data-driven approach that aligns with evolving global investment trends.

Sectoral Competitiveness & Prioritization

A structured sectoral competitiveness analysis, leveraging Porter's Diamond Framework, has identified key sectors that offer the highest potential for investment. Manufacturing—particularly in textiles and garments, leather, and pharmaceuticals—remains a strategic priority due to Ethiopia's cost-competitive labor market, expanding industrial parks, and policy-driven incentives. The agro-industry sector presents significant opportunities for value-added processing, supported by Ethiopia's rich agricultural resources and the development of integrated agro-industrial parks. The ICT and digital economy is poised for substantial growth, driven by Ethiopia's telecom liberalization and the Digital Ethiopia 2025 strategy, which create a favorable environment for fintech, e-commerce, and data services investments. The mining sector, benefiting from untapped mineral reserves and recent regulatory reforms, is another area positioned for accelerated growth. Additionally, Ethiopia's renewable energy potential in hydro, solar, and wind offers a compelling investment case, in line with global sustainability and green energy initiatives.

Path Forward: Enhancing Ethiopia's Investment Competitiveness

Ethiopia's repositioned investment promotion strategy must prioritize high-potential sectors while employing a balanced approach that integrates both **targeted and broad-based** investment promotion mechanisms. At the same time, continued reforms are essential to enhance sectoral competitiveness through targeted policy support and incentives, improve the overall business climate by addressing regulatory inefficiencies and infrastructure constraints, and leverage digital tools to facilitate proactive investor engagement, expand outreach, and streamline investment processes. However, sustaining growth and attracting high-quality investment will require Ethiopia to **tackle persistent structural challenges,** including foreign exchange shortages, logistical and infrastructure bottlenecks, and regulatory inefficiencies. Strengthening investor confidence, fostering innovation, and implementing sector-specific reforms will be critical in positioning Ethiopia as a premier investment hub in Africa.

The Ethiopian Investment Commission (EIC) will play a central role in advancing this agenda, working in close collaboration with government agencies, private sector stakeholders, and international partners to drive sustainable, high-quality investment inflows that align with Ethiopia's long-term economic vision.



Introduction

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1 Introduction

Over the past decade, Ethiopia has emerged as a leading investment destination in Africa, attracting **$33.3 billion** in Foreign Direct Investment (FDI) and maintaining an average real GDP growth rate of **7.6%** between 2014/15 and 2023/24. [1] These inflows have played a crucial role in economic transformation, creating jobs, creating more than **121,304** jobs between 2019 and 2023.[2] This progress has been driven by ambitious policy reforms, sector-specific initiatives, and an investment-friendly regulatory environment.

Ethiopia's national development plans and structural reforms, particularly the Ten-Year Development Plan (TYDP) and the Homegrown Economic Reform (HGER), have positioned investment attraction and greater private sector role in the economy as the single a strategic priority. These reforms have expanded opportunities for both domestic and foreign investors, with recent sectoral liberalization including telecom, banking, and finance, alongside previous priority industries for investment such as textiles, agro-processing, and pharmaceuticals. [3] [4] However, despite the scale of reform and opening of the economy, challenges such as COVID-19, internal conflicts, global economic shifts, and recurrent climate shocks have introduced volatility, underscoring the need for a more adaptive investment promotion strategy to attract more FDI into the Ethiopian economy. [5] Furthermore, as part of the 10 years plan, EIC aimed to increase the FDI inflow from $3.56 billion in 2019/20 to **$7.38 billion** in the 2023/24 fiscal year[6], a little more than half of this target was achieved in the recently ended fiscal year (3.9 billion).[7] This highlights the need for accelerated efforts to reach the target of **$13.02 billion** by the 2029/30 fiscal year.[8] [9]

Thus, to sustain and enhance FDI inflows, the Ethiopian Investment Commission (EIC), with support from the Bill and Melinda Gates Foundation, has launched an initiative to assess Ethiopia's investment climate and the enabling macro-economic condition, identify new priority sectors, and reposition Ethiopia's investment promotion strategy and develop a targeted promotion and branding strategy. This analysis aims at establishing the foundational analysis to objectively select priority sectors for investment promotion and aims to align Ethiopia's investment promotion strategy with its evolving economic structure, intensifying global competition, and the integration of Environmental, Social, and Governance (ESG) principles. This report identifies key sectoral and sub sectoral priorities and specific recommendations to refine Ethiopia's investment promotion strategy and approach and reinforce its position as a competitive and resilient investment hub, attracting high-quality investment that will drive sustainable economic growth.

1.1 Rationale For Repositioning Ethiopia's Investment Promotion Strategy

Ethiopia has sustained strong economic growth over the past two decades, with its GDP reaching **$210 billion** in 2023/24—one of the largest in Africa.[10] This growth has been driven by large-scale public investments in infrastructure, human capital development, and progressive economic reforms, particularly under the HGER series and TYDP.[11] Additionally, targeted business environment reforms, including revisions to the Commercial Code and the Investment Proclamation, have aimed to open key sectors, create a more conducive investment framework, and foster private sector-led growth. These efforts have enhanced Ethiopia's attractiveness to investors.[12] However, despite the expansion of investment opportunities, critical shocks—particularly conflicts in some parts of the country—may have affected Ethiopia's perception as an ideal investment destination.

Therefore, repositioning Ethiopia's investment promotion strategy entails a strategic shift in **focus, approach, and execution** to better align with new economic realities, investor expectations, and global investment trends. Unlike past efforts that largely emphasized broad-based investment attraction, repositioning demands a more targeted, dynamic, and competitive approach that reflects the evolving economic structure, post-shock recovery, and shifting investor priorities.

This strategic repositioning marks a departure from past policies in several keyways:

- **From General Investment Attraction to Sector-Specific Promotion** – Earlier strategies sought to attract investment across all sectors, expanding the list as sectoral liberalization progressed. In contrast, repositioning focuses on high-potential, high-impact sectors where Ethiopia holds tangible competitive advantages.
- **From Passive to Proactive Investor Engagement** – Unlike in the past, when Ethiopia primarily relied on traditional FDI channels, the new approach will target to a transition towards digital investment promotion, targeted outreach, and a stronger global presence.
- **From a One-Size-Fits-All Approach to a Competitive, Adaptive Strategy** – Previous investment promotion efforts were less responsive to global shifts. The new strategy will embrace flexibility, resilience, and data-driven decision-making, ensuring Ethiopia remains competitive amid growing global FDI competition.

By repositioning its investment promotion strategy, EIC, as the lead government agency for investment attraction, aims to strengthen resilience, enhance investor confidence, and attract high-quality, sustainable investments, solidifying Ethiopia's position as a leading investment hub in Africa.



Historical Investment Promotion & FDI Performance

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2 Historical Investment Promotion & FDI Performance

Over the past decade, Ethiopia has made significant progress in reforming its business environment and fostering investment. In the last six years, the country has undertaken bold reforms to enhance its business climate, modernize regulations, and create a more favorable investment ecosystem.[13] Led by the EIC and supported by high-level government leadership, these reforms were launched under the **Ease of Doing Business (EDB)** initiative in 2020, targeting over **100** legal, operational, and institutional barriers. More than **85** legal instruments were revised, including the long-overdue modernization of the Commercial Code and the introduction of the **Capital Market Proclamation,** which established the legal foundation for Ethiopia's securities market. The government also implemented key operational improvements, such as the E-Transaction Proclamation and streamlined commercial registration and licensing processes. The introduction of **e-government services**—including online trade registration, electronic tax systems, and e-permitting for construction has significantly reduced bureaucratic inefficiencies.[14] [15]

A robust governance structure has supported these reforms, with a Steering Committee chaired by the Prime Minister ensuring high-level oversight, while the EIC has coordinated efforts 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. [16] [17] In parallel, transformative changes in the investment climate have included the enactment of a new Investment Law in 2020 and consecutive liberalization measures that opened previously restricted sectors such as telecommunications, media, and retain and wholesale trading—to foreign investment, alongside major reforms in the financial and logistics sectors. [18]

Key fiscal and regulatory instruments have further streamlined the investment process. The Investment Incentive Regulation No. 517/2022—amended in 2025 to enhance employment-related tax incentives and attract investment—has played a crucial role in strengthening investor confidence.[19] [20] Additionally, the **Public-Private Partnership (PPP) Proclamations** (No. 1076/2018, amended by No. 1283/2023) have provided a clearer framework for private sector participation in infrastructure projects.[21] [22] The Ministry of Finance's Directive No. 941/2023 has introduced scaled tax exemptions for businesses expanding or upgrading, reinforcing incentives for modernization. [23]

Complementing these regulatory changes are flagship initiatives such as the **Special Economic Zone (SEZ) Law**, which consolidates various zone schemes into a unified framework with comprehensive fiscal incentives.[24] Additionally, significant

has been made in developing Ethiopia's capital market, culminating in the launch of the Ethiopian Securities Exchange in January 2025.[25]

These reforms have collectively fostered a more efficient, investor-friendly environment, supporting sustainable economic growth and positioning Ethiopia as an increasingly attractive destination for both domestic and foreign investment. As part of its Ten-Year Plan, Ethiopia has set an ambitious reform agenda aimed at enhancing its investment climate, with the goal of improving its Distance to Frontier (DTF) score—from 48, with a global ranking of 159th in the 2019/20 fiscal year, to a projected score of 68 and a ranking of 80th by 2029/30.[26] Although the Ease of Doing Business ranking system has since been discontinued, the comprehensive reforms implemented over the past six years—including streamlined regulatory processes,[27] and enhanced investor protections[28]—demonstrate that Ethiopia is on a strong trajectory toward achieving these targets.

2.1 Investment Promotion Strategy

The EIC designed and implemented an Investment Promotion Strategy aimed at enhancing the country's attractiveness to investors by identifying and capitalizing on key sectors with high investment potential. As part of this strategy, the EIC established a one-stop-shop service to streamline licensing and registration processes for foreign investors, while also expanding its institutional support by creating three specialized divisions—Investment Operations, Industrial Park Regulation, and Policy Research and Improvement.[29] These efforts were aligned with the TYDP that seeks to foster economic growth, create jobs, and increase export income through the attraction of high-quality investment, building on previous successes and transforming past challenges into new opportunities.[30]

The strategy, developed in 2020 to meet the objectives of the Ten-Year Development Plan, focused on attracting investment into a select group of nine priority sectors, organized into two tiers. The first tier includes textiles and garments, leather and leather products, agro-processing, and pharmaceuticals—sectors that have historically driven growth—while the second tier comprises tourism, ICT, energy, agriculture, and mining, identified for their long-term strategic potential.[31] [32] Implementation of the strategy was designed around five key programs: an outreach program to promote priority sectors; a facilitation program providing essential information and assistance to prospective investors; an aftercare program to support both new and existing investments; an advocacy program to address investor concerns; and a country branding program to develop and maintain Ethiopia's investment image.[33]

To further enhance its execution capacity, the EIC also sought to build and strengthen strategic partnerships. These partnerships include establishing formal

promotional platforms with the **Industrial Parks Development Corporation and private industrial parks**, consolidating international promotion efforts through ties with Ethiopian consular and diplomatic offices, and setting up investor support focal points with federal and regional entities. In addition, a public–private dialogue forum was intended to provide effective aftercare services and facilitate investor advocacy.[34] The positive impact of these reforms is reflected in FDI trends between 2020 and 2023, with FDI rising from **$2.40 billion** in 2019/20 to a peak of **$4.0 billion** in 2020/21—before experiencing a subsequent slight decline. Despite these fluctuations, an overall Average Annual Growth Rate (AAGR) of **17.4%** was recorded between 2019/20 & 2022/23,[35] although Ethiopia's growth rate still lagged behind regional peers such as Rwanda, & Uganda, which recorded respective AAGRs of 28%, 92%, and 38%.

Promotional Approaches and Investor Support Services

Aligned with its overall strategy, the EIC implemented a targeted promotional approach centered on three key components: hosting international events, organizing local events, and providing comprehensive facilitation and aftercare services.[36] In 2023 alone, a range of high-profile events—such as the Debre Berhan International Investment, Trade & Finance Expo; the Diaspora Investment Forum; and Invest Ethiopia 2023—provided platforms for potential investors to explore Ethiopia's opportunities and for local enterprises to engage in business matchmaking.[37] [38] Additionally, Ethiopia's participation in international platforms like Dubai Expo and the Beijing Ethiopia Business Cooperation and Promotion Conference in June further reinforced its global investment profile by facilitating high-level discussions and securing cooperative agreements. [39] [40]

Facilitation and aftercare services have been equally critical in ensuring that investment projects are not only licensed but also transition successfully through various stages of development. The EIC's one-stop-shop centers have improved administrative efficiency by handling licensing, work permits, and registration services. Between 2020/21 and 2022/23, **421** projects advanced from pre-implementation to implementation—305 outside industrial parks and **116** within them—while an additional **417** projects moved from implementation to production or service provision. Furthermore, tailored aftercare services have been introduced, categorizing projects into platinum, gold, and silver tiers to provide continuous support for expansion and reinvestment. Despite these successes, challenges such as resource constraints, foreign currency shortages, infrastructure gaps, and inefficient IT usage have highlighted areas where further improvements are necessary. The need for a repositioned, adaptive strategy that enhances both facilitation and aftercare service, leverages technology, and improves overall service delivery is therefore critical

for sustaining high-quality, long-term investment in Ethiopia. [41]

Foreign Direct Investment (FDI) and Gender in Ethiopia

FDI's impact on gender is complex—while it fosters economic empowerment, it can also reinforce existing disparities if gender considerations are overlooked. Historically, Ethiopia's investment promotion strategies have lacked gender-specific metrics, tracking mechanisms, and targeted policies, limiting their effectiveness in addressing gender disparities. To maximize FDI's positive impact on women's economic participation, future strategies must incorporate gender-inclusive frameworks.

The impact of FDI on gender equality is evident in employment creation, entrepreneurship, and social conditions. In the garment industry, FDI has increased women's workforce participation but has also perpetuated wage disparities and poor working conditions.[42] The pharmaceutical sector offers opportunities for high-paying jobs for women, yet they remain underrepresented in clinical research and leadership roles. In agro-industry, FDI has empowered women farmers by enhancing market access. [43]

A gender-responsive investment strategy should incentivize FDI in sectors where women's representation is low while fostering leadership opportunities in industries with high female employment. Gender impact assessments should be mandatory for large FDI projects, and investors should incorporate **corporate social responsibility (CSR)** initiatives focused on gender inclusion. By embedding gender considerations into investment promotion strategies, Ethiopia can ensure that FDI contributes not only to economic growth but also to a more inclusive and equitable future.



