

Ethiopia Information Kit

For Japanese Businesses



**GRIPS Development Forum
December 2015**

An Invitation to Ethiopia

This booklet has been prepared to offer useful information to Japanese businesses seriously interested in doing business in Africa. In many developing countries, information presented to potential foreign investors is too beautiful and superficial with a long wish list, despite the fact that foreign investors really want honest, detailed and pragmatic information. The GRIPS Development Forum team has visited a large number of countries in Asia and Africa to compare the quality of industrial policy, and found that only a handful of countries offer truly useful information to investors.

This booklet is one of the products of industrial policy dialogue which we are conducting with the Ethiopian Government. It aims to improve the quality of Ethiopia's information for the Japanese business community. The type of information needed is of course different from one industry to another, and even from one firm to another. We recognize the limit of usefulness of general information that can be conveyed in a printed form like this. We hope to collect and update more individualized information in the future.

Ethiopia is not a typical "African country." True, it faces many problems just like any other low income country, and its business climate is far from perfect. Nor is it endowed with rich mineral resources like some other nations in Africa. However, Ethiopia is rapidly emerging as a country of great advantages that can offset these weaknesses. Especially in labor-intensive manufacturing, the country is beginning to attract a large amount of investment from Turkey, India, China, Taiwan, Korea and other emerging economies, as well as from US and UK. They often take the form of OEM production of high-end apparel and footwear, which is creating a new export base. Decades ago, there was a wave of industrialization in East Asia that originated in Japan and spread to Newly Industrializing Economies (Singapore, Hong Kong, Taiwan, Korea), the Association of Southeast Asian Nations (Malaysia, Thailand, Indonesia, Philippines, Vietnam, etc.), and China. This wave may have finally arrived in Africa.

Furthermore, Ethiopia's special products such as high-quality leather, flowers, coffee, sesame, gemstones, etc. also offer great business opportunities. We believe Ethiopia is a country that is well worth investing for Japanese companies even with risks and uncertainties. This belief is based on Ethiopia's labor quality and low wage, serious attitude of the government, willingness to learn from Japan, good climate and personal security, and political stability. We hope to introduce these aspects as vividly as possible in this booklet.

Situations and policies are changing fast in Ethiopia. Moreover, we cannot deny the possibility of ambiguous interpretation and implementation of laws and regulations. We are making inquiries to policy makers to eliminate uncertainties as much as possible. We highly recommend that you check the latest information before making a decision to invest in Ethiopia.

This booklet was compiled and published by the GRIPS Development Forum which is solely responsible for the content. It does not represent the official views of the Ethiopian or the Japanese Government.

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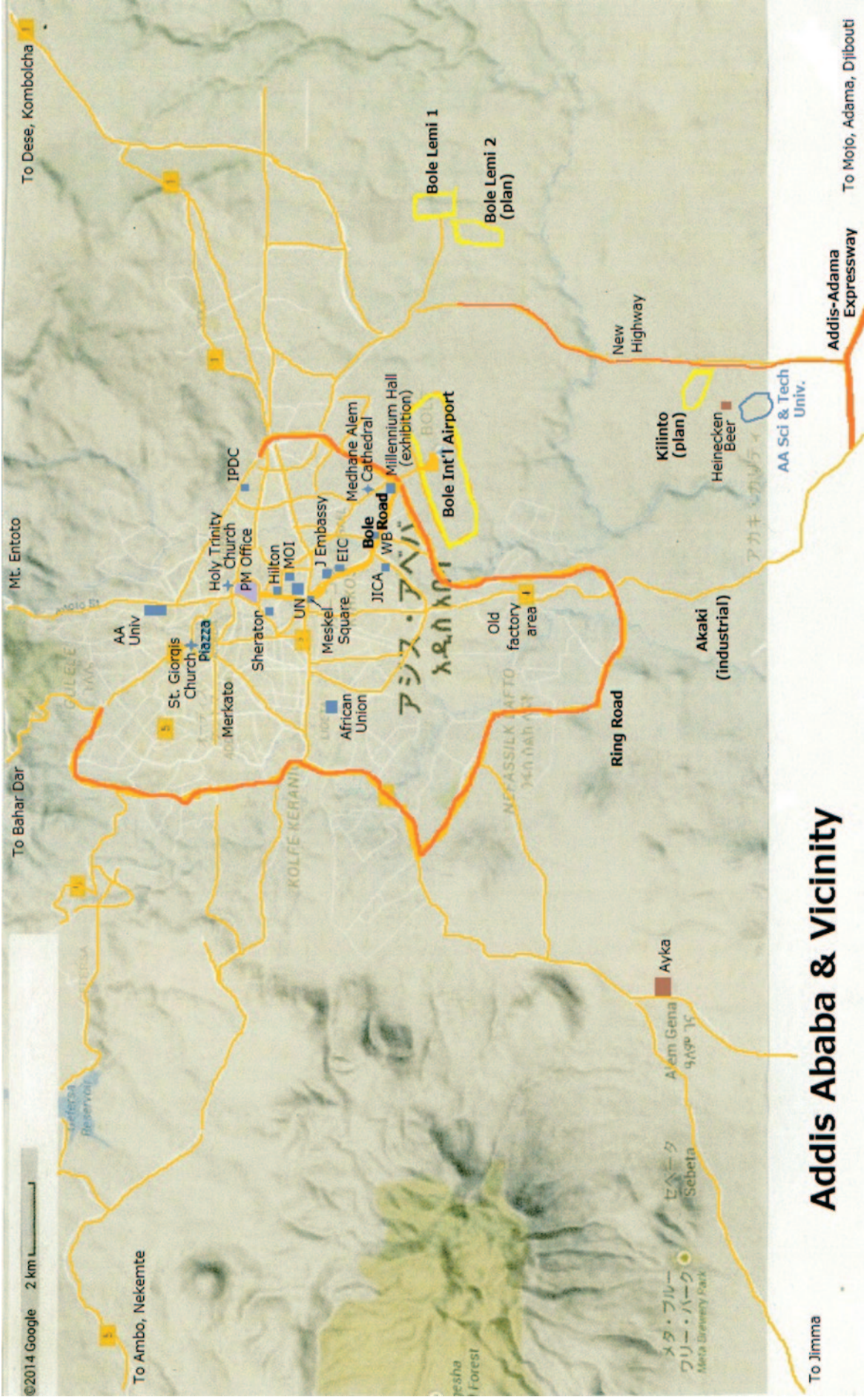
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Source: Ethiopian Investment Commission, *Invest in Ethiopia 2014*.



Addis Ababa & Vicinity

Ethiopia in 2015



Strawberries



Addis-Adama Expressway



French wine Made in Ethiopia



Addis Light Rail starts service



Constructing Hawassa Industrial Zone



Addis-Djibouti New Railway under construction



Aerial view of Bole Lemi 1 Industrial Zone

Chapter1

What is Ethiopia?



1 Basic information

Impression of the country

In April 2015, Ethiopian Airlines started to fly direct from Tokyo to Addis Ababa in about 16 hours even with one-hour refueling in Hong Kong (B787, three services per week). Ethiopia can also be reached by Emirates flights with a stopover in Dubai. Addis Ababa, the capital city, enjoys a pleasant climate with temperature of 15-25C despite its low latitude (9 degrees north) because it is situated on Abyssinian Highlands about 2,400 meters above the sea level. We need a jacket in the morning and evening. The rainy season may even be chilly (the major rainy season is February-May; the minor rainy season is June-September). The dry season (October-January) is generally nice, but may be too dry for skin-sensitive people. High altitude gives Addis Ababa an advantage of no tropical diseases such as malaria, but some suffer from mountain sickness due to thin air. One worry for Addis residents is the worsening air quality due to increasing automotive emission, for which no systematic data collection or policy action has been started.

