DG DEVCO C4

Trade and Private Sector Development Facility

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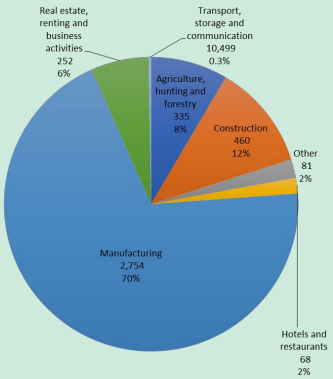
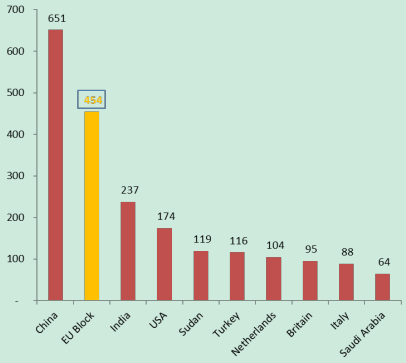
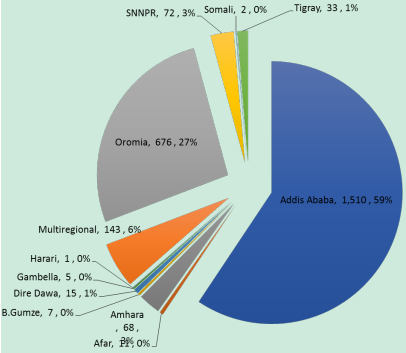
Total FDI sector distribution by investment size (USD Mn)



Top 10 investors in Ethiopia by number of operational companies



Regional distribution of FDI



The TPSD Facility is implemented by DAI

Mapping of EU Businesses in Ethiopia EU Investment in Ethiopia and Two Sector Investment Profiles

August 2017 - April 2018

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Background and justification

Ethiopia's economic growth has been remarkable in the past decade, and the country has been driving increased private sector involvement, with particular attention given to developing the manufacturing sector and an increased export of both primary resources and semi-processed products. The Government strategy follows a heavy focus on a rapid industrial transformation of the economy, emphasizing not only local private sector development, but also increased Foreign Direct Investment (FDI), seen as an avenue to access international supply chains and secure transfer of knowledge and technology to the country's burgeoning manufacturing sector. To this avail, the government has been working to improve its investment climate and promote particular sectors of its economy to attract foreign companies to invest.

Attracting FDI is generally seen as an integral part of the development policy mix that leads the way to the required sustained economic transformation. Currently Ethiopia has, through increased economic diplomacy, been working to increase FDI inflow from US and Europe, and increase the transfer of advanced knowledge and technology from these regions.

Government strategy is not focusing on increasing the number of projects anymore, but on proactively prioritizing attracting bigger investments and FDI from companies that have an established track record of making long-term investments, and with the necessary financial and technological capability that can not only help it achieve its industrialization targets, but push forward the "made in Ethiopia" export led action plan by accessing their well-established global networks and value chains.

EU companies show great interest in investing in Ethiopia, but still too few take action towards long-term investment, in contrast to Chinese and other emerging market businesses. Many quote the barriers and challenges in the form of complex and inconvenient rules, foreign currency restrictions, bureaucratic hurdles and a prohibitive and difficult tax/customs administrative environment. Addressing these issues to increase EU member states' FDI inflow requires a more conducive dialogue between the EU and the governmental authorities.

International Cooperation and Development

Objectives

The main objective of the assignment was to facilitate the work of the EU Delegation and the EUBFE in its dialogue with the Ethiopian Authorities in attracting more European FDI. This was achieved by compiling information (in the form of sector profiles), and facilitating dialogue with Ethiopian authorities, to ultimately support a conducive business environment in Ethiopia and, as a result, to encourage investments by European companies.

Findings

Analysis of data available from various stakeholders shows that the net FDI flow into Ethiopia for the past 10 years has steadily increased, recorded end of 2017 at 3.5 billion USD, with an average growth rate of 24% year on year, though the total capital registered and invested has declined year on year. This is likely due to land acquisition challenges and the longer lead-time for the fewer-but-larger investment attraction approach that Ethiopia is pursuing.

EU investments

Over the past five years:

- Of a total estimated 19.6 billion USD, the EU block has a 15% share of FDI investment stock.
- Turkey and India follow with shares of 9% and 7% of the total respectively.
- China has a share of almost 25% of the total with an estimated 2 billion USD of operational investments and an indicative 1.8 billion USD of projects under establishment.

Main sectors

The majority of FDI investments are in manufacturing, which makes up 72% of total FDI investment at around 14.1 billion USD, largely from non-EU investments: China takes the lead, closely followed by Turkey. The EU has around 640 million USD invested in the manufacturing sector, but more than 70% of this is represented by French, Dutch, and UK brewery investments.

EU block FDI seems more likely to be committed in joint ventures than FDI from other countries: roughly 45% of EU investments are joint ventures, whereas only 30% of all investments, in aggregate, are the same.

Recommendations

Preliminary queries of the data demonstrate that the EU has a substantial presence within Ethiopia. It is in effect, as a block, as large a presence as China and India, its closest "competitors". However, as evidenced by the findings and trends, investments from other countries such as Turkey and India will soon outstrip the EU presence in-country.

Furthermore, investments by these competitors are increasing in size, making them larger contributors to FDI within Ethiopia, and garnering an increasingly more favourable stance from the Ethiopian government. The EU and its member states therefore should reflect on their long-term engagement for investment promotion to Ethiopia. A strategy to attract FDI from EU Member States needs to be designed and put in place, or the EU may find itself just a minor player within a country with which it has held a long relationship. Strong and unified coordination amongst member states is needed in approaching FDI promotion and ensuring EU member states' firms investments.

While the EUBFE represents the local platform for EU companies to engage with the government in a unified manner, in line with pillar 3 of the EU's External Investment Plan (in particular the SB4A platform), it is nonetheless evident that not enough resources have been dedicated to such platform. The EUD through technical assistance available at EU HQ level should strongly consider supporting the EUBFE with human resources, especially around intelligence gathering that can and will be helpful to both entrant investors and existing ones.

Main take-aways

1) Any future dialogue based should include discussions on designing better methods and approaches to studying and understanding the FDI environment in Ethiopia,
2) There is wide mis-coordination between actors and a harmonization of the use and adoption of definitions of FDI is crucial,
3) Increased investments should be made to ensure more efficient data collection and management strategies from relevant institutions in the future.