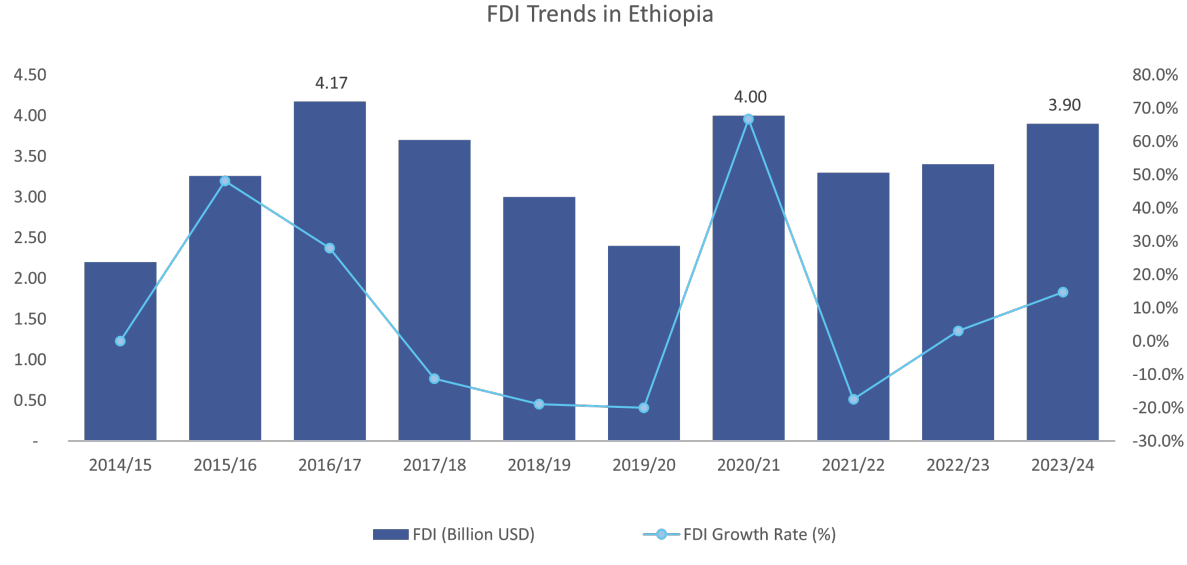
2.2 Recent Trends In Foreign Direct Investment (FDI) In Ethiopia

Over the past decade, Ethiopia's FDI inflows have grown substantially, albeit with fluctuations. In 2014/15, Ethiopia attracted approximately **$2.2 billion** in FDI, but inflows surged to over **$4 billion** by 2016/17, briefly positioning Ethiopia among Africa's top FDI destinations.[44] These inflows moderated after 2017, declining to around **$2.4 billion** in 2019/20 amid political unrest and the COVID-19 pandemic, and were further constrained by a two-year internal conflict beginning in late 2020. Nevertheless, FDI rebounded to **$4.0 billion** in 2020/21, driven by major transactions such as the telecom license sale, before stabilizing at approximately **$3.9 billion** in 2023/24. [45]

Ethiopia has been a dominant FDI recipient in East Africa, consistently ranking as the region's top destination. It has frequently attracted more FDI than the combined inflows of some neighboring economies. In 2021/22, Ethiopia received **$3.3 billion** in FDI—accounting for nearly half of all FDI into East Africa.[46] This far exceeded inflows to Uganda ($2.9 billion) and Tanzania ($1.3 billion) in the same year. Even Kenya, often ranked as the more open and liberalized economy, secured only $1.5 billion in 2023, underscoring Ethiopia's continued appeal to investors despite its challenges.[47] While this represents a significantly higher baseline, inflows remain below Ethiopia's potential given the size of its economy.

Figure 2.1

FDI Inflows in Ethiopia 2014/15-2023/24 (NBE 2022/23 and MOPD 2024)



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.

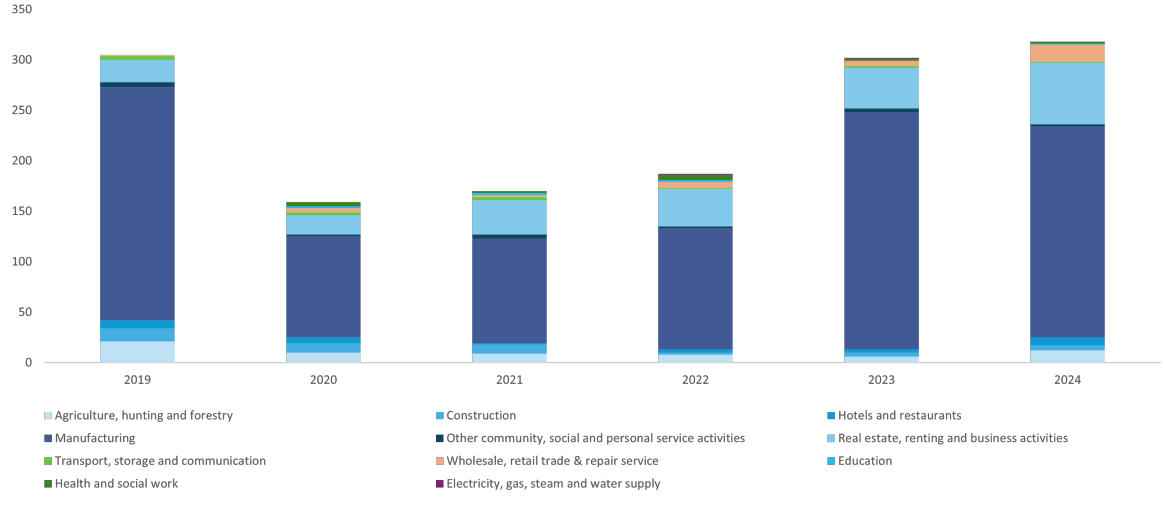
Data on FDI project between 2019 and 2024 reflects similar volatility, with a pronounced concentration in manufacturing, which accounts for nearly 70% of total projects. After peaking at 305 projects in 2019, overall project approvals declined to 159 in 2020 due to the pandemic's impact but gradually recovered, reaching 202 in 2023 and surging to 318 in 2024. Throughout this period, manufacturing consistently dominated, increasing from 260 projects in 2019 to an unprecedented 999 in 2024. Meanwhile, real estate, renting, and business activities, which constitute 14.1% of total projects, saw a comparable surge in 2024, indicating expanding investor interest beyond traditional manufacturing. Agriculture, although accounting for only 4.56% of total projects, experienced a notable rise from 12 projects in 2023 to 66 in 2024, suggesting a renewed focus on agribusiness opportunities. Other sectors, such as construction and hotels/ restaurants, demonstrated smaller but steady gains.[48]

An analysis of licensed investments by source countries reveals a significant concentration of FDI from China, despite nearly 50 nations securing licenses and operating at various stages of project implementation. Chinese investors account for more than half of all licensed projects, underscoring China's dominant role in Ethiopia's FDI landscape. India follows as the second-largest contributor, albeit at a considerably lower share of just under 4%. Other key investors, including Turkey, Sudan, Kenya, the UAE, the Netherlands, and the US, collectively represent a more modest portion of total inflows. [49]

Notably, joint ventures with Ethiopian nationals constitute nearly 27% of all licensed projects, reflecting a growing preference for partnerships that leverage local expertise. This trend not only facilitates knowledge transfer and technology diffusion but also enhances the sustainability of investments by embedding foreign capital within

Figure 2.2

Total Number of FDI Projects (2019-2024) (EIC 2025)



domestic value chains. While the involvement of nearly 50 source countries highlights the broadening appeal of Ethiopia's market, the data suggests that targeted policy and promotion efforts could encourage a more diversified investor base. Reducing reliance on a small group of primary investors and expanding engagement with a wider range of capital sources would strengthen Ethiopia's resilience and global investment competitiveness.[50]

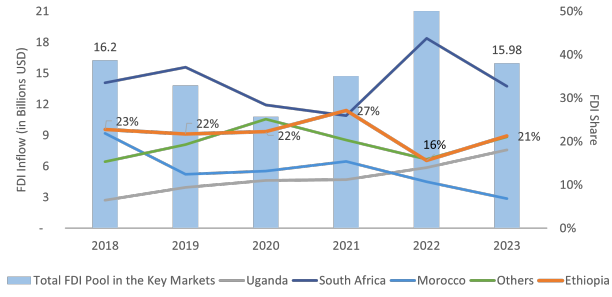
Despite these positive trends, the data underscores the need for deeper sectoral diversification and a greater overall scale of investment to fully leverage Ethiopia's large market and developmental ambitions.

2.2.1 Regional FDI Analysis: Ethiopia's Position

Recent data across six African economies —Ethiopia, Kenya, South Africa, Morocco, Tanzania, and Rwanda—show total FDI rising from **USD 16.2 billion** in 2018 to **USD 22 billion** in 2022, before dipping to USD 15.98 billion in 2023. Despite these fluctuations, each country's share of that FDI pool has remained relatively stable, with Ethiopia's portion decreasing by just **1%** overall. Ethiopia saw a notable peak of **27%** in 2021 but experienced a sharp drop in 2022—at a time when total FDI to the region was at its highest—only to rebound in 2023. This trajectory underscores a degree of volatility in Ethiopia's FDI share but provides no indication of systematic capital flight to other countries.[51]

Figure 2.3

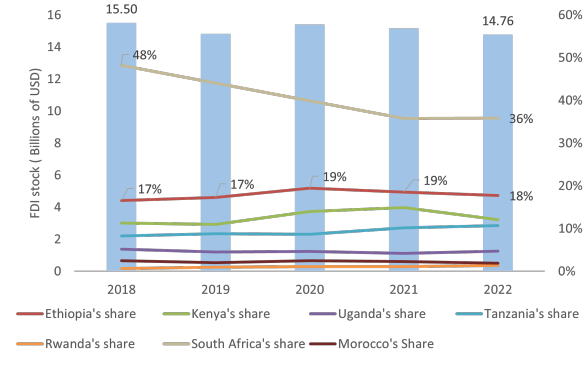
Countries' Share of Total FDI Inflows in the Region (Across Seven Countries) (GCA Analysis based on UNCTAD (2024) and MOPD (2024))



China and India remain Ethiopia's leading sources of foreign investment.[52] China's FDI stock in seven African countries declined from USD 15.5 billion in 2018 to **USD 14.7 billion** in 2022. South Africa held the largest share of Chinese investment at **36%** in 2022, down from **48%** in 2018 due to shifting dynamics.[53] Despite this decline, Ethiopia's share increased from **17%** to **18%**, showing its continued appeal to Chinese investors, especially in manufacturing and infrastructure, and underscoring its strategic role in the China-Africa economic relationship.[54]

Figure 2.4

Countries' Share of Total FDI Inflows in the Region (Across Seven Countries) (GCA Analysis based on UNCTAD (2024))



Ethiopia's minor overall decline in FDI share (**down just 1%**) indicates that investors still view the country as a viable and competitive destination in the region. The recent 2023 rebound reinforces this position, even as peer nations strive to enhance their business climates and introduce sector-specific incentives. Although Ethiopia faces challenges, the data do not support claims of an ongoing or systematic diversion of foreign direct investment. Instead, Ethiopia continues to command a stable share of the regional FDI market, buoyed by strong investor interest—particularly from China and India—and a gradual improvement in its investment landscape.

2.3 Challenges And Gaps In Attracting FDI

Despite being one of Africa's leading investment destinations, Ethiopia's FDI performance remains below its economic potential, government targets, and the scale necessary to drive sustainable growth. Several structural and competitive challenges constrained and continue to pause a challenge for foreign investment. The key obstacles include:

Business Climate and Regulatory Hurdles: Ethiopia ranks low on ease of doing business indices, with bureaucratic inefficiencies, slow licensing processes, unpredictable regulations, and inconsistent tax policies increasing the cost of doing business. While the EIC is tasked with facilitating investment, its effectiveness is often hindered by red tape in other government agencies.[55] [56] [57]

Frequent policy shifts further undermine investor confidence, making long-term planning difficult.[58] While recent reforms have addressed most of this challenges, regulatory predictability and efficient addressing of investor grievances remains a challenge.

SOE Dominance and Limited Competition: Until recently, key sectors such as telecom, finance, and logistics were monopolized by SOEs or entirely closed to foreign investors. Although reforms have opened most sectors, SOEs continue to dominate critical industries, limiting private sector participation and driving inefficiencies—particularly in logistics and transport.[59] [60] Unlocking SOEs as a viable avenue for FDI through strategic partnerships, including the Ethiopian Investment Holdings (EIH) initiative, will be essential in increasing foreign participation and competitiveness.

Infrastructure and Logistics Constraints: Despite significant investments in roads, industrial parks, and energy, infrastructure remains a bottleneck. Ethiopia's landlocked status increases logistics costs, while port congestion and weak internal transport networks hinder trade efficiency.[61] [62] Frequent power outages and unreliable internet connectivity further disrupt business operations, reducing Ethiopia's competitiveness relative to coastal manufacturing hubs. [63] [64]

Land Access and Acquisition: Government ownership of land complicates acquisition, adding layers of bureaucracy & uncertainty for investors.

Leasing processes are slow, and land disputes are common, leading to delays in project implementation. While industrial parks provide more accessible land arrangements, acquiring land outside these zones remains a challenge, restricting broader private sector expansion.[65] [66]

Financial Sector capacity, Foreign Exchange Shortages and Capital Controls: Strict foreign exchange controls and a non-convertible currency have long constrained businesses, limiting access to hard currency for **imports** and **profit repatriation**.[67] Persistent forex shortages, driven by trade imbalances and limited reserves, have historically caused prolonged delays, disrupted operations and deterred investment.[68] While recent liberalization measures have introduced flexibility and accessibility, financial liquidity shortages in the financial market make access to forex continue to be difficult and capital controls remains more restrictive compared to peer economies, posing a continued challenge for investors.

Legal and Institutional Weaknesses: Investor confidence is weakened by perceived limitations in the judicial system's independence, affecting contract enforcement and property rights. Lengthy dispute resolution, inconsistent policy implementation, and institutional inefficiencies add to investment risks. Corruption, while reportedly lower than in some regional peers, continues to be a concern in procurement and licensing processes, further complicating the regulatory environment. [69] [70]

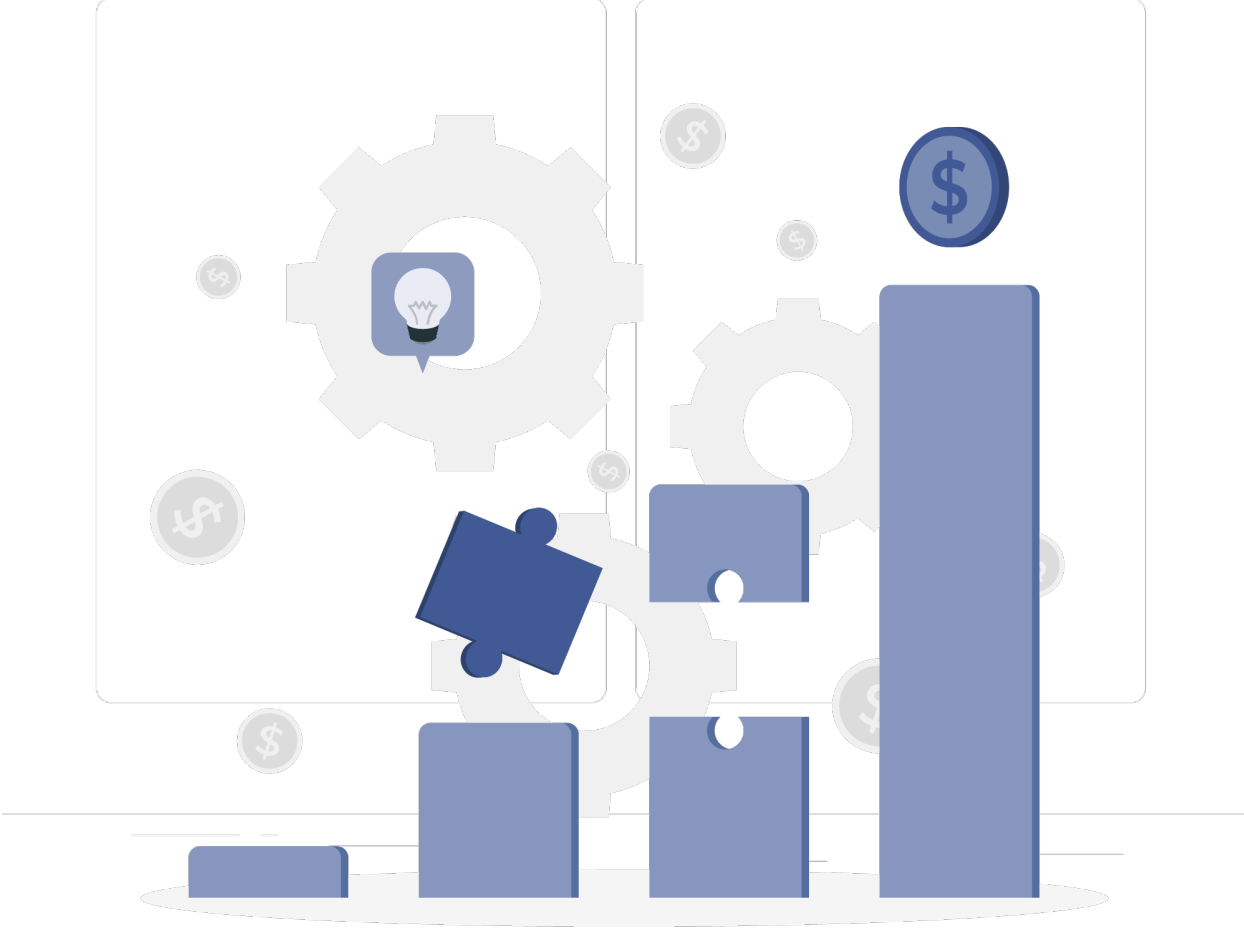
Political and Security Risks: The recent Tigray conflict and ongoing ethnic tensions have damaged Ethiopia's image as a stable investment destination. While instability is localized, periodic unrest and reported incidents of violence targeting factories and infrastructure, albeit erratic, contribute to negative perception and elevated security risks.[71] [72] Ensuring long-term political stability and reinforcing investor protection mechanisms will be crucial for rebuilding confidence.