Our first visit to Addis Ababa was in the summer of 2008. The Ethiopian Government was already serious about industrial policy, but industry was still embryonic and Addis streets revealed the low-income status of the country. Bole Road was not very impressive, the selection of souvenirs was limited, and few modern high-rise buildings were visible. Beggars were at intersections. Japanese

Official name	The Federal Democratic Republic of Ethiopia
Politics	Federalism with multiple parties
Head of State	President Mulatu Teshome Wirtu
Prime Minister	Prime Minister Hailemariam Desalegn
Capital city	Addis Ababa (the African Union and the UN Economic Commission for Africa are headquartered in Addis Ababa)
Regions	Nine regional states and two chartered cities (Addis Ababa & Dire Dawa)
Independence	No history of colonization except brief Italian occupation (1936-1941)
Area	1.14 million km ² (3 times the size of Japan)
Population	84.8 million (2012/13 census); other sources report 90 million or more
Religion	Ethiopian Orthodox Church and Islam. There are also traditional religions.
Language	Amharic is the administrative language. Oromo and Tigrinya are also widely spoken. Total of 83 languages and over 200 dialects. English is used for education and business.
Ethiopian calendar	A year, starting on September 11, is divided into 12 months each consisting of 30 days and the thirteen month consisting of 5-6 days. It is about 7.5 years behind the Gregorian calendar. A fiscal year begins on July 8.

Source: Ethiopian Investment Commission, *Invest in Ethiopia 2014*, with addition and edition by the author.

ODA targeted human security concerns such as food aid and digging wells. Addis Ababa was home to the African Union and the United Nations Economic Commissions for Africa, but their buildings also looked outdated (By now the AU Headquarters was rebuilt into a modern complex thanks to Chinese). Addis Ababa reminded us of Vietnam in the mid 1990s. In those days, Hanoi was without traffic lights, with no skyscrapers, and car and motorbike traffic was limited. Buildings were historical and aged, western style shops and restaurants were few and far between (and not very attractive). Moreover, only foreigners were sighted at such shops and restaurants.

Today, Addis Ababa is in the midst of construction craze by both private and public hands. Although features of a low-income country still abound, many new things have emerged since seven years ago. The city has many new shops, office buildings, hotels, apartments, public housing, roads and factories. Underpasses have been created on Bole Road to ease traffic. Urban Light Rail started running (North-South & East-West) and a railroad to Djibouti is in progress (both thanks to China). Addis still has less skyscrapers than Hanoi or Hochiminh City, but construction cranes are everywhere in the city.

Due to its past problems, the country image of Ethiopia has been quite negative. For most uninformed foreigners, Ethiopia is associated with a military regime (1974-91), refugees, poverty, droughts, hunger, a separation war with Eritoria (1998-2000), and instability in neighboring countries. The Ethiopian Government is well aware of this, but effort to reverse the image significantly is only beginning.

Today there is no war or starvation in Ethiopia. Political stability has been maintained since 1991. The country boasts little corruption and good personal security by the standard of developing countries. During the last decade an average double-digit economic growth has been maintained, which is highest in Africa. According to the late Prime Minister Meles, Ethiopia's policy concern turned from mere survival to industrialization around 2002-03 when difficult problems had been largely overcome. The current state effort is directed to the vitalization of agriculture and manufacturing. The policy menu includes introduction of new farming technology, strengthening private enterprises, national kaizen movement, export promotion, industrial zones, attraction of manufacturing FDI and technology transfer—which is little different from what East Asian developing and emerging economies are doing. Japanese cooperation has also shifted to industrial policy dialogue, kaizen, champion products, and advice on GTP1 and GTP2.

Our team has visited the so-called Donors' Darling countries in Africa to compare industrial policy capabilities. Our impression is that there are only about three governments in Africa that may be capable of implementing effective development policies: Mauritius, Rwanda and Ethiopia.

Land and people

Ethiopia is the second most populous country in Africa after Nigeria. Although the demographic statistics is somewhat uncertain, the current population of 90 million will soon reach 100 million. This

population size is almost equal to that of Vietnam. Due to low income Ethiopia is not yet a huge consumption market, but will be one in the future if industrialization proceeds smoothly. If investors are targeting low-income consumption goods or construction materials, it is already a big market.

The central part of Ethiopia is a highland of 2,000 to 3,000 meters in elevation, which offers a cool climate despite its proximity to the equator. In fact, the bulk of population is scattered in the highlands rather than the hot lowlands. However, Ethiopian highlands mostly consist of mountains, valleys and hills which makes it extremely difficult to supply infrastructure services such as power, water and road access to smallholder farmers spread widely over the terrain. Decentralized production of such services in each locality, rather than centralized supply, may be suitable. Ethiopia also contains dry lands inhabited by nomads, green-covered southern region (a place where coffee originated), and the Great Rift Valley with volcanic activities.

Looking back, Ethiopia boasted one of the high civilizations in ancient era which produced myths of the Queen of Sheba as well as Cassiopeia, Cepheus and Andromeda. Kingdoms and empires continued for about 3,000 years. Ethiopia was never colonized by foreign forces except for a brief period of Italian occupation from 1936 to 1941. This is a unique feature of Ethiopia unlike most other African countries. This long history generated a unique culture including the Amharic language, the Ethiopian calendar and the Ethiopian Orthodox Church. Ethiopians are not like other African people; they are often slim and thin-faced, serious and diligent, highly disciplined and relatively quiet. Ethiopians are also a proud people. The Battle of Adwa, in which the Ethiopian Imperial Army defeated the Italians in 1896, remains a national pride to this date. The Ethiopian Government does not easily follow the instructions of foreign donors or international organizations unless it is truly convinced. Some governments outsource policy documents to foreign consultants, but Ethiopians never do that. They write up policies by themselves even if their policy capability is less than perfect. Foreigners are only allowed to offer policy analyses and proposals that may go into the policy document.

Ethiopian dishes are also unique. The staple food is injera (sour crepe?) made from teff flour. Injera is placed over a plate, spicy thick stews of chicken, beans and other ingredients are placed on it, and a hand is used to pick them up with another injera. Ethiopian dances are also special; sharp and dynamic movement of the entire body reminds us of Ainu dances in Hokkaido. Popular music does not sound like Western music; in fact the melody and rhythm are more like Japanese *enka*. Actually, we even sometimes hear Japanese CDs played in Ethiopian shops and restaurants.

Ethiopia is home to as many as nine world heritage sites, which puts the country at the top of Africa along with Morocco. Despite this, Ethiopia is not as popular among tourists as the pyramids in Egypt or safaris in Tanzania and Kenya. Tourism potential is great but infrastructure for comfort travel is still underdeveloped. Our team had an opportunity to rent a four-wheel drive to visit the Blue Nile Falls, Gondar Castle, and rock-cut churches in Lalibela. It was a great experience we will never forget, but hotels we stayed, even the best ones in town, were often without power or hot water and the restaurant menu was very short. Travelers staying at roadside motels may not even have a functioning

toilet. At present, we do not necessarily recommend remote areas of Ethiopia to honeymooners or Japanese seniors who require full amenities. But if you are an adventurous traveler, Ethiopia can offer a very exciting journey.

Let us turn to Ethiopian politics. The Mengistu regime (Derg) that brought war, starvation and suppression to the Ethiopian people was removed by the military attack by the Ethiopian People's Revolutionary Democratic Front (EPRDF, which is the current ruling party) in 1991. After a period of an interim government, the Federal Democratic Republic of Ethiopia (the current regime) was established. From 1991 to 2012, Meles Zenawi, originally an anti-government fighter, led the country. We were fortunate enough to have a series of policy dialogue with Prime Minister Meles during his last years. We were greatly impressed by his strong beliefs, intelligence and action orientation—he was truly a remarkable national leader. At the same time, his powerful ways were often criticized as developmental dictatorship by Western donors and NGOs. In the summer of 2012, Mr. Meles passed away and was succeeded by Deputy Prime Minister Hailemariam Desalegn. Through our continued policy dialogue with Mr. Hailemariam, we realize that his leadership is as pragmatic and action-oriented as that of Mr. Meles. Western critics seem to be more comfortable with Mr. Hailemariam who has no history of internal fight against political enemies.

The national election of Ethiopia takes place every five years. The election in 2005 was accompanied by violence, but the ones in 2010 and 2015 were peaceful and both resulted in a landslide victory for EPRDF.

2 The economy in the past and at present

A typical latecomer

Main economic indicators are shown in Table 1. Ethiopia recorded a very high average growth of 10.5% during 2006-2014. Despite this achievement, income per capita remains only \$565 as of 2014 (World Bank data) which places the country in the low income category by the World Bank classification. The reason for such a rapid growth, without any sign of significant industrialization or rising competitiveness, is a puzzle. We presume that it was a combination of (i) a low starting point; (ii) political stability; (iii) a large inflow of aid; and (iv) lavish subsidies, public works and a construction boom generated by the aid inflow, that was behind the past growth of Ethiopia. Rapid growth with little improvement in industrial competitiveness is often observed in a fragile or war-torn economy after peace is restored. Ethiopia shows many weaknesses typical of a low-income developing country. The road to economic development remains long and winding.