Macroeconomic Instability: High inflation —hovering around **30%** in recent years— coupled with rising debt pressures complicates financial planning and increases operational costs for investors.[73] [74] The government's constrained fiscal space limits its ability to provide investment incentives, while ongoing forex shortages add further uncertainty.[75] Macroeconomic stabilization efforts will be necessary to improve the investment climate.

Human Capital and Skills Gaps: While Ethiopia has a large labor force, shortages in technical and managerial skills remain a key challenge. Productivity in **manufacturing** and **service** industries lags behind international standards, partly due to limited vocational training and talent development. [76] [77] Work permit restrictions for expatriates further constrain knowledge transfer, making it difficult for investors to bridge skill gaps. Strengthening workforce capabilities through targeted education and training

programs will be essential to attracting higher-value FDI.[78]

Trade and Market Access Limitations: The suspension of AGOA benefits in 2022 significantly impacted Ethiopia's **export-oriented FDI**, particularly in the textile and apparel sectors.[79] While Ethiopia is a signatory to AfCFTA, slow implementation has limited regional trade opportunities. Several challenges, including the need to strengthen regional coordination mechanisms, enforce rules of origin, regulate competition, and establish effective dispute settlement frameworks, have contributed to the gradual implementation of AfCFTA.[80] Expanding trade integration and regaining preferential market access will be critical in positioning Ethiopia as a competitive hub for **export-driven investment**. In general, Ethiopia's investment climate remains constrained by regulatory inefficiencies, state dominance in key industries, infrastructure gaps, forex constraints, political uncertainty, and skill shortages. While reforms over the past half-decade have made progress, further targeted measures are needed to continuously enhance competitiveness and sustain long-term FDI growth. Addressing these challenges will be critical in unlocking Ethiopia's full investment potential and positioning it as a premier destination for global capital.





Foundations for a New Investment Promotion Strategy

3

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3 Foundations for a New Investment Promotion Strategy

Ethiopia has embarked on a sweeping transformation of its investment landscape, driven by broad-based macroeconomic reforms that have significantly enhanced the country's enabling framework. Once constrained by restrictive policies and limited sectoral access, Ethiopia now offers a diverse range of opportunities for both foreign and domestic investors. By modernizing macro-economic management framework, liberalizing key industries, and improving the overall ease of doing business, the government has firmly positioned Ethiopia as a preferred destination for high-quality, sustainable investments. This chapter explores how these foundational changes underpin a new, more **conducive** and **dynamic investment ecosystem** and why repositioning the investment promotion strategy is necessary.

3.1 Fundamentals Of The Ethiopian Economy

Ethiopia's recent economic transformation stems from a series of ambitious reforms that have reshaped its investment climate and bolstered its status as one of Africa's fastest-growing economies.

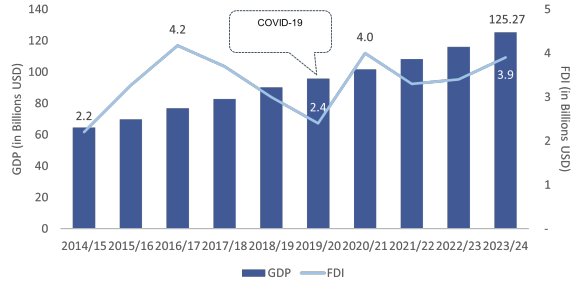
Economic Growth

Ethiopia has recorded one of Africa's fastest economic expansions over the past decade, with its real GDP growing at an average annual rate of **7.6%** (2014/15–2023/24).[81]

These figures reflect the country's heavy investments in infrastructure, such as roads and energy projects, and in human capital through higher education and technical training initiatives.[82] As a result, Ethiopia's GDP now exceeds those of several regional peers, including Kenya, Uganda, and Tanzania, underscoring its emergence as a leading economy in East Africa.[83] Ethiopia's consistently high growth rate highlights its resilience and capacity for continued expansion, a fact underscored by the African Development Bank (AfDB) and International Monetary Fund (IMF), which both project further gains fueled by industry, private consumption, and renewed stability. [84]

Figure 3.1

Real GDP and FDI inflow (2014/15-2023/24) (NBE 2022/23, MoPD 2024 and World Bank 2024)



Steady GDP gains serve as a key indicator of economic stability, encouraging global firms to establish or expand operations. With a population of around **126.5 million** —over **70%** of whom are under **30**— Ethiopia presents a substantial and youthful market that appeals to investors seeking long-term growth prospects.[85] [86] Large-scale infrastructure projects and a growing emphasis on skills development

have further enhanced the investment climate, reducing operational barriers and improving workforce quality.[87] Together, these factors have made Ethiopia increasingly attractive for FDI, although additional policy measures and sectoral diversification will be crucial for sustaining momentum and fully realizing the country's considerable market potential.

Fiscal Stability

Ethiopia's fiscal strategy underscores the government's commitment to building a stable, investment-friendly environment. By channeling significant public spending into infrastructure and human capital—roads, railways, energy projects, and education—Ethiopia has improved market access and strengthened the foundations for industrialization.[88] To further stimulate investment, the government offers various financial incentives, including multi-year tax exemptions, reduced corporate tax rates, and import-duty waivers for priority sectors.[89] These measures, paired with efforts to broaden the tax base and simplify tax administration, not only reduce reliance on external borrowing but also secure funding for critical public services in health and education. In doing so, Ethiopia demonstrates a clear intent to maintain fiscal stability and enhance investor confidence.[90]

Debt management is equally pivotal to this strategy. Excessive public debt can crowd out private investment and raise borrowing costs, discouraging foreign capital inflows. [91]

To mitigate such risks, Ethiopia has focused on sustaining a sound monetary policy framework and pursuing an agreement with international creditors under the **DSSI** Common Framework to address the debt risk. This approach is expected to lower debt distress and improve the country's credit rating, sending a positive signal to investors about Ethiopia's risk profile. A healthier fiscal outlook, backed by prudent debt management, reinforces the country's commitment to predictable economic policies—an essential factor in attracting long-term foreign direct investment. [92]

Exchange rate management and Trade Performance

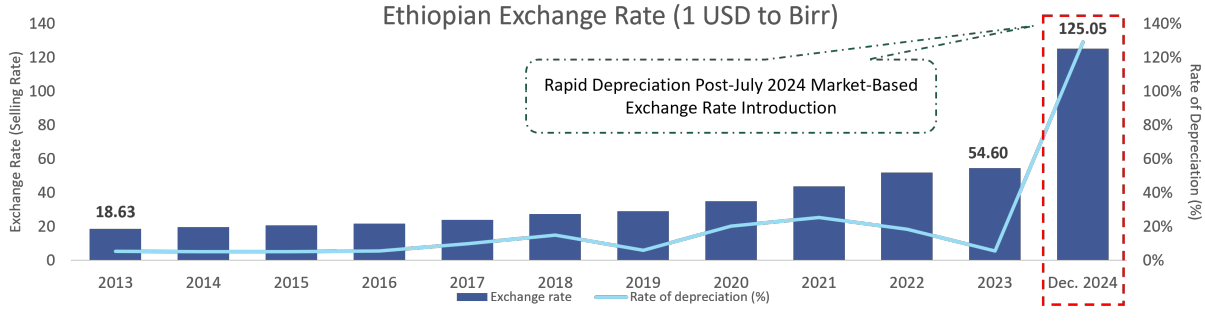
Ethiopia's exchange rate policy has long been characterized by a managed floating regime that kept the birr at an artificially high value, resulting in a persistent gap between official and parallel market rates. While this arrangement temporarily lowered import costs, it also reduced the competitiveness of Ethiopian exports, deterred export-oriented foreign investors, and led to chronic foreign exchange shortages.[93] Businesses struggled to procure critical inputs or repatriate profits, undermining the confidence of foreign firms eyeing Ethiopia as a **manufacturing** or **trading hub**.[94] Overvaluation of the birr not only raised production costs but also sent mixed signals about the country's macroeconomic fundamentals, ultimately limiting the scale and diversity of FDI.[95] [96]

In July 2024, Ethiopia adopted a market-based exchange rate system, signaling a decisive shift from past practices. This move included easing foreign exchange controls, introducing non-bank foreign exchange bureaus, and removing rules that previously rationed foreign currency.[97] Although the birr underwent a sharp depreciation of nearly 135% [98] soon after, the reform has begun to realign the currency's value with market realities, enhancing Ethiopia's regional competitiveness and reducing the premium on the parallel market. In turn, this adjustment offers foreign investors greater predictability in currency transactions and profit repatriation, laying a stronger foundation for FDI inflows.[99] Yet for the transition to be fully successful, Ethiopia must address supply-side constraints, bolster macroeconomic management, and continue expanding productive capacity—key steps to ensure the new exchange rate regime leads to sustained investor confidence. [100]

Exchange rate is also expected to enhance trade performance and narrow Ethiopia's large trade deficit. Export growth in Ethiopia has historically been limited by an overreliance on primary commodities, high logistical costs, and low value addition.[101] While FDI inflows have risen by an annual average of 10.3% in the past decade, exports have grown by only 3.22%, indicating that foreign investments have not fully translated into enhanced export capacity.[102] Nonetheless, exchange rate liberalization and liberalizing trade-related sectors for foreign participation offers a pathway to reverse this trend.[103] By leveraging its new market-based exchange rate and removing barriers in logistics, Ethiopia can more effectively channel foreign investments into higher-value export industries, thereby creating a virtuous cycle of increased foreign exchange earnings, greater economic resilience, and sustained investor interest.

Figure 3.2

Exchange Rate (2013/14-Dec.2024) (NBE 2022/23 and CBE 2024)



3.2 Economic Openness & Investment Attraction

Economic Openness

Ethiopia has taken a decisive step toward economic openness by adopting the Investment Proclamation No. 1180/2020, which replaces the traditional positive-list approach with a negative-list system. Under this reform, foreign investors are permitted to participate in all sectors except those explicitly restricted. This liberalization not only allows a wider range of investment opportunities but also encourages capital mobility through free remittance of proceeds and capital reductions.[104] [105] [106] In tandem, Ethiopia has privatized or partially opened state-run sectors, including telecom, paving the way for global operators like Safaricom to boost service quality and speed the country's digital transformation. [107]

Complementary measures have further broadened Ethiopia's economic horizon. Ethiopian Investment Holdings (EIH) was established to reform state-owned enterprises and attract private capital,[108] while subsequent legislation opened up previously restricted areas such as trade, banking, and logistics.[109] Additionally, a 2024 Ethiopian Investment Board directive permits foreign participation in export, import, wholesale, and retail trade under specific guidelines, further reinforcing Ethiopia's openness to international investors. Although essential commodities like **fertilizers** and **fuel** remain partially reserved,[110] these reforms collectively position Ethiopia as a more diverse and competitive market, enhancing its appeal to global investors and supporting sustained economic growth.

Investment Incentives

Ethiopia's updated Investment Incentive Regulation No. 517/2022, as amended on January 14, 2025, demonstrates the government's ongoing efforts to make the business climate more competitive and appealing for foreign investors. By linking tax exemptions to job creation thresholds —offering up to three years of income tax exemption for enterprises employing more than **5,000** Ethiopians—the country underscores its focus on both attracting capital and generating substantial employment. This aligns with global best practices of the global, where performance-based incentives encourage companies to expand their operations in ways that benefit the local workforce and economy. Additionally, the government has introduced new measures to encourage mining investments, reflecting Ethiopia's strategy to diversify its FDI portfolio beyond traditional manufacturing and agriculture.[111]

Beyond these amendments, the EIC offers a suite of fiscal and non-fiscal incentives that collectively reduce operational barriers for foreign and domestic firms. These include duty-free import of capital goods, corporate tax holidays in select industries, and personal income tax exemptions for expatriate employees within industrial parks. Such policies not

only lower entry costs but also provide ongoing operational advantages—particularly for businesses in priority sectors like **agro-processing**, **pharmaceuticals**, and **textiles**. [112]



Sectoral Competitiveness & Prioritization

4

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4 Sectoral Competitiveness and Prioritization

Ethiopia has made significant strides in expanding its investment landscape, aiming to attract FDI and drive sustainable economic growth. Through progressive reforms and sector liberalization, the government has fostered a more open and competitive business climate. Currently, EIC's investment promotion spans diverse industries. Manufacturing leads, particularly in textiles, garments, and leather products. Agriculture focuses on agro-processing and commercial farming, while tourism, mining, health, and ICT are prioritized for their **export potential** and **job creation**. Additionally, transport, logistics, education, real estate, finance, energy, and trade have been opened to foreign investment, reflecting the government's commitment to channeling reforms effectively.

However, to maximize impact, Ethiopia's next phase of investment promotion must adopt a more focused approach. By prioritizing 5–7 high-potential sectors that align with the country's competitive advantages, the EIC can allocate resources more efficiently and craft tailored incentives. This targeted strategy enhances investor outreach, strengthens policy interventions, and fosters capacity-building efforts in sectors with the greatest potential for **growth**, **export expansion**, and **technology transfer**.

A refined, sector-specific focus also enables the government to address critical structural challenges—such as infrastructure gaps, skill shortages, and logistical inefficiencies—with greater precision. It strengthens Ethiopia's global value proposition by highlighting key strengths rather than spreading efforts across too many industries. Additionally, by conducting deep sectoral analyses, the EIC can collaborate with other government agencies to implement targeted reforms that enhance investment attractiveness and long-term economic development.

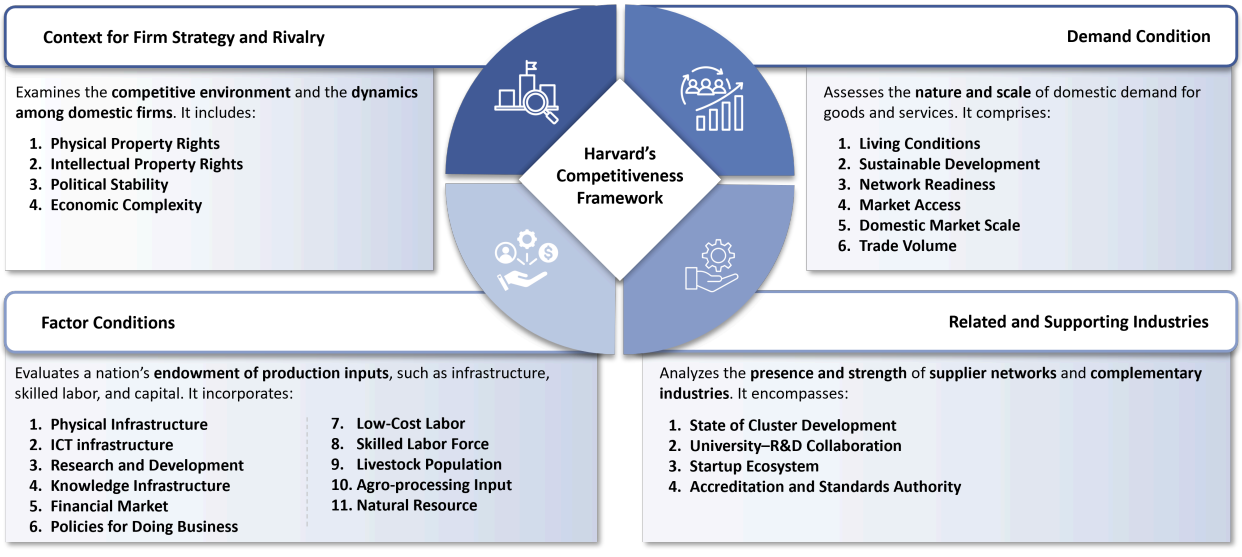
4.1 Sectoral Prioritization Methodology

To determine which sectors, hold the greatest promise for attracting FDI, this sectoral prioritization analysis draws on Porter's Diamond Framework.

This framework examines competitiveness through four interrelated dimensions—Factor Conditions, Demand Conditions, Context for Firm Strategy and Rivalry, and Related and Supporting Industries. By evaluating performance across **20** carefully selected indicators, the methodology highlights areas in which Ethiopia holds clear comparative advantages and identifies specific sectors where policy interventions and incentives are likely to yield the highest impact. Cross-cutting, overarching factors—such as political stability, physical infrastructure, and ease of doing business are first assessed to provide a baseline understanding of the broader investment climate. The analysis then shifts to **15** remaining indicators, each tailored to the needs of individual sectors or sub-sectors.

Figure 4.1

Sectoral Prioritization Methodology



By standardizing scores across these dimensions—using global indexes and a five-tier rating system—the methodology ensures an objective, data-driven comparison of Ethiopia's performance in each indicator. Ultimately, this structured approach supports evidence-based decision-making in identifying **5–7 priority** sectors that align with Ethiopia's reform agenda and its long-term economic goals.[113]

The **first phase** of this methodology focuses on identifying and assessing the binding factors that underpin any successful investment climate. Regardless of the sector, all investors require a foundational level of political stability and security, a conducive business environment—encompassing regulatory clarity and ease of doing business—and adequate infrastructure to support operations. These cross-cutting conditions serve as initial filters: if they are weak or unreliable, they can significantly reduce the appeal of a country, irrespective of its other sector-specific advantages.

In the **second step**, the methodology narrows its focus to the specific factors that drive investment decisions in each **individual sector**. While the binding factors remain crucial, investors in different industries often prioritize unique criteria. For instance, manufacturing companies may emphasize the availability of skilled labor and efficient logistics networks, whereas digital economy ventures may seek strong ICT infrastructure and intellectual property protections. By applying the **Porter's Diamond Framework** to each sector's top indicators, the analysis pinpoints how well Ethiopia meets these specialized requirements, thereby guiding more nuanced policy interventions and resource allocations to support targeted sectoral growth.

4.2 Binding Factors To Attract FDI

Political Stability and Security

Political stability is a critical factor in attracting & retaining foreign investment, shaping both risk perception and profitability.[114] In recent years, Ethiopia has faced significant challenges, most notably the Tigray conflict (2020–2022), which caused extensive infrastructure damage and displacement.[115] While a peace agreement in November 2022 formally ended the conflict, sporadic violence in the Amhara and Oromia regions persisted into late 2024.[116] However, subsequent peace accords have significantly reduced hostilities, improving overall stability.[117]

Ethiopia's ranking on the Global Peace Index improved from 151st in 2023 to 144th in 2024, reflecting a more favorable investment climate.[118] While most regions are now stable and business-friendly, occasional unrest in some areas still creates uncertainty.[119] To enhance investor confidence, it is essential to demonstrate a clear, stable security profile & proactively manage perceptions to ensure a predictable operational environment.

Recent trend analyses in Ethiopia reveal only a weak correlation between the number of reported conflict incidents and fluctuations in FDI, suggesting that investors consider a range of other determinants, such as economic policies, market potential, and infrastructure, when deciding where to commit capital.[120]

However, the way conflicts are portrayed in international media often has an outsized influence on perceptions of security, which can overshadow more nuanced realities. High-profile reports of unrest or violence—particularly if amplified by global news outlets—can shape investor sentiment more powerfully than on-the-ground conditions, sometimes causing firms to hesitate or scale back operations even when actual disruptions remain localized or short-lived.

Ethiopia's experience during 2021 and 2022, when conflict incidents received widespread coverage, underscores how media narratives can quickly erode confidence, leading to production halts and concerns over asset safety.[121] [122] Similarly, Kenya's 2007 electoral unrest gained significant international attention, influencing investor sentiment well beyond the immediate area of conflict.[123] These examples highlight that while the direct impact of violence on FDI might be modest, the global perception of instability, shaped by headlines and social media coverage, can be enough to drive up operational costs, disrupt supply chains, and steer investment toward seemingly more stable markets. Ultimately, managing international narratives around security is as critical as addressing the root causes of conflict in attracting sustainable FDI.

Conducive Business Environment

Ethiopia's historically low ranking in the World Bank's Ease of Doing Business index reflects persistent regulatory and operational challenges, including weak

investor protections, limited access to credit, and lengthy procedures for business registration and cross-border trade. While Ethiopia's score showed slight improvement from 47.65 in 2019 to 48.0 in 2020, reflecting marginal enhancements in the business regulatory environment. However, the country's ranking remained unchanged at 159th position during this period. It remained behind regional peers such as Rwanda, Kenya, and Uganda. [124] [125] However, the country performs comparatively better in contract enforcement and tax payments, suggesting that targeted reforms can address specific administrative bottlenecks.[126]

In response, the government has undertaken extensive reforms to modernize the business environment. Since 2018, a Prime Minister–led Steering Committee[127] has guided over 80 legal and bureaucratic changes, including the digitization of trade registration and licensing and streamlining of business startup procedures. The revision Commercial Code and investment proclamation enhanced openness and investor protections, while new credit access reforms, such as the Movable Property Security Right Proclamation, have improved financing options. [128]

These measures have reduced the cost and time of doing business, but Ethiopia still lags regional averages, highlighting the need for sustained policy focus. Although the Ease of Doing Business ranking system has been discontinued, Ethiopia's reforms demonstrate strong progress toward a more competitive and investor-friendly business environment.[129] [130]

In comparison, other African nations have also implemented measures to improve their investment climates. For instance, Rwanda has been recognized for its pro-business policies and investor-friendly environment. The country introduced the Investment Promotion and Facilitation Law in 2021, offering tax incentives to attract businesses and positioning Kigali as a regional financial hub.[131] Moreover, Rwanda's digital transformation initiatives, such as the fully online business registration system, have significantly reduced the time required to start a business, enhancing operational efficiency. [132]

Similarly, South Africa has undertaken reforms to streamline business processes. The introduction of the BizPortal online platform has simplified company registration, reducing the process to just one day. Tax administration improvements by the South African Revenue Service have eased compliance burdens for businesses.[133] Additionally, the establishment of a Red Tape Reduction Team in 2022 aims to streamline business licensing processes in critical sectors, further enhancing the investment climate.[134]

These regional examples highlight the importance of continuous reforms in creating a favorable business environment.

Physical Infrastructure

Physical infrastructure is a vital determinant of a country's investment appeal, as it directly influences productivity and profitability.[135]

Ethiopia's overall infrastructure score of 8.8 out of 100 in the Global Innovation Index 2023 illustrates the formidable deficit it has in roads, railways, ports, air transport, and reliable energy. While this figure surpasses Kenya's score of 7, it still lags behind neighbors such as Rwanda (18.3), Tanzania (21.3), Uganda (13.4), and notably South Africa (32.1).[136] Such gaps underline the urgent need for Ethiopia to modernize its logistics networks, reduce import dwell times, and enhance inter-agency coordination—particularly in a landlocked context that depends heavily on Djibouti for trade.

Despite these hurdles, Ethiopia has made tangible progress in key areas. The Road Sector Development Program has expanded paved roads from 141 km to 149.3 km per 1,000 km in just one year,[137] although coverage remains well below Africa's average of 570 km.[138] Meanwhile, Ethiopian Airlines has emerged as a continental leader in both passenger and freight services, boosting connectivity and global reach.[139] Industrial land availability has increased via 25 operational industrial parks, with four more in development,[140] while major energy projects such as the Grand Ethiopian Renaissance Dam (5,150 MW) and Koysha Hydropower Dam (2,170 MW) aim to leverage Ethiopia's vast renewable resources.[141] Low electricity costs—just $0.003 per kWh in 2024[142]—provide a competitive edge, but frequent power cuts underscore the need for deeper reforms.[143] As Ethiopia continues to develop its physical infrastructure, bridging these gaps will be essential to attracting and sustaining high-quality foreign direct investment.

Ethiopia's infrastructure strategy sets it apart from regional peers by prioritizing low electricity costs over transport efficiency as a key driver of FDI. While countries like Kenya have strengthened their investment appeal through transport infrastructure and enhanced logistics, Ethiopia's primary advantage lies in its affordable energy, making it a preferred destination for energy-intensive industries. However, this comparative strength is undermined by weak transport networks and logistical inefficiencies, which limit broader industrial expansion and hinder the country's ability to fully capitalize on its investment potential.

4.3 An Assessment of Other Factors to Attract FDI

4.3.1 Factor (Input) Conditions

Availability of Labor

Labor availability, encompassing both cost efficiency & skill levels, is a decisive factor in attracting FDI particularly for multinational enterprises seeking to minimize labor expenses or access specialized expertise.[144] [145]Ethiopia's relatively low labor costs, coupled with a working-age population comprising 54% of its total populace, position the country as an appealing destination for labor-intensive industries such as.

manufacturing. this abundance of low-cost labor has historically been a key attraction for foreign investors seeking cost advantages. [146]

However, challenges arise from Ethiopia's limited pool of skilled workers, a shortfall underscored by the fact that only 7% of the labor force has completed secondary education or higher. Over 74% of the workforce is employed in roles that surpass their formal qualifications, 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%).[147] According to the Global Competitiveness Index, Ethiopia's ease of finding skilled employees ranks at 3.64 out of 7—lower than Kenya (4.87), Rwanda (4.12), and several other regional peers.[148] This gap in specialized skills not only constrains the country's capacity to move up the value chain but can also dissuade foreign firms seeking well-trained personnel to support more technologically advanced operations.

Information and Communication Technologies (ICT)

ICT infrastructure is pivotal for attracting foreign direct investment, as it reduces information costs, speeds up access to market data, and lowers communication barriers. [149] The launch of the "Digital Ethiopia 2025" strategy, complemented by initiatives such as digital IDs, mobile payments, and e-services across 130 public institutions continue to expand the digitalization effort. [150] [151] Until recently, Ethio Telecom held a 126-year monopoly on telecommunications and internet services; however, the sector opened to competition in 2022, with Safaricom's market entry expected to boost internet penetration to 24.45% by 2024. [152]

Despite these reforms, Ethiopia lags significantly behind regional peers in both ICT adoption and digital innovation. While mobile internet costs remain competitive at 0.68 USD per GB [153]—comparable to Rwanda (0.55 USD) and Kenya (0.59 USD)[154]—only 19.38% of Ethiopians currently have internet access,[155] and fixed-line penetration is a mere 1%.[156] According to the 2023 Global Innovation Index, Ethiopia's ICT development score of 17 out of 100 pales in comparison to Tanzania (90.6), Rwanda (85.2), and Kenya (74.7).[157] Chronic power outages and limited digital literacy within public institutions further hamper the effective use of ICT tools,[158] undermining the potential impact of Ethiopia's ambitious digital reforms. Addressing these infrastructure and skills gaps will be essential to realizing the full benefits of a more connected, tech-driven economy.

Research and Development

R&D activities play a crucial role in attracting foreign investors by fostering innovation, boosting productivity, and enhancing overall competitiveness.[159] In Ethiopia, government support for R&D has grown in recent years, reflected in

increased allocations for education, science, and technology, as well as rising investments in research and technology organizations between 2018 and 2020.[160] In 2022, gross domestic expenditure on research and development (GERD) reached **730 million USD**,[161] indicating a positive trend toward building a more robust innovation ecosystem. Additionally, the country's improved performance in PhD training points to a stronger talent pipeline that can support scientific and technological advancement. [162]

Despite these promising developments, Ethiopia's overall R&D performance remains low, as demonstrated by its Global Innovation Index score of **1.4 out of 100**—trailing behind Rwanda (3.5) and Tanzania (2.3), yet still exceeding Uganda (0.6).[163] While Ethiopia's researcher density of 90.5 full-time equivalents per million inhabitants is relatively high for its income group.[164] However, higher education institutions also struggle with effectively disseminating scientific information, underscoring the need for a centralized platform to connect stakeholders. Nonetheless, Ethiopia's growing government commitment and expanding R&D infrastructure suggest that, with continued reforms, the country can leverage its research potential to attract higher-value foreign direct investment.[165] [166]

Knowledge Infrastructure for Attracting FDI

Knowledge infrastructure plays a pivotal role in luring foreign direct investment, especially from firms seeking technological expertise and innovation-driven growth.[167] Ethiopia's relatively high labor force participation rate among advanced education holders, along with annual STEM graduations exceeding **200,000** students, positions the country as a potential hub for industries requiring specialized skills. [168]

Despite these strengths, Ethiopia's overall knowledge infrastructure faces considerable challenges. According to the Global Knowledge Index, the country scores **27.8 out of 100** and ranks 128th out of 133, indicating limited capacity for research, development, and innovation. In contrast, regional peers like Rwanda (38.2), Kenya (39.3), Morocco (42.5), and South Africa (44.0) register higher scores, suggesting more robust ecosystems for technological advancement.[169] These gaps reduce Ethiopia's ability to foster homegrown innovations and fully leverage its large pool of trainable talent. Strengthening the links between higher education, industry, and research institutions will be critical for elevating Ethiopia's knowledge infrastructure and unlocking higher-value investment opportunities.