Inflation which was high during the last decade came down to a single digit level in 2013-2014, but returned to over 10% in mid-2015. Rampant inflation caused the worsening of the balance of

payments, shortage of foreign exchange, a widening income gap, and hoarding of certain products. These problems are not entirely solved even with less rapid inflation in recent years. Looking at the composition of GDP, the share of agriculture has gradually declined and that of service has risen. Industry (which is the sum of manufacturing, mining and construction) has not grown appreciably and its share in GDP remained stagnant at 12-13%. Manufacturing has long remained about 4-5% of GDP. In the balance of payments, import greatly exceeds export every year and the difference is financed by the inflows of FDI, private remittances and ODA. This is a standard pattern of a low-income developing country. Rural population remains over 80% of total, and large internal migration into urban areas so far has not occurred. On the other hand, the poverty ratio has fallen significantly perhaps thanks to the rapid economic growth.

These numbers suggest that Ethiopia is a typical latecomer country at present. However, we may add the following remark. Some countries in Sub-Saharan Africa are already in the “middle income” group but this is mainly due to their endowment of oil, gas, copper, diamond and other natural resources. Few of them earned a respectable income through competitive manufacturing or strong export of commercial crops (with the exception of a small island nation of Mauritius). In those “middle income” countries, there are a handful of very rich and privileged people while most farmers are living a meager life similar to their brothers and sisters in poorest countries. Meanwhile, in Ethiopia where natural resource export is small, income correctly reflects the competitiveness of its economy. This spares the country an unnecessary fight over resource revenue or policy diversion. Ethiopian national

Tab.1 Basic Data

	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP (current US\$ million)	15,281	19,708	27,067	32,437	29,934	31,953	43,311	47,525	54,798
GDP growth (annual %)	10.8	11.5	10.8	8.8	12.6	11.2	8.6	10.5	9.9
GDP per capita (current US\$)	194	244	326	380	342	356	470	503	565
Inflation, consumer prices (annual %)	12.3	17.2	44.4	8.5	8.1	33.2	22.8	8.1	7.4
GDP composition (%)									
Agriculture	45.9	45.5	48.4	48.6	44.7	44.7	48.0	45.0	42.3
Industry	12.5	12.5	10.9	10.3	10.2	10.5	10.3	11.9	15.4
Service	41.6	42.1	40.6	41.1	45.1	44.9	41.8	43.0	42.2
External transactions (US\$ million)									
Exports of goods and services	2,105	2,489	3,085	3,405	4,071	5,332	5,963	5,934	6,416
Imports of goods and services	5,548	6,270	8,350	9,224	9,735	10,080	13,699	13,812	16,151
Foreign direct investment (net)	545	222	109	221	288	627	279	953	...
ODA received (net)	2,045	2,573	3,347	3,840	3,544	3,558	3,278	3,845	...
Population (million)	78.7	80.9	83.1	85.3	87.6	89.9	92.2	94.6	97.0
Population growth (annual %)	2.7	2.6	2.5	2.5	2.5	2.5	2.4	2.4	2.2
Average exchange rate (birr/USD)	8.7	8.8	9.2	10.4	12.9	16.1	17.3	18.2	19.1

Source: World Bank, World Development Indicators database (accessed on Nov. 12, 2015).

leaders clearly state that growth based on mineral resources or aid is hardly sustainable and that manufacturing is the only way to go. Ability to recognize the nation's true economic position seems to drive the Ethiopians to the path of industrialization however hard and long it may turn out to be.

Preparation for Industrialization

Two decades ago when the current political regime was established, the Ethiopian economy was on the verge of collapse. Recovery was started by replacing economic planning with a market mechanism and receiving aid from donors and international organizations. In the political arena, the multiple party election system and federalism which permits autonomy to regional states were introduced. The period from 1991 to 1995 (promulgation of the new constitution) was spent for nation-building effort. Also, the strategy of Agricultural Development Led Industrialization (ADLI) was announced during that time in which interaction between agriculture and industry was highlighted, agriculture was supposed to prepare the conditions for full-fledged industrialization, and labor-intensive and export-oriented sectors were promoted.

However, the separation war with Eritrea and internal problems associated with this war made it impossible for Ethiopia to launch an effective economic policy for the moment. Only after a peace agreement was concluded with Eritrea in 2000, and more specifically from around 2002-2003, Ethiopia could finally concentrate on economic development effort. A series of policy initiatives were announced including Agricultural and Rural Development Policy and Industrial Development Strategy. The three-year plan (from 2002) and the five-year plan (from 2005) were launched. The previous (2010/11-2014/15) and current (2015/16-2019/20) five-year plans are entitled the Growth and Transformation Plan (GTP). Transformation here practically means industrialization. The objective of GTP I and II is to reach a stage where agriculture develops sufficiently, conditions for industrialization are prepared, and the main engine of growth shifts from agriculture to industry. GTP I had very high output and export targets for various industrial sub-sectors.

However, reality is not progressing as the Ethiopian Government hoped. Objectively speaking, industry has not yet attained the capacity to become a main engine of growth. Recent high growth was supported primarily by services and secondly by agriculture while manufacturing's share remains stagnant at around 4-5% of GDP despite the government effort.

ADLI paints a picture where domestic agriculture and industry stimulate each other and grow together, but the reality of Ethiopia is different from this. What emerged in the recent past was the start of a large inflow of labor-intensive manufacturing FDI into the country. Many of such FDI projects import all or most inputs for production although some use domestic leather or cotton. Even when domestic materials are used, FDI firms normally specify producers (or even produce materials by themselves) while enforcing strict quality control and production instructions prior to procurement. In other words, industrial growth is driven by FDI's initiative rather than by the success of past agricultural

policy. Thus, Ethiopia is beginning to follow the path of *FDI-led industrialization* similar to Southeast Asia. The success of this policy will not depend critically on prior domestic agricultural development. It is strict demand by FDI firms for high quality and reliable delivery to domestic producers (*supporting industries* in a broad sense) that motivates improvements in domestic agriculture and services.

3 Weaknesses of a developing country

Of course, not everything is rosy in Ethiopia. Just as in all other low-income countries, the country is besieged with a large number of difficulties. From the perspective of foreign investors, the largest problems come from the weaknesses of the private sector as well as government administration.

Weak private sector and policy support

The lack of private sector dynamism is a common problem in developing countries. We may even say that a country remains underdeveloped because its private sector is weak. Problems include the lack of professionalism, low quality, low technology, short-termism, passivity and violation of contracts and delivery dates, all of which are visible in Ethiopia. We are especially annoyed by construction without ensuring the level and perpendicularity of the structure. Gaps on the floor, inclined pillars, and announcements not posted straight are common in Ethiopia (unlike in Vietnam). Leather jackets, shoes and purses we see in the shops do not quite reach the quality standard demanded in the Japanese market. There are of course exceptions—excellent products or skilled craftsmen—but, in terms of absolute numbers, they are few and far between. The Ethiopian Government is aiming at upgrading mindsets of the citizens by introducing a national kaizen movement.

Weak public administration is another common problem in developing countries. Top leaders, ministers and state ministers may be brilliant and hardworking. But the rest of the bureaucratic machinery is less outstanding. When we discuss economic policies and issues in such economies as Taiwan, Korea, Singapore, Malaysia or Thailand, there is no need to meet top leaders; heads or deputy heads of directorates, or even lower officials, will suffice. But in most African countries, including Ethiopia, things do not get done unless one has access to state ministers or higher. This makes high-level officials extremely busy. Good policies launched by the government remain unimplemented or implemented ineffectively due to the lack of operational capacity on the ground. Low skills, formalism and avoiding responsibility are usual problems. In Ethiopia, taxes and customs procedure are particularly cumbersome.