Financial Market for FDI Attraction

A well-developed financial market is essential for attracting foreign investment, as it reflects economic dynamism, market accessibility, and regulatory openness.[170] [171] In Ethiopia, however, the financial sector remains underdeveloped and heavily concentrated in banking—accounting for 96.1% of total financial

assets in 2024.[173] As a result, Ethiopia scored just 29 out of 100 in the 2023 Absa Africa Financial Markets Index—the lowest among 28 countries surveyed—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, & legal standards and enforceability. [174]

Recent policy shifts aim to address these structural gaps. Key reforms include liberalizing the exchange rate regime, modernizing the digital payment eco-system, & creating a domestic capital market to expand funding sources beyond traditional bank lending. Legal and regulatory overhauls are also underway to align Ethiopian banking practices with global standards,[175] while foreign participation in the banking sector has been authorized to introduce greater diversity & innovation.[176] Taken together, these measures promise to build a more robust and diversified financial system, ultimately boosting investor confidence, drawing higher FDI inflows, & positioning Ethiopia more competitively on the global investment stage. [177]

4.3.2 Context For Firm Strategy and Rivalry

Physical Property Rights for Investment Security

Physical property rights are pivotal to attracting long-term foreign investment, as they offer security and predictability for both domestic and international investors. [178]

Ethiopia's Constitution, under Article 40, recognizes private property rights but designates land as collectively owned by the state and the Ethiopian people. Private investors may obtain use rights in exchange for payment, and they maintain full ownership of any immovable assets they develop on the land.[179] The 2020 Investment Proclamation stipulates that expropriation can only occur in public interest and must be followed by non-discriminatory compensation at market value. However, this compensation covers only buildings or infrastructure, not the intrinsic economic value of the land itself.[180]

Despite these provisions, Ethiopia's score of 3.6 out of 10 on the Physical Property Rights Index underscores challenges in securing and enforcing property rights. This performance lags behind regional peers such as Rwanda (5.7), Kenya (4.8), and Tanzania (4.5).[181] The International Fund for Agricultural Development (IFAD) also assigns Ethiopia a score of 3.2 out of 6 in its Rural Sector Performance Assessment,[182] indicating persistent issues in land access, tenure security, and coordination between regional and federal authorities. [183] These shortcomings complicate investment-related land decisions, hinder effective governance, and may deter foreign investors who require robust property protections for long-term business planning.

Intellectual Property Rights for Investment and Innovation

Robust intellectual property (IP) protections are a key factor in attracting

foreign investors, as they safeguard advanced technologies and creative works from imitation.[184]

Ethiopia has shown commitment to improving its IP framework by joining the World Intellectual Property Organization (WIPO) in 1998 & establishing the Ethiopian Intellectual Property Authority (EIPA). These steps demonstrate the country's interest in fortifying patents, copyrighted materials, & software, reflecting broader efforts to cultivate a more reliable & innovation-friendly environment.[185] [186]

However, Ethiopia's IP protection landscape remains underdeveloped, as indicated by a score of **3.2 out of 10** on the Intellectual Property Rights Index. This performance lags behind regional counterparts such as Rwanda, Tanzania, and Kenya.[187] Limited resources and staffing at the EIPA hinder effective enforcement, while Ethiopia's absence from key international treaties—like the Paris Convention, the Berne Convention, and the Patent Cooperation Treaty—confines IP protections to the national level. Consequently, inventors and companies must register their rights separately in Ethiopia, increasing both complexity and cost.[188] [189] These gaps in enforcement and global alignment can deter foreign investors who prioritize safeguarding their intellectual assets, ultimately constraining the country's ability to attract higher-value, technology-intensive FDI.

Economic Complexity

Economic complexity measures the embedded knowledge within a country's economy, focusing on the diversity and sophistication of its exports.[190] For Ethiopia, which ranks **110th** out of **145** countries on the Economic Complexity Index (ECI) with a score of **–0.80**,[191] this indicates a heavy reliance on low-value agricultural products like coffee, gold, and cut flowers.[192] Although export revenues rose from **$2.67 billion** in 2017 to **$3.86 billion** in 2022,[193] the composition of exports has not significantly diversified, leaving the economy vulnerable to shifts in global demand and constraining its potential to create higher-wage, more sustainable employment.

Compared to regional peers such as Kenya (–0.25, 81st), Rwanda (–0.54, 94th), and Uganda (–0.57, 96th)[194], Ethiopia's limited product complexity underscores the need for deeper structural transformation. While certain sectors, including services, show moderate growth, the country's export basket remains concentrated in less advanced goods, hindering its ability to compete in higher-value industries.[195] Enhancing productive capabilities—through technology adoption, skill development, and investment in more sophisticated sectors—will be crucial for Ethiopia to diversify its exports, reduce economic vulnerability, and bolster long-term resilience.

4.3.3 Demand Conditions

Sustainable Development [196]

Ethiopia's progress toward the UN Sustainable Development Goals (SDGs)

presents a mixed picture, with the country scoring **54.5 out of 100** on the 2023 Global Sustainable Development Report—lagging behind regional peers like Kenya (62.2) and Rwanda (67.5).[197] Guided by its constitution and the Ten-Year Development Plan (2021–2030), Ethiopia has achieved notable strides in reducing poverty (from **23.5%** in 2015/16 to **19%** in 2019/20), improving healthcare outcomes, and expanding access to education—particularly for girls. Large-scale environmental initiatives, including the Climate Resilient Green Economy strategy and the Green Legacy Program, reflect Ethiopia's commitment to climate resilience and sustainable resource management. Despite these gains, domestic and global shocks—such as droughts, conflicts, and the effects of the Ukraine crisis—have hindered further progress and disproportionately affected vulnerable populations.

Although economic growth has averaged **8%** annually from 2015/16 to 2023/24, issues like rising food prices, health infrastructure damage in conflict-affected regions, and limited access to clean water continue to threaten Ethiopia's development gains. Urban and rural poor communities, already reliant on market-bought cereals, are especially susceptible to global price fluctuations and climate extremes. The country's overall SDG performance remains constrained by lingering structural barriers in healthcare, sanitation, and environmental management, compounded by political transitions and COVID-19 disruptions.

Nonetheless, Ethiopia remains committed to its long-term development goals, with policies such as improved disaster risk management, renewable energy investments, and stronger governance frameworks designed to ensure sustained progress toward the SDGs.

Living Conditions [198]

Living conditions in Ethiopia, as measured by the Multidimensional Poverty Index (MPI), reveal widespread and severe poverty. According to the United Nations Development Programme (UNDP), the poverty headcount ratio has risen in all regions, with Oromia experiencing an increase from **34.5%** in 2020 to **48%** in 2023.[199] Ethiopia's MPI stands at 0.367, with **68.7%** of the population facing multiple deprivations in health, education, and standard of living[200]—substantially higher than the Sub-Saharan Africa average of 0.262.[201] Notably, rural areas bear a heavier burden, with **79.7%** of the population classified as MPI poor, compared to **39.2%** in urban settings.

This depth of poverty constrains domestic demand, as large segments of the population lack sufficient disposable income to drive consumption beyond basic necessities. Key deprivations, such as inadequate housing, poor access to clean water, and energy poverty, reflect the country's infrastructural gaps and underscore the multifaceted nature of poverty in Ethiopia. Moreover, the high rate of child mortality, limited education, and nutrition challenges reinforce the urgent need for improved social services.

From an investment perspective, these conditions indicate limited spending power in much of the population, potentially affecting demand for non-essential goods and services—an important consideration for investors evaluating market potential and consumer resilience in Ethiopia.

Network Readiness and Digital Adoption

Ethiopia's Networked Readiness Index (NRI) score of **17.8 out of 100** in 2023[202] reveals considerable gaps in leveraging digital technologies for economic and social development. Internet penetration stands at only **19%**, lagging behind neighboring countries such as Sudan (30%), while mobile ownership, at **60%**, remains limited.[203] Mobile money adoption is particularly low, with just **0.3%** of adults using mobile financial services compared to **20.9%** across sub-Saharan Africa.[204] These deficits reflect broader challenges in affordability, literacy, and digital skills—evident from Ethiopia's 119th place out of **134** on the Digital Skills Gap Index.[205] Moreover, only **34%** of businesses have internet access,[206] indicating an uneven digital landscape, especially among small and agricultural firms.

To address these shortcomings, the Ethiopian government has introduced several initiatives aimed at expanding digital infrastructure and competencies. The Digital Ethiopia 2025 Strategy targets sectors like agriculture, manufacturing, IT-enabled services, and tourism, while the Ten-Year Development Plan (2020–2030) prioritizes technological advancement and workforce training.[207] Notably, the 5-Million Ethiopian Coders program aims to equip millions of young people with coding and digital literacy skills by 2026.[208] Ethiopia's partial liberalization of the telecom sector—granting a **15-year nationwide** license to Safaricom Telecommunications Ethiopia PLC—has already begun to improve service offerings and network coverage, reflecting a growing commitment to enhancing the country's digital readiness and competitiveness.

Domestic Market and Consumer Potential

Ethiopia's domestic market, as measured by GDP per capita (PPP$), ranks **161st** globally at $3,434—higher than Rwanda ($2,836) and Uganda ($3,018), yet notably behind Kenya ($6,122).[209] Despite this comparatively low purchasing power, Ethiopia's substantial population of 126.5 million offers a significant consumer base,[210] especially given that over 70% of Ethiopians are under 30.[211] This demographic advantage, underscores the country's potential for sustained expansion in demand for goods and services.

Historically reliant on agriculture, Ethiopia has seen its service sector expand to **40%** of GDP—surpassing both agriculture (**32%**) & industry (**29%**).[212] This evolution signals a broadening of domestic demand, reflecting rising urbanization & an increasingly youthful population. As Ethiopians transition toward more modern goods and services, foreign investors stand to benefit from a consumer market

on the verge of deeper diversification and sophistication, positioning Ethiopia as an attractive frontier for growth-oriented investment.

Market Access and Export Diversification

Ethiopia's export profile has shown substantial improvement in recent years, with quarterly exports rising from **USD 770.70 million** in late 2023 to **USD 927.20 million** by early 2024.[213] Government-led policy reforms, including tax exemptions and simplified export procedures, have fostered a more supportive environment for exporters, according to UNECA.[214] Ethiopia's participation in trade agreements like AGOA, the EU-EBA, and other global market access has further expanded foreign market access, enabling the country to penetrate new markets and fortify existing trade ties. [215]

With an Index of Export Market Penetration score of **3.04** in 2021, Ethiopia surpasses regional peers like Rwanda (1.62), Uganda (2.13), and Tanzania (2.82), though it still trails Kenya (3.9) and remains well below Morocco (7.16) and South Africa (13.79).[216] These figures underscore Ethiopia's growing strength in global markets, while highlighting the potential for further gains. Despite these advances, the country's future success will hinge on continued diversification of exports, deepening value chains, and sustained policy reforms.

4.3.4 Related and Supporting Industries

State of Cluster Development

Ethiopia has sought to enhance industrial competitiveness & diversify its economy through the establishment of industrial parks and special economic zones (SEZs). While these initiatives aim to boost exports, create jobs, and strengthen value-chain linkages, the country's cluster development score of **21.9 out of 100** highlights persistent gaps compared to regional peers such as Kenya (41.0) and Rwanda (55.8).[217] Although Ethiopia's industrial parks—**13** public ones as of 2023 [218]—have contributed to export promotion and employment, logistical delays, bureaucratic hurdles, and shortages in raw materials & foreign exchange constrain their effectiveness.[219] Moreover, textile and garment manufacturing dominate most parks, indicating a need for broader sectoral representation to realize genuine structural transformation.[220]

Notable industrial parks, including Hawassa and Bole-Lemi I, reflect the government's focus on regional equity, yet limited connectivity with local SMEs, insufficient capital, and weak institutional capacity hinder cluster maturation.[221] Targeted policies, such as the Leather Development Institute and Ethiopian Leather and Leather Product Technology Institute, demonstrate the government's commitment to fostering manufacturing clusters in specific industries. Nevertheless, issues like inefficient institutional frameworks, limited technological learning, and inadequate integration with the wider economy

underscore the ongoing need for deeper reforms and stronger linkages. By improving infrastructure, streamlining regulations, and expanding sectoral representation, Ethiopia can better leverage its industrial parks and SEZs to strengthen its competitive position in global value chains.

University–Industry R&D Collaboration

Although Ethiopia's tertiary education system and industries have expanded over the past two decades, the growth has often prioritized quantity over quality, resulting in limited **university–industry linkages (UIL)**.[222] Universities typically focus on fundamental research, while industries favor applied research aligned with production needs, leaving little overlap for collaboration.[223] According to a 2020 study at Debre Markos Institute of Technology, existing partnerships mostly revolve around student internships and occasional research sponsorships, but weak follow-up, scarce financial support, and low faculty engagement hamper more meaningful cooperation.[224] Ethiopia's broader performance in this arena is reflected in its score of **32** out of **100** in the 2024 Global Innovation Index, ranking it **93rd** out of **132** countries—behind regional peers like Tanzania (40th), Uganda (79th), and Kenya (72nd).[225]

Ethiopian universities and industries both struggle with high transaction costs, limited information on potential partners, and mismatched research priorities. Industries often perceive universities as detached from commercial realities, while academic institutions lack dedicated structures to manage collaboration.[226] To bridge these gaps, experts recommend establishing liaison offices within universities, clarifying financial policies on cost-sharing and revenue distribution, and systematically promoting each institution's research strengths. Such measures can reduce barriers, encourage sustained partnerships, and align R&D efforts with practical, scalable outcomes that benefit both sectors.[227] By addressing these structural and cultural challenges, Ethiopia can foster a more robust innovation ecosystem and move closer to the successful university–industry collaboration seen in neighboring countries.

Startup Ecosystem

Ethiopia's startup scene has gained considerable momentum, particularly in Addis Ababa, where programs like Digital Ethiopia 2025 & the E-Startup Initiative aim to accelerate digital transformation and entrepreneurship. [228] [229] This growth is most evident in transportation, logistics, & last-mile delivery, which attracts significant investment and generate substantial employment.[230] Meanwhile, the country's youthful population of **126.5 million**, coupled with improving mobile connectivity, further bolsters the ecosystem's potential. Public & private stakeholders in Addis Ababa are gradually building a seed-stage support network, with government-led initiatives such as the Bruh Entrepreneurship Competition—signaling heightened commitment to fostering local

-Innovation.[231] Despite these encouraging developments, Ethiopia faces hurdles in scaling its startup ecosystem. Ranked **111th** in the 2024 Global Startup Ecosystem Index (**6th in Eastern Africa**), the country has dropped eight positions from the previous year,[232] reflecting constraints like limited access to formal financing and a scarcity of investor networks. Many startups rely on informal funding—through bootstrapping or family support—highlighting the need for more robust venture capital and startup-friendly banking services.[233] [234] Yet, with enhanced investment, stronger collaboration among stakeholders, and continued policy reforms, Ethiopia's combination of an entrepreneurial youth base and growing government support offers a solid foundation for future growth and innovation. [235]

Accreditation and Standard Agencies

Ethiopia's National Quality Infrastructure (NQI) remains at an early stage of development, underscored by its **QI4SD Index** score of **21**—significantly behind regional peers like Kenya (39), Rwanda (29), and Uganda (31).[236] Although the Quality and Standards Authority, established in 1987, was restructured in 2011 into four entities focusing on metrology, standardization, accreditation, and conformity assessment, the country's quality ecosystem still struggles to align with international standards.[237] Notably, the inauguration of the National Quality Village (NQV) in 2024 was intended to streamline and centralize Ethiopia's quality assurance services, reflecting ongoing efforts to modernize the framework and boost trade competitiveness.[238]

Despite these initiatives, Ethiopia's NQI faces structural hurdles. Laboratories and testing facilities are largely concentrated in urban areas, limiting rural producers' access to essential quality services[239]—a critical barrier to meeting international requirements. A shortage of skilled professionals in metrology and accreditation further constrains the system's effectiveness. [240] Moreover, insufficient governmental support and a lack of strategic policies slow Ethiopia's progress toward full integration with global quality standards. [241] Addressing these challenges is crucial for the country to elevate its NQI, enhance product credibility in international markets, and foster sustainable economic growth.