The Fifth Tokyo International Conference on African Development (TICAD V) was held in Yokohama in May/June 2013. Ethiopian champion products were to be displayed at the African Fair organized at the same time. However, a JICA local staff in charge of shipping champion products to Yokohama

was besieged by a long and complex procedure, absence of inter-ministerial coordination, rules contrary to export promotion, and a low capacity of administrative officers. Exhausted and in desperation, he drafted a report to JICA and GRIPS on how difficult it was to ship a product from Ethiopia. Another report assessing Ethiopia's export promotion policy (commissioned by JICA and executed by a team of Addis Ababa University researchers, January 2014) similarly points to the acute need of improving skills and coordination among different ministries and agencies.

Moreover, problems also abound at the policy level. In our view, the Ethiopian Government makes too much haste in producing policies and proclamations without due analysis and discussion. We also feel that there are too many policy organizations with overlapping duties which call for more concentration and streamlining. Propensity for "Speed over Quality" is prevalent in many policy areas including establishment of high-level committees, SME promotion, kaizen or FDI attraction. We have voiced our concern over this issue many times through policy dialogue sessions without much impact. Our call for "Quality over Speed" often meets such counter-arguments as "Ethiopia is in a hurry" and "Japan is too cautious." We believe it normally takes about three years to draft a new policy effectively, and about one year to revise an old one. This is a conclusion we got from the international comparison of policy methods covering Taiwan, Singapore, Malaysia, Thailand, etc. We are afraid that Japan and Ethiopia cannot agree completely on how the quality and speed of policies should be reconciled.

Better than India or Myanmar

Many problems listed above must be assessed in relative light. A weak private sector and a low policy capacity are common issues in developing countries, and Ethiopia is hardly the worst among them. In fact, Ethiopia has a number of strong points over other countries such as the labor advantage, proactive policy mindset and little corruption, which will be explained more fully below.

Table 2 shows the global ranking of business climate of different countries and territories by the World Bank. According to the latest scorecard (2015), Ethiopia ranks 132nd among 189 countries, which is low but not disastrous in comparison with countries that are popular among Japanese investors. Ethiopia's ranking is slightly lower than Egypt or Indonesia and higher than Cambodia, India or Bangladesh. Myanmar, a country where Japanese interest is rising rapidly, ranks 177th which is near the bottom. If Japanese investors are considering these destinations seriously, there is no reason to exclude Ethiopia solely because of the lack of good business environment. Incidentally, Mauritius, Rwanda, Tunisia and Morocco rank much higher than Ethiopia among African countries. Mauritius, at 28th, is one notch above Japan (29th).

At some point in future when a significant number of Japanese firms have invested in Ethiopia (or even now in preparation for future), we would like to work with the Ethiopian Government to further improve business conditions through various means including policy dialogue. Such action-oriented

Tab.2 Ease of Doing Business Ranking by the World Bank

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Singapore	2	1	1	1	1	1	1	1	1	1
Hong Kong	7	5	4	4	3	2	2	2	2	3
Korea	27	23	30	23	19	16	8	8	7	5
Malaysia	21	25	24	20	23	21	18	12	6	18
Taiwan	35	47	50	61	46	33	25	16	16	19
Thailand	20	18	15	13	12	19	17	18	18	26
Mauritius	23	32	27	24	17	20	23	19	20	28
Japan	10	11	12	12	15	18	20	24	27	29
Rwanda	139	158	150	139	67	58	45	52	32	46
Tunisia	58	80	88	73	69	55	46	50	51	60
Morocco	102	115	129	128	128	114	94	97	87	71
Vietnam	99	104	91	92	93	78	98	99	99	78
China	91	93	83	83	89	79	91	91	96	90
Philippines	113	126	133	140	144	148	136	138	108	95
Egypt	141	165	126	114	106	94	110	109	128	112
Indonesia	115	135	123	129	122	121	129	128	120	114
Ethiopia	101	97	102	116	107	104	111	127	125	132
Cambodia	133	143	145	135	145	147	138	133	137	135
India	116	134	120	122	133	134	132	132	134	142
Bangladesh	65	88	107	110	119	107	122	129	130	173
Myanmar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	182	177
Total number of countries & areas	155	175	178	181	183	183	183	185	189	189

Source: Selected countries in Asia and Africa from the World Bank Doing Business Report 2006-2014.

This ranking was initiated in 2004 and began to be published in 2006.

bilateral negotiations for improving business climate are already in place in such countries as Vietnam, Indonesia, Cambodia, and Myanmar.

4 A passion for industrialization

Eager and action-oriented

Ethiopia is not another “African country” in the area of policy execution also. Although private sector dynamism is still feeble, commitment of the Ethiopian Government to industrialization is second to none. Policy enthusiasm and action-orientation of the Ethiopian Government is far greater than that of the Vietnamese Government or the Indonesian Government.

An appointment with the prime minister is difficult to secure even for the head of a diplomatic mission. In most other countries, it is almost impossible for investors, professors or JICA officials to sit down with the prime minister to discuss any issue deeply. In Ethiopia, by contrast, top leaders are willing to meet (or even positively seek meetings) with anyone who are likely to bring valuable

investment, assistance or knowledge to the country. Policy dialogue and kaizen with Japan was started by Former Prime Minister Meles when he invited the Japanese ambassador to his office to request such assistance. Other ambassadors are also called for investment, assistance, or industrial zone development. An economist residing in London revealed that he had exchanged many long emails with PM Meles. Our policy dialogue team also had eleven policy dialogue sessions with PM Meles and has also had eleven sessions already with PM Hailemariam. The quality of these high-level discussions, which often lasts for two hours or more, is very high. In addition, we exchange long policy letters with the Prime Minister. Sometimes the Prime Minister asks for more papers to read in advance.

We do not know any prime minister who is as eager and sincere to learn as this except in Ethiopia. He is very willing to spend time with us although we are hardly VIPs. When we meet, serious and honest exchanges are made instead of indulging in diplomatic protocols. When the Prime Minister requests something, we must take it very seriously. We sometimes have to decline but most of the time we try to come up with a positive answer. To any questions raised, we must prepare the answer very carefully because the Ethiopian Government implements our proposals very quickly if they consider them reasonable. A poor country with little endowment of natural resources can still receive investment and cooperation of advanced and emerging economies because its national leaders are willing to sacrifice their time and energy in top sales and negotiations even with not-so-famous foreign investors, researchers and officials.

Ethiopian ministers, state ministers and officials have a full understanding of where the nation is heading. Take, for example, the National Export Coordinating Committee established in 2003 chaired by the Prime Minister. This is a copy of a similar mechanism used by the Park regime of South Korea in the 1970s. At each committee session, which is held monthly and lasts all day, four or five key issues are discussed. It is reported that 90 sessions were held in the first ten years. The Prime Minister often instructs a minister in charge to come up with a solution before the next session. Each ministry organizes an internal meeting to deal with this committee twice a month (before and after the committee session) to prepare for and cope with what is discussed at the high level. The reason why kaizen spread so quickly and widely in Ethiopia can partly be explained by the strong leadership of the Prime Minister as exhibited in such national committees as this.

Investors and development partners of any nationalities are welcome as long as they contribute to economic development. When we visited Ethiopia first, in 2008, Italy and UNIDO were cooperating in the leather industry; Germany was engaged in the Engineering Capacity Building Program (ECBP) composed of enterprise support, TVET, science and technology universities, and strengthening economic associations; the United States was promoting private sector development; and DFID was assisting research. Among these, the German cooperation was unique in the sense that it was the largest economic cooperation program for Germany in the world and it was run jointly with the Ethiopian Government sharing half of funding, staffing and management. But what Ethiopia really

wants to learn is the development experience of East Asia. On this desire, Former Prime Minister Meles drafted academic papers and gave many speeches at international conferences. He dispatched several young Ethiopians to KDI School in Seoul to study Korean experiences, instructing them to photocopy everything that was distributed and send it to the Prime Minister's Office. At present, Japan provides the largest intellectual assistance in the area of industrialization in terms of both quality and quantity (see below).

The national vision of Ethiopia is to join the rank of middle income countries by 2025. This must be achieved not by a lucky discovery of natural resources but by the pursuit of middle income *with quality*. This in turn means industrialization backed by quality, productivity, and competitiveness, for which kaizen will be mobilized as a key tool. The economic vision for 2025, proposed by PM Hailemariam, is "Becoming a leading nation in light manufacturing in Africa in particular and in manufacturing in general." We believe this vision will be part of GTP II (the next five-year plan).