4.4 Sector And Sub-Sector Competitiveness Analysis

This subsection identifies and prioritizes high-potential sectors for attracting FDI and driving economic growth. Sector selection is guided by three key sources:

1. **EIC Previous investment promotion strategy:** Textiles and garments, leather and leather products, agro-industry, and pharmaceuticals.
2. **HGER 2.0 Focus Areas:** Commercial agriculture, mining, tourism, and the digital economy.
3. **Newly Liberalized Sectors:** Telecom and ICT, transport and logistics, financial services, energy, health services, education, wholesale and retail trade, and real estate.

To systematically assess each sector, five critical indicators are used, representing key investor decision factors in selecting destinations for sector-specific activities. These indicators are measured against global indexes, ensuring objective, standardized benchmarking. Given variations in index scales, a normalization process ensures consistent scoring across all sectors.

In addition to assessing sectoral performance, this analysis will evaluate Ethiopia's competitive standing relative to key regional peers. The comparison includes six regional economies—**Kenya**, **South Africa**, **Morocco**, **Tanzania**, **Rwanda**, and **Uganda**—providing insights into Ethiopia's positioning across prioritized sectors. The objective is to leverage the experiences of the best-performing countries, identifying the reforms and strategic initiatives that have driven their success. This comparative approach will help pinpoint the key measures Ethiopia needs to implement to strengthen its investment climate and establish itself as a leading destination for foreign direct investment in these sectors.

This data-driven, comparative approach enables policymakers to target reforms and allocate resources where they will have the greatest impact, aligning Ethiopia's sectoral priorities with its broader economic development goals.

1. Textile and Garment Sector

Ethiopia's textile and garment sector has expanded four-fold since 2020, surpassing **USD 140 million** in exports.[242] Abundant low-cost labor, eco-friendly industrial parks powered by renewable energy, and improved logistics (notably the Djibouti-Addis Ababa railway) are attracting global apparel brands.[243] Government incentives—such as tax holidays, duty-free imports, and preferential market access—further reinforce the sector's competitiveness.[244] Yet, high worker turnover, and occasional political unrest pose challenges, underscoring the need for enhanced skills training and stable business conditions.

Top Five Attracting Factors for FDI

1. **Low-Cost Labor** [245] **(5/5):** Ethiopia has a large and cost-competitive labor force, particularly suitable for the textile and garment sector. However, skill levels need further improvement.
2. **Domestic Market Scale** [246] **(3/5):** With a population of over **126 million**, Ethiopia offers a sizable internal consumer base —especially appealing as rising incomes stimulate local demand for garments.
3. **Electricity**[247] **(5/5):** At roughly **$0.035 per kWh**, Ethiopia's energy costs rank among Africa's lowest, giving manufacturers a decisive edge over regional competitors.
4. **Market Access** [248] **(1/5):** Preferential trade arrangements (e.g.,duty-free access to the EU) and a strategic position in East Africa bolster the country's export potential, however, lack of membership to WTO & recent setbacks with AGOA eligibility pauses a challenge.
5. **Logistics**[249]**(3/5):** 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.

A regional competitiveness analysis of the textile and garment sector across seven African nations ranks Ethiopia second, alongside Uganda and Morocco, while South Africa leads at number one. Ethiopia outperforms Kenya, Rwanda, and Tanzania but faces challenges in Market Access, scoring the lowest at 1, and logistics infrastructure. However, its key strengths lie in Low-cost Labor and Electricity, where it achieves the highest score of 5, reinforcing its attractiveness for textile manufacturing. Addressing market access constraints and improving financial infrastructure could further enhance Ethiopia's competitive position in the sector.

Overall, Ethiopia's textile and garment industry presents a compelling mix of cost advantages, infrastructural improvements, & growing market opportunities. Addressing foreign exchange constraints, enhancing workforce skills, & maintaining political stability will be pivotal in sustaining the sector's growth & maximizing its appeal to international investors.

2. Leather and Leather Products Sector

Ethiopia's leather industry benefits from abundant livestock resources ranking seventh globally in livestock population yielding millions of hides and skins annually.[250] With 26 tanneries & a growing number of export-oriented factories, the sector demonstrates notable potential for FDI,[251] supported by government incentives such as duty-free imports of capital goods and preferential financing.[252] However, persistent challenges—outdated technology, inconsistent raw material quality, and skill shortages—undermine efficiency and limit the sector's competitiveness.[253] Enhanced supply chain coordination and infrastructure investments are crucial for unlocking Ethiopia's full capacity in leather production.

Key Investment Factors

1. **Low-Cost Labor** [254] **(5/5):** Ethiopia has a large and cost-competitive labor force. However, skill levels need further improvement.
2. **Cluster Development** [255] **(1/5):** Despite efforts to build clusters through Huajian Industrial Park and Mojo corridor, Ethiopia has made limited progress in developing integrated leather clusters, which hinders efficiency and value chain competitiveness.
3. **Livestock Population** [256] **(5/5):** A top global ranking (188/192) underscores Ethiopia's robust cattle resources, a major draw for resource-seeking investors.
4. **Road Infrastructure** [257] [258] **(2/5):** While improvements continue, quality gaps (25.4/100) impede transport efficiency and sectoral expansion.
5. **Market Access** [259] **(1/5):** Although Ethiopia benefits from duty-free export privileges & some broad market

access, its overall reach is limited by a lack of diversity in export destinations and its non-membership in the WTO and key regional trade blocs. Consequently, while Ethiopian exports do enter foreign markets, they remain heavily concentrated in a few destinations, leaving significant untapped potential

Compared to regional peers, Ethiopia holds a moderate position in the leather and leather products sector, sharing the **4th rank** with Uganda and Morocco. This places Ethiopia ahead of Rwanda, which ranks 7th, but behind Kenya (2nd), Tanzania (3rd), and South Africa (1st). Despite possessing one of Africa's largest livestock populations, Ethiopia's leather industry faces challenges such as quality issues, limited managerial skills, and infrastructural deficits, hindering its competitiveness. To enhance its standing, Ethiopia could focus on improving product quality, adopting advanced technologies, and strengthening supply chain efficiencies.

Overall, Ethiopia's strong livestock base and affordable labor create compelling advantages for the leather sector, yet underdeveloped clusters, suboptimal transport networks, and diminished market access remain barriers to growth. By prioritizing cluster development, investing in road infrastructure, and pursuing strategic trade partnerships, Ethiopia can elevate its competitiveness and establish a stronger foothold in the global leather market.

3. Pharmaceutical sub Sector

Ethiopia's pharmaceutical market, valued at roughly **USD 500 million** and expanding at **25%** annually,[260] demonstrates significant growth potential but remains heavily import-dependent. Local firms supply only **90 out of 380+** essential medicines, while the Ethiopian Pharmaceutical Supply Agency (EPSA) accounts for **97%** of procurement—underscoring limited domestic production capacity. Nevertheless, government incentives such as duty-free imports, preferential financing, and streamlined regulatory services highlight the country's commitment to attracting foreign investors.[261] Addressing infrastructural, logistical, and skills-related challenges is essential to meet Ethiopia's rising healthcare demands and strengthen its pharmaceutical competitiveness.

Key Investment Factors

1. **Domestic Market Scale[262] (3/5):** Ethiopia's growing population and healthcare needs underpin a sizeable, expanding market. With demand on the rise, the sector holds promise for investors seeking long-term market opportunities.
2. **Logistics[263] (3/5):** Although industrial parks, Ethiopian Cargo hub and cold chain and ongoing infrastructure projects support manufacturing, the sector's overall logistics score indicates a need for more advanced hubs and integration into global supply chains.

3. **Skilled Labor Force[264] (3/5):** While labor costs are competitive, specialized skills in pharmaceutical production remain limited, yielding a moderate competitive advantage in the particular factor.
4. **University–R&D Collaboration[265] (2/5):** Innovation capacity is constrained by insufficient linkages between academia and industry, reflected in a score of **33.4/100** in global rankings. This gap hinders advanced research and technology transfer.
5. **Accreditation and Standards Authority[266] (2/5):** Ethiopia's regulatory body provides a foundational framework but needs further enhancement to align with international standards and boost global market access.

In a regional comparison, Ethiopia demonstrates a moderately strong performance in Skilled Labor Force, achieving a normalized score of **3**—placing it on par with Morocco and South Africa, though slightly below Kenya, Uganda, and Tanzania. Similarly, Ethiopia scores **3** in Domestic Market Scale and Logistics, reflecting an average standing within the region but trailing behind Morocco, which holds a score of **4** in both indicators

Overall, Ethiopia's expanding domestic market and competitive labor costs offer a strong basis for pharmaceutical-sector investment. However, gaps in logistics infrastructure, specialized skills, R&D collaboration, and regulatory alignment must be addressed to unlock the industry's full potential. By strengthening these areas, Ethiopia can position itself as a more attractive destination for foreign direct investment in pharmaceuticals.

4. Agro-Industry Sub Sector

Ethiopia's agro-industry sector is gaining momentum through the development of four Integrated Agro-Industrial Parks (IAIPs),[267] which offer fully serviced industrial sites with on-site amenities and supportive policies (e.g., duty-free imports of agricultural equipment). Although agriculture accounts for half of Ethiopia's manufacturing, agro-industries still contribute only **5% of GDP**, reflecting untapped potential.[268] By focusing on strategic crops—such as coffee, wheat, sesame, and dairy—Ethiopia aims to enhance value addition, attract an estimated **USD 1.5 billion** in investments, and create **400,000 jobs.**[269] However, constraints in logistics, market access, and cluster development continue to limit the sector's overall impact on GDP growth and poverty reduction.

Key Investment Factors

1. **Agro-Process Inputs[270] (3/5):** While Ethiopia holds moderate raw material availability, its sizable arable land and diverse livestock resources can support competitive agro-processing activities.
2. **Domestic Market Scale[271] (3/5):** A large and growing population bolsters local demand, though lower GDP per capita restricts immediate purchasing power for processed products.

3. **Market Access**[272] **(1/5):** Constrained trade agreements and export barriers reduce Ethiopia's competitiveness in reaching broader regional and global markets.
4. **Transport and Logistics**[273] **(3/5):** Although improvements are underway, rural infrastructure and value chain clusters are need to further development to efficiently handle agro-industrial supply chains.
5. **Cluster Development** [274] **(1/5):** Despite emerging IAIPs, more work is needed to fully integrate producers, processors, and exporters, optimizing value chain coordination.

Ethiopia ranks **5th** in the agro-industry sector, sharing this position with Uganda, placing it in the lower-middle tier of regional competitiveness. While outperforming Rwanda (7th), it lags behind Kenya (3rd), Tanzania (4th), Morocco (2nd), and South Africa (1st).

By addressing limitations in market access, logistics, and cluster integration, Ethiopia can leverage its extensive agricultural base and rising consumer demand to expand its agro-industry. Strategic investments in transport networks, trade agreements, and advanced agro-processing clusters will be critical for attracting foreign direct investment and unlocking the sector's full potential.

5. **Tourism Sector Current** [275]

Ethiopia's tourism ecosystem showcases rich cultural heritage, nine UNESCO World Heritage Sites, and a strategic position as a gateway to East Africa. Despite a **74%** decline in arrivals amid COVID-19 and northern region conflicts, the sector rebounded with a **255%** surge in tourist arrivals by late 2021. Contributing USD **4.23 billion** in 2021 (**5% of GDP** and **34.3%** of total exports), tourism supports **1.56 million** jobs and benefits from government-led initiatives such as the National MICE Strategy (2020–2030), Safe Travel Protocols, and flagship Projects like Gorgora, Koysha, Wenchi, and Beautifying Sheger underscore Ethiopia's commitment to enhancing visitor experiences and expanding tourism's economic impact.

Key Investment Factors

1. **Financial Market**[276] **(2/5):** An underdeveloped financial market limits diverse funding options, impeding larger-scale tourism investments.
2. **Sustainable Development**[277] **(3/5):** Ethiopia's emphasis on ecotourism, climate initiatives, and cultural preservation aligns with global trends toward responsible travel.
3. **Transport Infrastructure**[278] **(2/5):** While improvements are underway, inadequate roads and limited access to key tourist sites constrain visitor mobility and sectoral growth.
4. **Skilled Labor Force**[279] **(3/5):** Although the labor pool is expanding, specialized training & vocational programs remain essential to meet evolving hospitality & service demands.
5. **Domestic Market Scale**[280] **(3/5):** A rapidly growing population and rising

incomes indicate potential for domestic tourism, bolstering overall sector resilience.

Ethiopia holds a relatively low competitive position in the tourism sector, ranking 7th among the analyzed regional peers. This places Ethiopia at the bottom of the competitive landscape, highlighting significant challenges in attracting tourism investments. 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 ranking underscores a substantial competitive gap that Ethiopia must address through targeted reforms and strategic investments to enhance its tourism appeal and sector performance.

Overall, Ethiopia's tourism sector capitalizes on its **cultural diversity** and sustainable development focus, making it increasingly attractive for foreign investors. However, the sector's full potential is hindered by gaps in financial services, transport infrastructure, and specialized workforce development. Targeted investment in these areas—alongside eco-tourism initiatives and strategic marketing—can strengthen Ethiopia's competitiveness and position the country as a premier destination in the region.

6. Mining Sector[281] [282]

Ethiopia's mining sector, although still underdeveloped, is expanding rapidly and has emerged as the country's fastest-growing industry—posting growth rates of **115%** in 2021 and **91%** in 2020. With substantial untapped deposits of **tantalum**, **potash**, **gemstones**, **gold**, and various **industrial minerals**, the sector presents vast opportunities for exploration and development. Government-led reforms, such as improved licensing procedures and artisanal mining formalization, signal a commitment to attracting private investment and driving economic diversification. Nonetheless, infrastructure gaps, limited financial market depth, and insufficient cluster development constrain the sector's full potential, underscoring the need for targeted improvements in logistics, regulatory frameworks, and local workforce skills.

Key Investment Factors

1. **Skilled Labor Force[283] (3/5):** Ethiopia offers affordable labor, but technical expertise remains limited, particularly for mining operations.
2. **Transport Infrastructure[284] (2/5):** Inadequate roads and transport systems inflate operational costs and complicate access to remote mining sites.
3. **Financial Market[285] (2/5):** Restricted access to capital and insurance products poses challenges for large-scale mining projects.
4. **Natural Resource[286] (4/5):** Ethiopia ranks **124th out of 186** countries in natural resource income, indicating moderate income generated from natural resources such as minerals, precious metals & forests. This ranking

reflects the country's potential for resource-driven economic contributions while highlighting opportunities for further development in the sector.

5. **Cluster Development[287] (1/5):** While efforts are underway, Ethiopia still lacks robust mining clusters that foster local partnerships and technology transfer.