In East Asia, we have witnessed a wave of industrialization originating in Japan and spreading sequentially to Newly Industrializing Economies (Taiwan, Korea, Hong Kong and Singapore), Southeast Asian countries, and China. This expanding pattern is called the *flying geese model*, which now is reaching Myanmar. In this model, a more advanced economy transfers domestic production processes that have become high-cost to the next row of countries. This passing of industries is executed by manufacturing FDI. Under this formation consisting of first comers, middle achievers and latecomers, an ordered division of labor in manufacturing was established within East Asia

In the last several years, we have seen emerging economies such as Turkey, India and China beginning to transfer labor-intensive processes which have become costly to Ethiopia. Other countries, including Korea, Taiwan, UK and US are also interested in bringing manufacturing FDI to Ethiopia (see below). This may be a sign that flying geese are finally arriving in Ethiopia. It should be noted that Ethiopia is the only country in Africa that such a phenomenon is visible.

Policy actions already in place

During the last decade, the Ethiopian Government has introduced various policy measures through trial-and-error, self-effort and international cooperation. Notable policy actions currently in place include the following.

Industrial institutes

Institutes that deal with individual sub-sectors or specific issues have been established under the Ministry of Industry (MOI). Among them, the Textile Industry Development Institute (TIDI, 2010), the Leather Industry Development Institute (LIDI, 2010), and the Ethiopian Kaizen Institute (EKI, 2011) are particularly noteworthy. Industrial support in these areas was already in place before the establishment of these institutes because they were created by upgrading existing directorates or

units of MOI. While such industrial institutes often function poorly or exist only in names in many developing countries, Ethiopia's TIDI, LIDI and EKI already have the capacity to offer substantive help to businesses. TIDI and LIDI receive Indian cooperation while EKI is supported by Japan, among other partners. Most officials in these institutes actually visit enterprise *gamba* (factory floor) and have good knowledge of what the industry truly needs, and many enterprises appreciate their support. A Japanese producer of high-quality leather goods cooperated closely with LIDI to train its workers before the factory began operation. We recommend that any Japanese investor interested in the textile or leather sector visit TIDI or LIDI to collect information. For improving a newly-invested factory or the factory of an Ethiopian partner company, we believe alliance with EKI will be very beneficial. In addition to the ones already mentioned, Ethiopia also has institutes for machinery and metalworking, food processing and pharmaceuticals, construction and chemicals, meat and dairy products, and horticulture.

■ Five-year plans for industrialization

Ethiopia's past five-year plans often spilled much ink on social issues in order to reduce poverty or secure aid. Even though the Government was very serious about industrialization, the chapter on industry was not strategically written. The current five-year plan, called the Growth and Transformation Plan (GTP) 2010/11-2014/15, features "transformation" (=industrialization) in its title but its industrial strategy consists of a large number of sub-sector numerical targets, which reminds us of socialist economic planning. In our policy dialogue with PM Meles, we asked why this was the case and why terms like productivity, technology and kaizen were absent from GTP I. As we feared, the bold output and export targets for the industrial sector in GTP I have been missed by wide margins. PM Hailemariam however promises that GTP II will be very different from GTP I, that there will be a new chapter on productivity and competitiveness, and that kaizen will be highlighted. The Ethiopian Government takes note of Japanese advice regarding the long-term vision, the chapter on productivity and competitiveness, and how kaizen should be integrated into GTP II. As of October 2015, GTP II was still evolving toward finalization and the Government was conducting a large number of meetings with stakeholders. We were informed that many of our advice would be adopted in GTP II.

■ Attracting manufacturing FDI

In our policy dialogue session PM Hailemariam said, "Strategic FDI attraction, linkage between FDI and domestic firms, export promotion, and industrial zone development are the four pillars of our industrial strategy. Now that FDI is surging, we must carefully lead and follow up this process as business-as-usual will no longer do" (August 13, 2014). According to him, attracting manufacturing FDI is more difficult than attracting agriculture or services, and the task is therefore placed directly under his leadership. The Ethiopia Investment Agency under MOI was upgraded to the Ethiopian Investment Board (policy level) and the Ethiopian Investment Commission (implementation level) both

of which are directly under the Prime Minister. The Industrial Park Development Corporation has also been moved from MOI to the Office of Prime Minister where Mr. Hailemariam can directly guide and monitor. As for new policy measures, in 2014 alone there was a revision of the Investment Proclamation, and one-stop service and the follow-up mechanism for investors were introduced and began to be strengthened. A new proclamation that governs both FDI attraction and industrial zone development was issued. The Ethiopian Government also has a surprising proposal for an industrial park designated for Japanese investors. These new initiatives will be explained more fully below.

■ Benchmarking, twinning and BPR

These are the methods Ethiopia has adopted even before the initiation of the Ethiopia-Japan policy dialogue. Benchmarking means selecting model countries or companies for catching up, measuring their achievements in concrete numbers, and setting targets for Ethiopia. Twinning is a method of improving human resource, organization and programs of such institutions as universities, research centers and support agencies through a cooperation agreement with similar but superior institutions abroad. Business Process Re-engineering (BPR) is re-organization of private or public organizations to optimize their activities against their objectives. In Ethiopia these tools were applied widely in the recent past. BPR even became a national fad at one time in which every government office was required to implement it but lasting results were fewer than expected. Apart from these, Ethiopia also has the Civil Service University, the Management Institute, the nationwide TVET system with German assistance, as well as Public-Private Dialogue at the federal and regional level. At present, kaizen with Japanese assistance seems to be the most popular productivity tool. About kaizen, PM Hailemariam says that “the fire has been already ignited and no one can stop it.” More discussion of kaizen is given below.

■ Economic and Business Diplomacy

Around 2011, when PM Hailemariam was Deputy Prime Minister and Foreign Minister, the Ethiopian Economic and Business Diplomacy National Coordination Committee was established, which was headed by the Foreign Minister, held monthly and attended by 18 ministries and agencies and the private sector. The MoFA's Directorate of Economic Business Diplomacy serves as the secretariat. Under this Committee, there are five sub-committees that meet twice a month to discuss trade, FDI, tourism, technology transfer and ODA, each coordinated by a relevant ministry. Through this mechanism, MoFA in Addis Ababa gives instructions, provides information and respond to inquiries vis-à-vis Ethiopian foreign missions abroad. Ethiopian ambassadors and consulate generals are required to come home every summer to receive a few weeks of training in marketing, finance, etc. Ambassador Markos Tekle Rike in Tokyo says he receives a large number of emails from the headquarters every evening to which he must react. In fact, many investors from Turkey and India have arrived in Ethiopia because Ethiopian ambassadors in these countries were active in country

marketing and business negotiations. However, Economic and Diplomatic Diplomacy seems to suffer from limited budget and human resource. In addition, it is not clear how this mechanism led by MoFA will work with the FDI attraction mechanism under the Prime Minister established in 2014 discussed above as well as the Export Promotion Agency created under MOT in October 2015.



A standard Ethiopian dish with several items on top of injera

Prayer at a church



Chapter2

Learning from Japan



The reason why Ethiopia rejects Western or World Bank development orthodoxies and looks to East Asia as a source of policy inspiration is a mystery to us. But it is certain that the strong personal belief of Mr. Meles who led the country for 21 long years had played an important part. Looking back, the long history and unique culture of Ethiopia, and the national pride of having never been colonized, may also have made Ethiopia a country of strong will and independent government unlike other African nations. There may be a regional factor too because East African neighbors such as Rwanda and Kenya are also countries serious with industrial development.

At any rate, the current government which came into power in 1991 selected to build a nation based on East Asia's developmental experience. As political situation stabilized and the problem of hunger subsided, the desire to learn from East Asia appears to have intensified. PM Meles, a former top student turned military leader, was a very intelligent person who, while executing state affairs as a prime minister, studied latest economic theories and exchanged views with eminent foreign economists to formulate an academic argument on why the policy package imposed by the IMF and the World Bank failed to develop Africa. He even drafted a doctoral dissertation on this topic and submitted it to a British university but the dissertation was rejected. One of his articles is published as a chapter of a book edited by Professor J. Stiglitz of Columbia University and others in 2012, *Good Growth and Governance in Africa: Rethinking Development Strategies*. His article is full of economic terms such as Pareto efficiency, rent seeking, market failure and optimization of self-interest, which very few other heads of state are capable of utilizing.

Bureaucrats also share the top leader's enthusiasm for learning from East Asia. To enhance FDI policy, JICA and GRIPS invited two Malaysian experts to Addis Ababa and subsequently sent 11 Ethiopians, including a State Minister of Industry and the Director General of the Ethiopian Investment Agency, to Malaysia for two weeks to learn the country's FDI strategy ("South-South" Cooperation). In Kuala Lumpur the Ethiopians had an internal meeting at the hotel lobby every morning before departure. At night, we often spotted Ethiopians working at the business center. Half-way through the program, the Ethiopians made a prepared presentation of results up to that moment. On the return flight, they even started to revise the Investment Proclamation based on the Malaysian lessons. At this we were surprised and advised to take more time to formulate such an important law as this. After the mission, the Ethiopians submitted a report with reasonable quality. In many developing nations, officials consider foreign trips as part of their benefits or shopping opportunities. Ethiopians are not like them. They have the urge to learn from others and reflect them in their own policies.

Former Prime Minister Meles Zenawi (1955-2012, PM and President 1991-2012)

We have made effort to learn from East Asia for long, but intellectual partnership with Korea was not very successful. This year I witnessed Japan's new African initiative at the TICAD IV meeting [Yokohama, May 2008] and heard the GRIPS presentation in July [Addis Ababa, the Africa Task Force meeting organized by Prof. Stiglitz]. Now I am convinced that the time has come to engage in direct intellectual dialogue with Japan, the country that spearheaded East Asian development. We do not agree with the idea of the IMF and the World Bank that a small government is a good government. Government in a developing country must positively and actively engage in development. Government has the duty to eliminate rent seeking and increase value creation. It must secure necessary policy instruments and guide the private sector. Ethiopia hopes to create a developmental state by building a political support among smallholder farmers, who are the dominant majority, and micro and small entrepreneurs in urban areas whom we hope to strengthen in the future. From Japan, we expect analysis of our developmental system from the viewpoint of East Asia by GRIPS, and OJT-style productivity improvement of enterprises by JICA" (the first policy dialogue session at the Prime Minister's Office, October 14, 2008).



2 Industrial policy dialogue

Around 2002, the GRIPS Development Forum began to visit a number of African countries in search of an ideal partner for industrial policy dialogue. In Zambia, Tanzania, Ghana, Uganda and Mozambique, we met presidents and ministers, did policy research and engaged in small-scale policy dialogue. Then we were called by JICA to attend a policy meeting in Addis Ababa. Professor J. E. Stiglitz, a Nobel laureate, organized annual African Task Force meetings of the Initiative for Policy Dialogue (IPD), and the next meeting would be held in Ethiopia. JICA supported it financially but it wanted Japan to contribute intellectually as well—so we were asked to present something. It was the summer of 2008. We had heard that Ethiopia was serious about industrial policy so we gladly accepted. But we did not imagine that Prime Minister Meles would attend virtually all sessions of the two-day meeting.

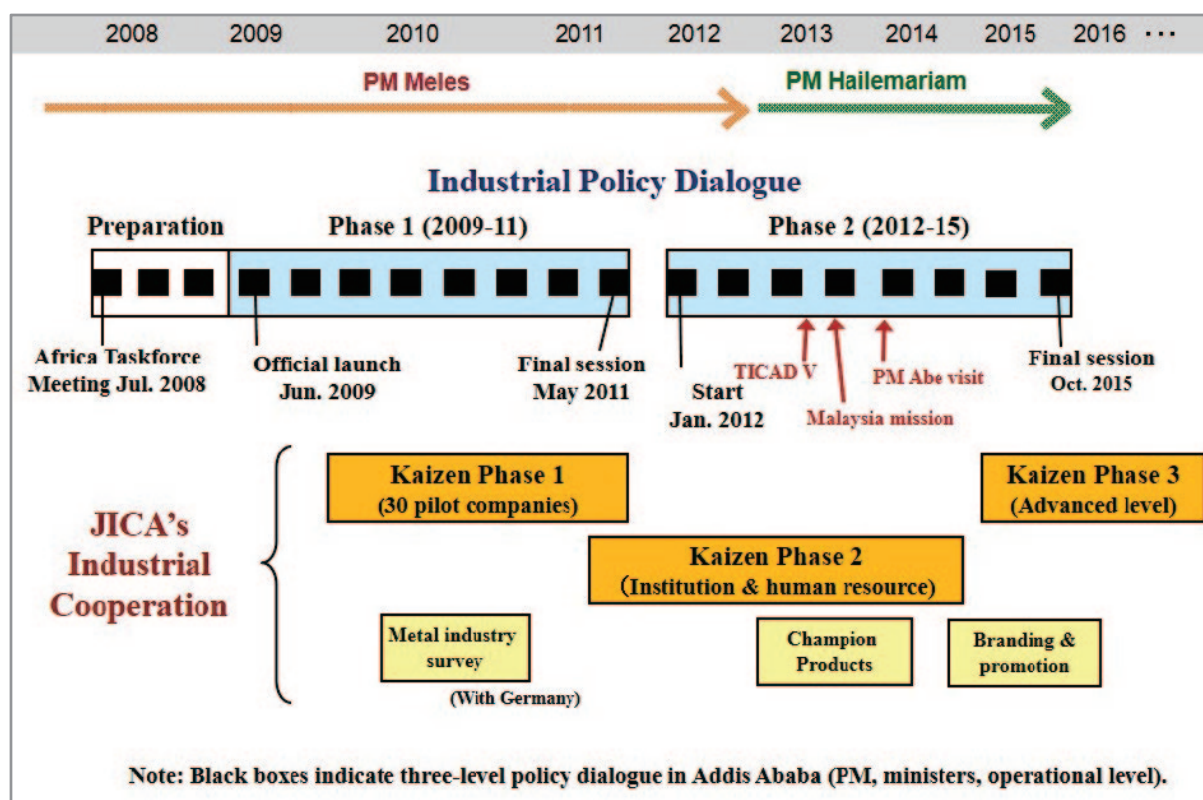
We explained the East Asian approach to industrial policy and presented our edited book to the Prime Minister. He started to read it during the conference. Chapter 7 of the book was JICA's kaizen assistance in Tunisia. In the following week, PM Meles invited the Japanese ambassador to his office and requested two-part cooperation from Japan: policy dialogue with GRIPS and kaizen by JICA. Our industrial policy dialogue started this way.

Actually, industrial policy dialogue is conducted jointly by GRIPS and JICA at three levels: Prime Minister, Ministers and State Ministers, and operational people. We also visit enterprises, universities, international organizations, other donors, and sometimes give lectures on request. Policy dialogue sessions were held four times a year during Phase 1 and twice a year during Phase 2. Although the frequency is now reduced, our workload remains the same or even higher because of increased research at home, letters to PM and ministers, and policy missions to third countries in Asia and Africa. We aim at building mutual trust, conveying most appropriate lessons from any country (not just Japan), and respecting the will and ownership of the Ethiopian Government.

The topics of policy dialogue are selected carefully each time to fit the situation and policy issues in Ethiopia which are rapidly changing. We do not want to just present our research findings or policy recommendations; we want to make sure that what we say is closely linked to what Ethiopia wants to do, and actually leads to policy formulation and improvements. Fortunately, the Ethiopian Government is a fast changer of policies when it is convinced of the value of policy advice (in fact we often feel it is too fast).

In this bilateral policy dialogue, we consider it important that Japan offers some (not necessarily all) of the funding, skills or technology needed to implement the proposed policy. This increases the chance of proper implementation as well as keeps up the interest of the Ethiopian side in continued policy dialogue. Table 3 lists the concrete topics raised in the ministerial level discussions (“High

Fig.1 Industrial Policy Dialogue and Kaizen



Level Forums”). Other topics may come up with the Prime Minister, and we collect information and exchange views on many other issues.

As manufacturing FDI began to gush into Ethiopia, and as the Ethiopian Government stresses strategic FDI attraction and industrial park development, we also began to focus on FDI policy. In a long paper submitted to the Ethiopian Government in October 2015, we raised the following points.