Ethiopia presents a relatively diminished competitive position in the Minning 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.

By enhancing infrastructure, strengthening financial services, and fostering mining clusters that integrate local and multinational enterprises, Ethiopia can unlock the mining sector's considerable potential. Such measures would position the country as a more competitive destination for mining-focused foreign direct investment and contribute to broader economic growth.

7. Digital Economy

Ethiopia's digital sector is still nascent, capturing only 6% of East Africa's venture capital funding over the past decade.[288] While investments in network expansion have driven improvements in internet coverage—3G reaching 98% of the population and 4G at 33%—broadband subscription rates (7.1%) remain below regional averages.[289] Mobile financial services are also in early stages, although recent policy reforms, including the Digital Ethiopia 2025 Strategy and HGER 2.0, highlight the government's commitment to accelerating digital transformation.[290] Despite these advances, challenges persist in startup financing, university–industry collaboration, and the overall ICT infrastructure, limiting the sector's ability to attract large-scale FDI.

Key Investment Factors

1. **Skilled Labor Force[291] (3/5):** Although Ethiopia's labor force is expanding, advanced digital skills remain limited, constraining the growth of high-value tech ventures.
2. **ICT Infrastructure [292] (1/5):** Underdeveloped broadband and network coverage hinder the country's competitiveness, despite ongoing efforts to improve connectivity.
3. **University–Industry R&D Collaboration[293] (1/5):** Minimal collaboration reduces opportunities for research-intensive FDI, highlighting the need for stronger ties between academia and tech firms.
4. **Startup Ecosystem [294] (2/5):** Limited innovation policies, funding, and incubation programs restrict entrepreneurship, though recent

reforms aim to bolster this sector.

5.Electricity [295] [296] **(5/5):** Ethiopia's affordable power offers a competitive advantage for data centers and tech operations, yet grid stability remains an area for improvement.

Overall, Ethiopia's digital economy shows promise, fueled by a large, youthful population and cheap electricity costs. However, bridging gaps in ICT infrastructure, cultivating digital skills, and fostering a more robust innovation ecosystem are crucial to fully leverage FDI opportunities and position Ethiopia as a regional digital hub.

8. Telecom and ICT Sub-Sector

Ethiopia's telecom and ICT landscape is undergoing a transformative phase, with the sector contributing around **ETB 700 billion (8% of GDP)** to the economy in 2023.[297] Historically dominated by a state monopoly, the industry has begun opening to private competition, notably with Safaricom Ethiopia entering the market in 2022.[298] Although the government's focus on expanding connectivity has led to improved internet coverage, Ethiopia remains among the least developed telecom markets globally.[299] Ongoing reforms under Home-Grown Economic Reform (HGER) 2.0 and initiatives like Digital Ethiopia 2025 highlight the country's ambition to modernize services, expand mobile broadband, and attract technology[300]-focused investments. However, inadequate ICT infrastructure, limited IP rights enforcement, & a shortage of skilled labor continue to constrain thesector's full potential for foreign direct investment.

Key Investment Factors

1. **Domestic Market Scale** [301] **(3/5):** Ethiopia's large and growing population provides a substantial customer base for telecom services and digital innovations, offering investors an opportunity to tap into rising demand.
2. **Intellectual Property Rights**[302] **(2/5):** Weak IP protections can deter knowledge-intensive investments, emphasizing the need for stronger legal frameworks to safeguard innovation.
3. **ICT Infrastructure**[303] **(1/5):** Limited broadband coverage & underdeveloped networks hinder digital adoption, making substantial infrastructure upgrades critical to attracting FDI.
4. **Skilled Labor Force**[304] **(3/5):** While Ethiopia's labor pool is expanding, advanced technical training remains scarce, highlighting the importance of ICT-focused education and skill-building programs.
5. **Electricity (5/5)** [305]: At roughly **$0.035 per kWh**, Ethiopia's energy costs rank among Africa's lowest, giving manufacturers a decisive edge over regional competitors.

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.

By enhancing IP protections, investing in network and power infrastructure, and strengthening ICT education, Ethiopia can better leverage its sizeable domestic market to draw in telecom and ICT-focused investors. Such measures would pave the way for deeper digital transformation and accelerate economic growth.

9. Commercial Agriculture sub sector

Ethiopia's commercial agriculture sector has gained momentum, with marketed crop production increasing by 6–10 percentage points between 2012 & 2019 & agricultural exports contributing **USD 2.6 billion** in 2022.[306] [307] Major export commodities—such as coffee, cut flowers, & vegetables—underscore agriculture's crucial role in Ethiopia's trade balance. Despite these gains & abundant arable land (**74.3 million hectares**), agriculture accounted for only **4.89%** of licensed FDI projects between 2019 & December 2023, indicating untapped investment potential.[308] [309] Low-cost labor & a large domestic market provide competitive advantages, but constraints in market access, logistics, and infrastructure limit the sector's capacity to attract significant foreign direct investment.

Key Investment Factors

1. **Arable Land [310] (3/5):** Ethiopia's vast cultivable land offers scalable opportunities for commercial farming ventures.
2. **Low-Cost Labor [311] (5/5):** A large, cost-competitive workforce can drive down production expenses, although skill enhancement remains necessary.
3. **Market Access [312] (1/5):** Despite promising export commodities, infrastructure and regional integration challenges constrain efficient access to international markets.
4. **Logistics [313] (3/5):** 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.
5. **Domestic Market Scale [314] (3/5):** Ethiopia's growing population drives local demand. Also, it offers high potential for import substitution, as agricultural goods make up a significant share of imports. However, scalability remains limited due to low purchasing power among most of the population.

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).

Strengthening logistics, improving market access, and further developing supporting infrastructure are critical steps to unlock Ethiopia's full potential as a hub for commercial agriculture. By addressing these gaps, Ethiopia can attract greater foreign investment, bolster productivity, and foster long-term growth in the agricultural sector.

10. Transport and Logistics Sector

Ethiopia's transport and logistics sector has traditionally been state-dominated, but recent liberalization—supported by the 2020 investment law—signals growing opportunities for private investors.[315] Although the sector contributes significantly to Ethiopia's service exports (**78.73% of USD 7.22 billion in 2023**),[316] it has attracted minimal foreign direct investment, accounting for fewer than **1%** of licensed FDI projects since 2019.[317] This discrepancy highlights an untapped potential, especially considering Ethiopia's strategic location, robust air freight connectivity via Ethiopian Airlines, and infrastructure projects such as logistics cities, dry ports, and the Addis-Djibouti railway.[318] Improving road networks, digital systems, and skilled labor availability will be crucial to unlock the sector's full appeal to global investors.

Key Investment Factors

1. **Road Infrastructure[319] (2/5)** Underdeveloped transport networks drive up costs and hamper efficiency, indicating a pressing need for improved roads, rail links, and freight handling.
2. **Domestic Market Scale[320] (3/5):** Ethiopia's large population supports rising demand for goods movement, creating strong potential for logistics services and transport investments.
3. **ICT Infrastructure[321] (1/5):** Limited digital connectivity constrains real-time tracking, data-driven operations, and e-commerce integration—vital components for modern logistics systems.
4. **Trade Volume[322] (3/5):** Moderate level of internation trade and integration indicating room for growth, particularly if export initiatives and regional integration efforts succeed.
5. **Skilled Labor Force[323] (3/5):** Although Ethiopia's workforce is expanding, specialized logistics and supply chain skills remain underdeveloped, underlining the importance of training programs.

Overall, Ethiopia's transport and logistics sector offers significant investment potential, driven by a sizeable domestic market and strategic geographical advantages. Addressing infrastructure gaps, strengthening ICT adoption, and enhancing workforce skills will be essential to attract greater FDI and position Ethiopia as a regional logistics hub.

11. Real Estate sector

Ethiopia's real estate sector is poised for robust expansion, with an anticipated annual growth rate of nearly **10%** between 2024 and 2028.[324] Key trends—such as rising demand for affordable housing, the popularity of mixed-use developments, and an expanding commercial property market—reflect Ethiopia's rapid urbanization and strong economic trajectory.[325] Recent policy shifts, including a proposed law allowing foreigners to own real estate without stringent investment requirements, signify a major step toward liberalizing the sector.[326] This follows the example of Mauritius, where real estate liberalization attracted a significant portion of the country's FDI, illustrating how opening property markets can spur investor interest.[327] Despite these promising signs, Ethiopia's real estate development still faces hurdles like underdeveloped financial markets, skill shortages in construction, and historically weak property rights.

Key Investment Factors

1. **Physical Property Rights[328] (2/5):** Ethiopia's lower performance in property rights creates uncertainty for developers and can deter long-term real estate investments.
2. **Labor Force[329] (3/5):** Although the country has a large labor pool, limited vocational training and skill gaps affect construction quality and real estate management.
3. **Domestic Market Scale[330] (3/5):** A growing population and accelerating urbanization offers ample demand for residential and commercial projects. Furthermore, proposals are being considered to allow foreign nationals to own property in Ethiopia, potentially expanding investment opportunities in the real estate sector.
4. **Land[331] (5/5):** Ethiopia's vast land resources present significant opportunities for large-scale developments, though All land in Ethiopia is state-owned, it can only be leased.
5. **Financial Market[332] (2/5):** Restricted access to credit and investment vehicles impedes both local developers and foreign buyers, highlighting the need for deeper capital market reforms.

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.

While weaknesses in property rights,

skilled labor, and financial services pose immediate challenges, Ethiopia's demographic and land advantages provide a solid foundation for real estate growth. By strengthening legal frameworks, expanding access to capital, and investing in workforce development, the country can unlock substantial FDI inflows and bolster the sector's contribution to overall economic development.

12. Financial Sector

Ethiopia's financial sector has grown steadily—total assets reached **3,409.4 billion Birr** in 2024, a **15.1%** increase from 2023—yet it remains underdeveloped, with banking dominating **96.1%** of the system.[333] Recognizing the need for modernization & external capital, Ethiopia opened its financial sector to foreign investors in 2024 under HGER 2.0, aiming to boost efficiency and technology adoption. [332] [335] This move mirrors experiences in countries like Kenya, where financial liberalization spurred significant foreign direct investment & a more sophisticated capital market.[336] Nonetheless, Ethiopia's financial system still faces structural & operational challenges, from limited credit access to a shortfall in skilled labor, all of which constrain its ability to attract & retain substantial FDI.

Key Investment Factors

1. **ICT Infrastructure[337] (1/5):** Underdeveloped digital connectivity hinders the adoption of modern banking technologies & advanced financial services
2. **Skilled Labor Force[338] (3/5):** Ethiopia's growing labor pool lacks the specialized skills essential for high-level financial operations, limiting sectoral innovation.
3. **Domestic Market Scale[339] (3/5):** A large population base creates a robust customer pool, positioning Ethiopia for increased demand for diverse financial products.
4. **Financial Market[340] (2/5):** Limited financial depth restricts both local and foreign participation, though recent reforms to liberalize the sector substantially alter this landscape. Also, as a last frontier market, Ethiopia offers vast opportunity.
5. **Physical Property Rights[341] (2/5):** Weaker property rights can dampen investor confidence in financial assets, underscoring the need for clearer legal frameworks and enforcement.

While Ethiopia's expansive domestic market and recent policy shifts promise to draw more foreign investment, challenges in ICT infrastructure, skilled labor, and property rights must be addressed to realize the sector's full potential. By strengthening regulatory frameworks, developing human capital, and modernizing digital infrastructure, Ethiopia can evolve into a more competitive and inclusive financial hub.

13. Health Service

Ethiopia's health sector has made notable progress in recent years[342] [34]evidenced by improved disease control measures & rising GDP contributions[344]yet it remains

challenged by uneven service quality, shortages of skilled professionals, and limited modern medical infrastructure. Communicable diseases still pose significant threats, while non-communicable diseases are on the rise alongside the country's growing middle class.[345] Despite these healthcare demands, FDI in the sector remains minimal, highlighting an underutilized opportunity to expand private engagement.[346] Initiatives aimed at strengthening regulatory frame-works, boosting training programs, and modernizing facilities could attract greater investment & improve overall healthcare outcomes.

Key Investment Factors

1. **Labor Force[347] (3/5):** A moderate pool of trained healthcare professionals indicates potential, but gaps in specialized skills and clinical expertise limit high-quality service expansion.
2. **Living Conditions[348] (2/5):** High rates of multidimensional poverty constrain patients' ability to pay for care, though rising incomes in urban areas are gradually boosting private healthcare demand.
3. **Research and Development[349] (1/5):** Limited R&D capacity curbs innovation in treatments, medical devices, and service delivery, underscoring the need for partnerships and enhanced research funding.
4. **Domestic Market Scale[350] (3/5):** Ethiopia's large population drives substantial healthcare needs, offering growth prospects for investors, especially as non-communicable diseases increase.
5. **Intellectual Property Rights[351] (2/5):** Weak IP protections can deter foreign companies from introducing advanced medical technologies and pharmaceutical research.

While Ethiopia's large population promises sustained demand for healthcare, the sector's full potential is hampered by skill shortages, insufficient R&D, and inadequate IP safeguards. By prioritizing workforce development, fostering research collaborations, and strengthening IP regimes, Ethiopia can create a more favorable environment for foreign direct investment in the health sector.

14. Wholesale and Retail Sector

Ethiopia's wholesale and retail sector, contributing around **15% to GDP** and employing over **42%** of the active workforce, has seen notable growth driven by rapid urbanization, population expansion, and rising incomes. Despite these gains, the market remains relatively underdeveloped, with limited consumer spending power compared to regional peers. Fresh product supply chains rely heavily on informal channels, while modern outlets like supermarkets primarily handle processed goods.[352] A recent directive (**No. 1001/2024**) opens export, import, wholesale, and retail trades to foreign investors for the first time, aiming to inject capital and foster competition.[353] However, poor road infrastructure, low cluster development,

& underdeveloped logistics still constrain efficiency & raise operational costs.

Key Investment Factors

1. **Domestic Market Scale**[354] **(3/5):** Ethiopia's large and growing population presents significant demand for consumer goods, supporting the sector's expansion.
2. **Road Infrastructure**[355] **(2/5):** Inadequate Road networks hinder the timely movement of goods, especially for bulk shipments, limiting overall retail and wholesale efficiency.
3. **Living Conditions**[356] [357] **(2/5):** High levels of multidimensional poverty reduce disposable incomes and constrain consumer spending, particularly outside major urban centers.
4. **State of Cluster Development**[358] **(1/5):** Low clustering of retail outlets impedes convenience for consumers, increasing travel costs and limiting foot traffic for stores.
5. **Logistics (2/5):** Underdeveloped logistics networks drive up operational expenses, slow supply chains, and complicate e-commerce growth, deterring some foreign investors.

By improving road connectivity, enhancing logistics, & encouraging retail clustering, Ethiopia can better leverage its sizable population and favorable policy reforms to attract foreign direct investment in the wholesale & retail sector.

15. Energy Sector

Ethiopia's energy sector has seen steady expansion, with electricity generation reaching **17.7 billion** KWH in 2022/23—a **14.2%** increase over the previous year.

Hydropower remains dominant (**96.7% of output**),[359] but diversification into wind, geothermal, and solar is a government priority. Ethiopia's abundant renewable resources—an estimated **45,000 MW** of hydropower and **1.3 million** MW of wind—underscore vast untapped potential.[360] Ongoing reforms, such as allowing foreign participation in power PPPs and offering new currency convertibility guarantees, aim to attract international capital.[361] Still, recurring droughts, a limited skilled workforce, and land governance issues hamper development. Despite these hurdles, electricity exports to regional neighbors demonstrate the sector's growing economic importance and revenue potential.

Key Investment Factors

1. **Labor Force**[362] **(3/5):** Although labor is affordable, specialized energy-sector skills are lacking, posing a challenge for large-scale project implementation and maintenance.
2. **Economic Complexity**[363] **(2/5):** Ethiopia's relatively undiversified economy limits advanced energy demands, though ongoing industrialization may drive more sophisticated energy usage over time.
3. **Physical Property Rights**[364] **(2/2):** Insecure land rights elevate investment risk by increasing the likelihood of disputes and project delays, particularly for large-scale infrastructure developments.

4. **Domestic Market Scale[365] (3/5):** A fast-growing population offers substantial potential for electricity consumption, incentivizing new power generation and distribution ventures.
5. **Living Condition[366] (2/5):** High levels of deprivation mean expanding access to modern energy services could significantly improve quality of life—yet lower purchasing power may temper immediate returns.

Ethiopia holds the lowest competitive position in the energy sector, ranking 7th among its regional peers. This places the country at the bottom of the competitiveness scale, highlighting substantial areas that require improvement to attract investment and drive sectoral development. Despite Ethiopia's high potential in renewable energy—particularly in hydropower and other clean energy sources—the country lags in key investor priority indicators.

With abundant renewable resources and an increasing policy focus on liberalization, Ethiopia's energy sector presents promising opportunities for foreign investors. Enhancing land governance, cultivating specialized talent, and diversifying beyond hydropower will be critical for unlocking the sector's full potential and sustaining its contribution to national development.

16. Education Sector

Ethiopia's education sector has expanded significantly in recent decades, with a net primary enrollment rate reaching **88.7%** in 2021/22.[367] The government's sustained commitment—reflected by over **USD 1 billion** allocated annually—has led to over **360** higher education institutions nationwide.[368] However, quality remains a pressing concern: **90%** of **10-year-olds** struggle with basic reading comprehension, while rural regions face persistent access and retention gaps. Recent conflicts, the pandemic, and climate events have further impeded learning outcomes, contributing to at least **13 million** out-of-school children. Foreign direct investment in education is limited, with only six licensed projects between 2019 and 2023,[369] underscoring a need for stronger private engagement to improve both access and quality.

Key Investment Factors

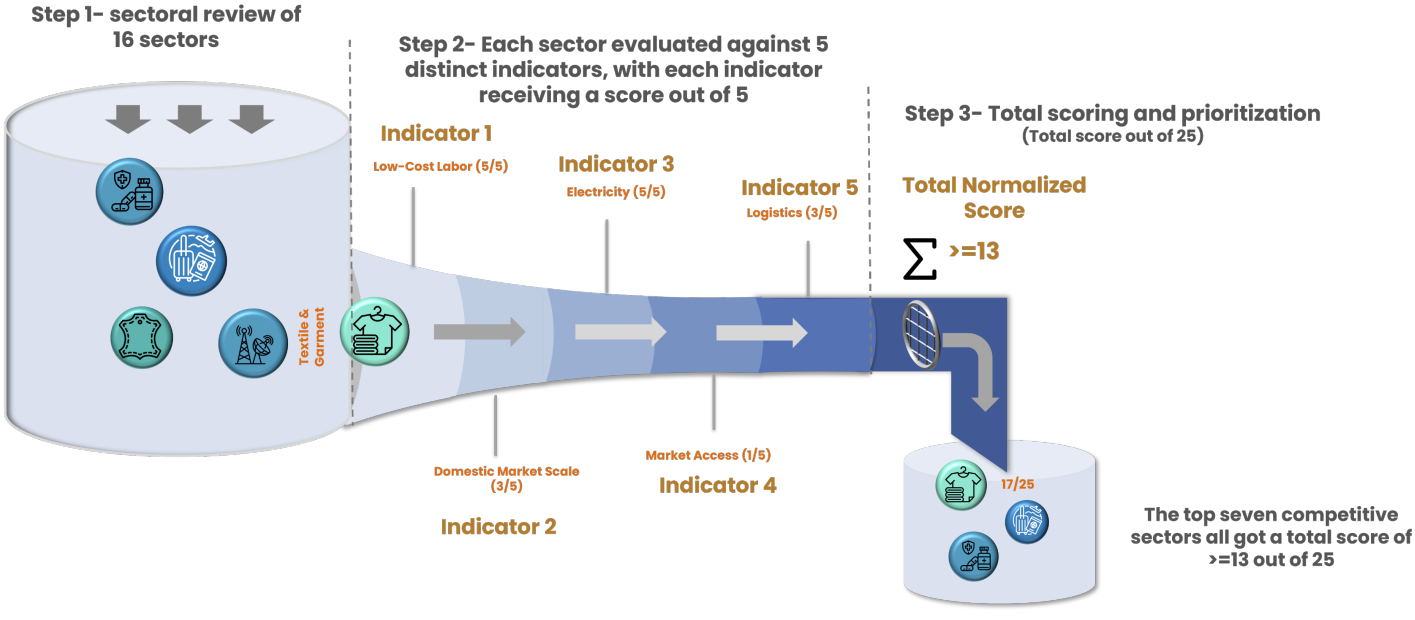
1. **Labor Force[370] (3/5):** A limited pool of well-trained educators hinders effective instruction and deters large-scale private investment in schools and universities.
2. **ICT Infrastructure[371] (2/5):** Underdeveloped digital networks constrain the adoption of technology-enhanced learning and EdTech solutions.
3. **Living Conditions[372] (2/5):** High poverty levels reduce household capacity to invest in private education, although a rising middle class is creating new demand.
4. **Domestic Market Scale[373] (3/5):** Ethiopia's large and youthful population presents significant growth potential for both K-12 and higher education services.

5. **Intellectual Property Rights[374] (2/5):** Weak protections for educational content and research materials may deter investors seeking to develop or license innovative curricula and digital resources.

Despite these challenges, Ethiopia's demographic trends and ongoing government commitment suggest ample opportunities for investment in private education, teacher training, and EdTech solutions. Strengthening teacher training programs, upgrading digital infrastructure, and improving IP protections will be key to attracting more foreign direct investment and ensuring a higher-quality education system.(Table 4.1(Annexed))

Figure 4.2

Prioritized Sectors





Conclusion & Recommendations

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5 Conclusion and Recommendation

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.

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.

5.1 Recommendation To Enhance FDI Competitiveness In Priority Sectors

To fully unlock the investment potential of these sectors, Ethiopia must implement cross-sectoral reforms focused on key policy, infrastructure, financial, and institutional improvements.

Financial Sector Liberalization and Forex Management: Expand financial market liberalization, strengthen currency risk mitigation tools, enhance forex access for priority industries, and promote financial inclusion through venture capital, commercial lending, and Real Estate Investment Trusts (REITs).

Workforce Development and Skills Enhancement: Develop industry-specific training programs, foster PPPs with international institutions, establish sectoral training centers in industrial parks, and strengthen university-industry collaboration for research and development (R&D).

Value Chain and Cluster Development: Expand domestic production capabilities, establish integrated industry clusters, strengthen backward linkages, and incentivize local processing of agricultural products through tax breaks and investment grants.

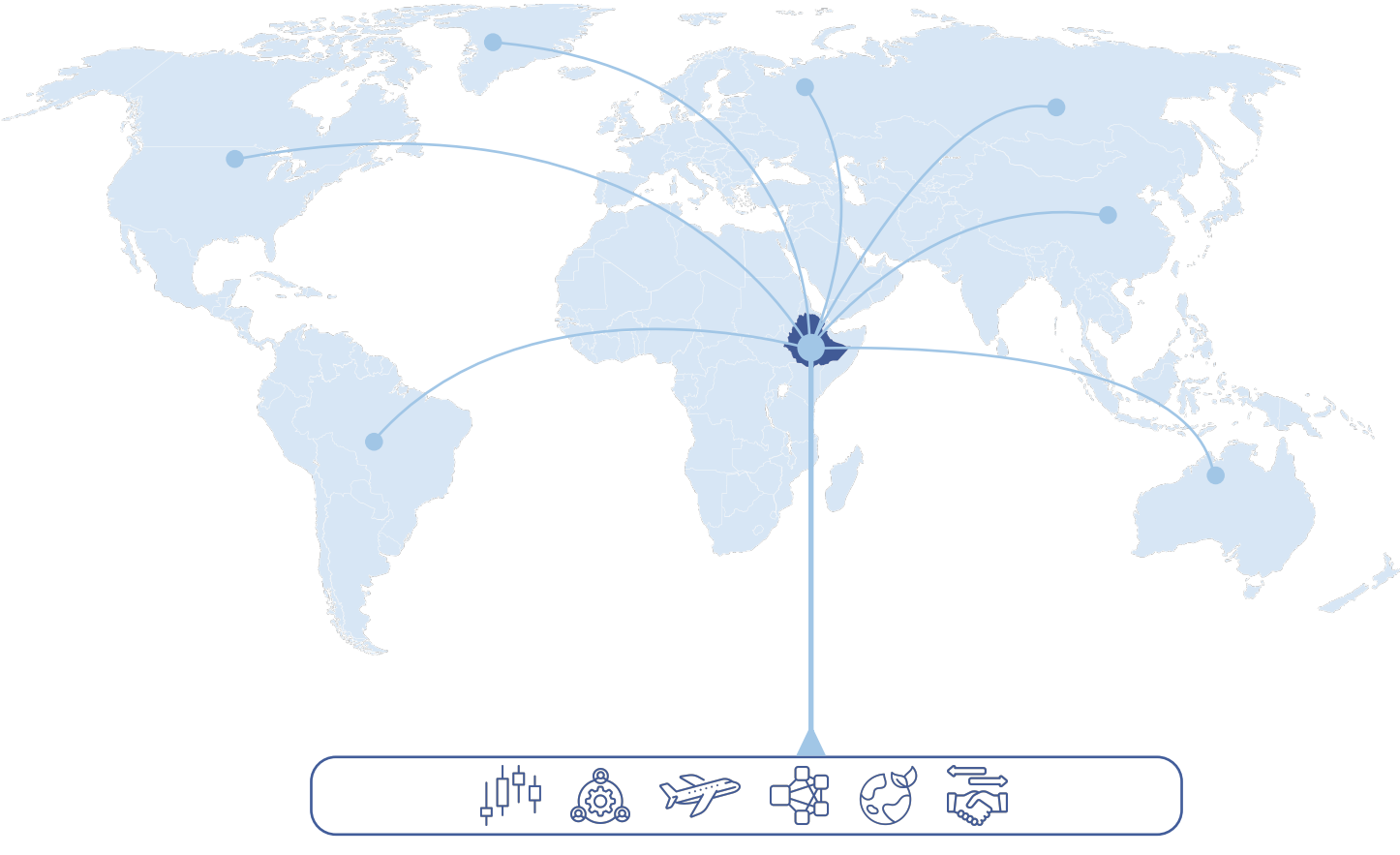
Infrastructure Development and Logistics Improvement: Invest in transport and logistics infrastructure, improve cold storage and supply chain facilities, expand broadband and telecom networks, and develop smart urban planning frameworks.

Trade Facilitation and Market Access Expansion: Strengthen participation in regional and international trade agreements, simplify customs procedures, and promote Ethiopia's key exports through global branding initiatives and international trade fairs.

Investment Climate and Regulatory Enhancements: Strengthen intellectual property (IP) protection laws, finalize legal reforms for foreign ownership in real -

estate, enhance transparency in land administration, and improve ease of doing business through e-governance initiatives.

Sustainable Development and ESG Compliance: Strengthen Ethiopia's ESG framework, expand renewable energy investments beyond hydropower, establish sustainable mining practices, and develop responsible tourism policies.





Reference

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Annex & Notes

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Table

Comparison of Normalized Scores for Key Economic Indicators and Sectoral Performance Across Selected African Countries

Countries	Normalized Scores for Indicators (out of 5)																				
	Low-cost Labor	Domestic Market Scale	Electricity	Market Access	Financial Market	Cluster Development	Livestock Population	Transport Infrastructure	Logistics	Skilled Labor Force	University-R&D Collaboration	Accreditation and Standards	Arable Land	Sustainable Development	Intellectual Property Rights	ICT Infrastructure	Physical Property Rights	Urban Land	Natural Resource	Economic Complexity	Living Conditions	Agro-processing
Ethiopia	5	3	5	1	2	1	5	2	3	3	2	2	3	3	2	1	2	5	4	2	1	3
Kenya	4	3	2	2	3	3	5	2	4	4	3	2	4	4	3	3	3	4	3	3	4	2
Rwanda	5	2	2	1	3	2	3	2	3	3	2	2	4	4	3	3	3	3	3	2	3	2
Uganda	5	3	3	1	4	2	5	1	2	4	2	2	3	3	3	2	3	4	4	2	2	3
Tanzania	5	3	3	1	3	3	5	1	3	4	3	2	4	3	3	2	3	5	4	1	3	2
South Africa	3	5	3	5	5	3	5	2	4	3	3	3	1	4	3	4	3	5	4	3	5	2
Morocco	3	4	3	3	3	2	4	2	4	3	2	2	4	4	4	3	3	4	2	3	5	2

Countries	Total Normalized Score for Top 10 Key Sectors (out of 25)									
	Textile and Garment Sector	Leather and Leather Products Sectors	Pharmaceutical Sector	Commercial Agriculture	Tourism Sector	Telecom and Ict Sector	Real Estate	Mining Sector	Energy Sector	Agro-Industry
Ethiopia	16	14	13	15	13	14	17	12	11	11
Kenya	14	16	16	17	16	15	17	15	17	14
Rwanda	13	13	12	15	14	13	16	13	13	10
Uganda	16	14	13	14	15	15	19	15	14	11
Tanzania	15	15	15	16	14	15	19	15	14	12
South Africa	21	18	18	18	19	18	21	17	19	19
Morocco	16	14	15	18	16	17	17	12	18	15

Table 4.1

Summary of Sectoral Competitiveness Analysis

	Textile and Garment Sector	Leather and Leather Products Sector	Pharmaceutical Sector	Commercial Agriculture	Agro- Industry	Tourism Sector	Mining Sector	Digital Economy Sector	Telecom and ICT Sector	Transport and Logistics	Real Estate	Financial Sector	Health Sector	Wholesale and Retail Sector	Energy Sector	Education Sector
Total Score	17	14	13	15	11	13	12	12	14	12	17	11	10	10	11	10
Indicators																
Low-cost Labor	5	5		5							5					
Domestic Market Scale	3		3	3	3	3			3	3	3	3	3	3	3	3
Electricity	5							5	5							
Market Access	1	1		1	1											
Logistics	3		3	3	3									3		
Cluster Development					1		1							1		
Livestock Population		5														
Transport Infrastructure		2				2	2			2				2		
Skilled Labor Force			3			3	3	3	3	3		3	3		3	3
University-R&D Collaboration			2					2								
Accreditation and Standards Authority			2													
Arable Land				3												
Agro-processing Input					3											
Financial Market						2	2				2	2				
Sustainable Development						3										
Natural Resource							4									
ICT Infrastructure								1	1	1		1				1
Support for Startup Ecosystem								1								
Intellectual Property Rights									2				2			2
Trade Volume										3						
Physical Property Rights											2	2			2	
Urban Land											5					
Living Conditions													1	1	1	1
Economic Complexity															2	
Research and Development													1			

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