- Despite high growth, the capacities of both government and the private sector remain weak.
- The great advantage of Ethiopia at present is low wage. Guard it carefully and simultaneously make utmost effort to raise productivity. Do not raise wages excessively as in Southeast Asia.
- If manufacturing FDI continues to come, Ethiopia will be the first African country to join the “Flying Geese Pattern” of Asian economies. The concept of middle income traps is explained.
- FDI attraction, strengthening domestic firms, and linkage between the two should be pursued.
- In the next 5-10 years, highest policy attention should be paid to accumulation and improvement of light industries. Heavy, high-tech, and new industries should be pursued with moderation.
- Concrete advice is given on kaizen, industrial parks, linkage formation with FDI, handholding, champion products, national image building, etc.
- Ethiopia’s investment climate is inferior. Bold reforms are needed in foreign exchange, taxes, customs clearance, and logistics.

When policy discussions begin to cover these issues, we no longer see any difference between Asia and Africa. In fact, many countries in Asia remain unable to effectively execute policies Ethiopia is trying to adopt. Ethiopia has entered an era in which development experiences of East Asia—both successes and failures—are directly relevant to its policy formulation.



High Level Forum



With Former PM Meles

Tab.3 Topics Discussed at High Level Forums (Ministerial Level)

	Presentations by Japan or Third Country	Presentations by Ethiopia
PHASE 1		
Session 1 June 2009	(1) JICA's plan for policy dialogue (2) ADLI and future directions for industrial development	(1) Evaluation of current PASDEP focusing on industrial development and related sectors
Session 2 Sep. 2009	(1) Cross-cutting issues on industrial policy & East Asian policy menu (2) Organizational arrangements for industrial policy formulation (3) SME policies in Japan	(1) Comments and feedback by the Policy Dialogue Steering Committee on Japanese presentations
Session 3 Nov. 2009	(1) Designing industrial master plans: international comparison (2) Industrial policy direction of Ethiopia: suggestions for PASDEP II	(1) Concept for the industrial chapter of PASDEP II and the formulation plan
Session 4 Mar. 2010	(1) Basic metals and engineering industries: international comparison of policy framework & Ethiopia's case	(1) Draft of industry sector for PASDEP II (2) Overview, contents of PASDEP II draft of chemical subsector
Session 5 July 2010	(1) Result of basic metal and engineering industries firm-level study – parts conducted by MPDC and JICA	(1) Report of kaizen training in Osaka (2) Report of kaizen training in Chubu (3) Current status of kaizen project and institutionalization of kaizen
Session 6 Oct. 2010	(1) Singapore's experience with productivity development: internalization, scaling-up, and international cooperation	(1) Contents of industry sector in GTP (2) Singapore's productivity movement and lessons learned
Session 7 Jan. 2011	(1) The making of high priority development strategies: international comparison	(1) Organizational structure of MOI and linkage with other ministries
Session 8 May 2011	(1) Ethiopia's industrialization under GTP (2) Achievements of Kaizen Project (3) Kaizen movement in Asia & Africa (4) Taiwan: policy drive for innovation	(1) MSE development strategy of Ethiopia (2) Kaizen dissemination plan (3) Botswana's productivity movement and its Implication for Ethiopia
PHASE 2		
Session 1 Jan. 2012	(1) Export orientation: 3 policy directions (2) Export promotion: JICA's experience (3) Export promotion center in Egypt	(1) Export promotion of Ethiopia (2) Assessing Ethiopian investment and export policies
Session 2 Aug. 2012	(1) Results of champion product seminar (2) Export promotion of Malaysia (3) Economic diplomacy in Thailand	(1) Performance of export promotion in Ethiopia (2) Export promotion by foreign mission
Session 3 Jan. 2013	(1) Proactive FDI policy (2) FDI policy experience of Malaysia (3) JICA's assistance in Zambia etc.	(1) FDI inflow into Ethiopia
Session 4 Aug. 2013	(1) JICA's PSD assistance in Indonesia (2) FDI-linked technology transfer	(1) Malaysia's strategic FDI policy (2) Revision of Investment Proclamation
Session 5 Feb. 2014	(1) International comparison of manufacturing performance (2) Handholding programs	(1) Sectoral institutes: roles & performance (2) Kaizen in GTP2 and long-term vision
Session 6 Aug. 2014	(1) FDI-led industrialization in East Asia (2) FDI inflow into latecomer Asia	(1) Proposal for key ideas in GTP2 (2) Current status of Ethiopian FDI
Session 7 Jan. 2015	(1) Modality & key points of Japanese-run industrial zones in Vietnam, Thailand (2) IZ & F/C issues in Myanmar, India	(1) Productivity & competitiveness chapter, industry chapter & kaizen in GTP2
Session 8 Oct. 2015	(1) FDI attraction at Phnom Penh SEZ (2) Summary & remaining issues of Phase 2	(1) Productivity & wage survey results (2) Discussion on GTP2 draft (industry)

There is hardly any need to explain what kaizen is to Japanese business people. But they might want to know how Japan brought kaizen to Ethiopia and what difficulties and results have been produced up to this moment. As noted above, it was Former Prime Minister Meles who requested Japan to introduce kaizen to Ethiopia. He remarked, “I knew about kaizen but I did not know JICA was helping kaizen implementation in many developing countries. Will you please do in Ethiopia what you have done in Tunisia?” While JICA was preparing, we held seminars on what kaizen was all about, what problems were usually encountered in introducing kaizen to developing countries, and published a booklet on these matters. There are two issues commonly brought up: (i) can kaizen be practiced in a country whose culture is entirely different from Japanese? (Answer: sure it can; improvements are regularly achieved even in India or Latin America); and (ii) can kaizen be introduced simultaneously with Western management tools? (Answer: kaizen is bottom-up and cumulative, and Western methods are top-down and swift. In principle they are mutually consistent though severe burden and pressure may be put on a company if it is asked to do both at the same time and monitored.)

JICA's kaizen project was started in the autumn of 2009. Its method was basically the same as in other countries. But enthusiasm on the Ethiopian side was second to none in the world. Phase 1 (2009-11) established the Kaizen Unit under MOI and conducted a pilot project based on 5S and QC Circles. Among 30 targeted companies, six produced excellent results and four performed well. In comparison with other countries, this scorecard was standard and may even be considered a great success because the implementation period in Ethiopia was shorter than the average. Nine young Ethiopians were trained to become instructors of kaizen in classrooms or in factory floors. It must be admitted that there was some friction initially between the Japanese side (“Learn basic ideas and attitudes first”) and the Ethiopian side (“Please show us visible results quickly”) and there was delay in activating the Kaizen Unit. But such issues are normal in introducing kaizen to any country, and should not be taken too seriously. The important thing is that a successful solution of these problems made the two parties even more productive and mutually trusting.

Phase 2 (2011-14) strengthened the institution and human resource to sustain kaizen. The Kaizen Unit was upgraded to the Ethiopian Kaizen Institute (EKI). Japanese and Ethiopian experts visited factories together to improve 249 enterprises (51 large & medium and 198 micro & small). Ethiopian experts gradually took charge in company guidance. A total of 409 Ethiopians, consisting of EKI experts and TVET teachers, acquired basic kaizen skills such as 5S, muda elimination and equipment layout. Seven public seminars were held with over a thousand attendees. Hiroshi Osada, Professor Emeritus of Tokyo Institute of Technology, helped to establish an MA Program in Kaizen. The Ethiopian Government was not satisfied with JICA support alone and introduced additional kaizen to

EFFORT companies, state-owned enterprises and public works by mobilizing German assistance as well as Ethiopian consultants. This made EKI extremely busy. Kaizen songs and dances were created. Regular kaizen programs were aired on TV and radio, and newspapers also wrote about kaizen. In 2014, September was designated as “Kaizen Month” and the National Kaizen Council was inaugurated. Kaizen Month was repeated in September 2015.

Phase 3 (2015-19) will aim at producing high-level kaizen leaders. The next five-year plan (GTP2) will feature kaizen as a key tool for improving productivity. Separately, in his visit to Addis Ababa in January 2014, Prime Minister Shinzo Abe promised to set up the first TICAD Human Resource Development Center for Business and Industry in Ethiopia. The Ethiopian Government expects much from this initiative, and the Japanese Government will construct a new building for this purpose. Ethiopia wants to become the hub of kaizen in Africa and help other countries on the continent to learn kaizen in the future. Ethiopia already started teaching kaizen to Tanzania.

Thus kaizen is already a great passion in Ethiopia to which the Japanese Government is trying to respond with cooperation that matches Ethiopian zeal. If your company decides to invest in Ethiopia, we would strongly recommend that you use Ethiopian kaizen to strengthen your factory or the factories of your local partners.

EKI was transferred from MOI to the Ministry of Public Service and Human Resource Development by the government reorganization of October 2015. This can be construed as an effort to scale up kaizen from manufacturing to public servants and citizens at large. Nevertheless, the latter ministry has not managed kaizen up to this point and we must monitor how the services of EKI will be affected by this change.

PM Hailemariam’s View on Kaizen (1965- , Prime Minister since 2012)

I would like to say a few words about kaizen. Some Ethiopian firms think they have learned kaizen after doing 3S or rearranging equipment for a few months and attaining cost reduction or productivity improvement. Many adopt kaizen just as a tool to realize such short-term gains. Kaizen is a long-term philosophy and has no end. It is necessary for our kaizen supporting institutions to understand this deeply. Otherwise there is a risk that it may end up as a one-time fad without leaving us anything just as BPR before. I myself talk about this to our people whenever I have a chance through media. There are countries where kaizen disappeared before taking root. We should not be like that. We need to proceed carefully in the early stage to drive kaizen philosophy into the heart of our people. Kaizen is an important national agenda for improving productivity. I believe this difficulty can be overcome” (at the Prime Minister’s Office, February 25, 2014).



A tire company practicing kaizen with JICA support



A leather shoe factory practicing kaizen with JICA support

While kaizen fire is burning, we still had a worry. Improving *gemba* (factory floor) efficiency is certainly desirable, but that is only the first step toward competitiveness. Management, human resource, marketing, power supply, material inputs, logistics, the distribution system, and access to finance and foreign exchange must all be improved. Even if these problems cannot be solved at once, a broad perspective is needed for industrial promotion. We felt that Ethiopians were overly concerned about supply-side issues such as investment and technology. We wanted them to turn to producing what the market demands rather than trying to sell what one has produced to the market.

To boost the perspective from the buyer side, we proposed creation of *champion products*. Ethiopian export mainly consists of primary commodities such as coffee and sesame. They carry the image of low-quality bulk goods. Processing, branding and value addition are often done by foreign buyers abroad. JICA sent an experienced export promotion expert from Japan to Ethiopia, who taught that a champion product must satisfy the following conditions: (i) it is a premium good; (ii) it is unique to Ethiopia and difficult for other countries to copy; and (iii) it must be rooted in Ethiopian life and culture. A champion product is born when these conditions are combined with proper response to foreign market demand. Successful champion products from Egypt, El Salvador, Peru, Guatemala and Chile were discussed. In Ethiopia, garment designed with *tilet* (traditional dress), honey, products using *teff* or *ingera* (Ethiopian staple food), and herbs were proposed as possible candidates. Marketing and sales techniques including website, newsletter, DVD, trade fair, and “antenna shop” were explained.

The concept of champion product touched the patriotism of Ethiopians and was greeted with a storm of applause. Stakeholders including a State Minister of Industry, the Chairman of Addis Ababa Chamber of Commerce, and innovative entrepreneurs in coffee, tourism and jewelry businesses were impressed. Many meetings and seminars were organized to discuss PR strategy, identification of champion products and policy support. Trade fairs began to promote Made-in-Ethiopia high-quality products. Among them, the most notable occasion was the display of Ethiopian champion products at the African Fair on the occasion of TICAD V in Yokohama which was visited by PM Abe, and actual sale of such products in Shibuya, Tokyo, in 2013. The idea of champion products inspired Ethiopians toward identification of the goal which would be reachable by proper effort and strategy.

JICA additionally assisted Ethiopian national re-branding and promotion by mobilizing Dentsu (the largest advertising company in Japan) and the Foundation for Advanced Studies on International Development (FASID) during 2014-2015. The project proposed CREATIVITY in MOTION as a national image and produced a video associated with it. It also suggested creation of HIGHLAND LEATHER brand for Ethiopian high-quality leather products using the country’s unique leather materials. Using this brand, some Ethiopian firm already found a buyer in Japan.

The goal of exporting high-quality Ethiopian goods to the world market generally excites people. But the problem is no organization or enterprise is willing to take leadership in arranging staff, securing budget, and designing and implementing concrete action plans. Awareness-raising is done. The next step should be to establish a champion product strategy as one of the key policy pillars in export promotion, and formulate and execute an action plan through public-private cooperation. It is not yet clear which organization—EIC, the newly created Export Promotion Agency, etc.—will lead national re-branding. If a Japanese company comes to Ethiopia in search of unique materials or local products, it may be able to take part in this effort.



**Ethiopian corner at African Fair
(Yokohama, May 2013)**

**Sale of African goods in
Shibuya, Tokyo (June 2013)**



5 Keenly awaiting Japanese companies

In the post WW2 period, Japan's outward FDI first went to our neighbors including Korea and Taiwan. Japanese firms also invested in large advanced markets such as the US and Europe to avoid trade friction. Yen appreciation starting in 1985 pushed Japanese firms to build factories in Southeast Asia. In the 1990s China emerged as an important production location as well as market. More recently, India and Myanmar are popular destinations. Compared to these, the number of Japanese companies that have ventured out to Africa remains small. The reason for this is twofold: the distance problem and the generally cautious attitude of Japanese firms. We have explained why Japanese are slow movers to prime ministers and ministers of many countries citing these two factors.

First, Africa is far from Japan culturally, psychologically and in terms of information. Large transport cost and time must be incurred from Asia where Japanese firms have built a dense production network. Even in this internet age, distance remains an obstacle in business. German manufacturers pour into Eastern Europe but not Southeast Asia. For Turkish investors, Ethiopia is a country just beyond Egypt, and direct flights between the two countries are convenient. For Japanese businesses, Southeast Asia is near and popular, and Myanmar and India are also inviting. It is natural that very few of us have had much interest in studying investment possibilities in destinations far beyond these countries.

Second, Japanese firms are very unique. We like to invest in manufacturing and manufacturing-supporting services more than short-term trade or real estate business. We are gemba-oriented and care so much about product quality and customer satisfaction instead of companies' share prices or financial performance. We are slow to enter new frontier countries and not good at risk taking. But once invested, our manufacturers stay longer in the host country even if crises and problems occur. We train employees and assist partner companies even if job hopping is rampant. Relatively speaking, we comply with local laws and regulations better than others, protecting environment and workers' rights and honoring contracts and payment deadlines. Japanese business behavior is so unique in a world where flexible partnership reformation, quick decision and fast withdrawal to cut losses are the norm. Given this Japanese business model, it is no wonder that we are cautious in coming to Africa.

Most African countries do not know this, so they complain, "China and India are coming. Why does Japan hesitate?" The Ethiopian Government also complains but it already knows the two reasons above. Moreover, Ethiopia evaluates very highly the fact that Japanese companies build long-term relationship, teach workers, and help local partner companies to do better. More than 1,500 projects have already arrived from emerging economies to Ethiopia, some of which hire thousands of workers, but there are only two Japanese SMEs that do monozukuri (manufacturing) in Ethiopia as of November 2015, as far as we know. Even so, the Ethiopian Government rolls out the red carpet for Japanese investors. For the quality of industrialization in the future, it wants to invite manufacturers not just from emerging economies but also from Japan and the West. Top leaders request Japanese

investment seriously and persistently to PM Abe and METI ministers, as well as through our ambassadors and even industrial policy dialogue. PM Hailemariam believes that kaizen will not be real unless Japanese companies come and coach Ethiopian companies.

We should be very proud and grateful that Ethiopia is so ardent and sincere in inviting Japanese investors with a full knowledge of our strengths and weaknesses. Even Vietnam, one of the most popular destinations of Japanese FDI, took more than a decade to understand our merits. But the presence of only two Japanese SMEs is certainly not enough to respond to the Ethiopian hospitality. Intellectual contribution by industrial policy dialogue is also insufficient. Seriousness of the Ethiopian Government is evident in its persistent request for a JETRO office in Addis Ababa as well as the government's plan to build an industrial zone or area reserved for Japanese firms. Previously, we advised to the Prime Minister that an idea of an industrial zone only for Japanese was unwise in a country with so few Japanese firms, in comparison with Southeast Asia where thousands of them operated. But reality is proving us wrong. Even slow-thinking Japanese businesses are becoming increasingly interested in Africa in general and Ethiopia in particular. Ethiopian investment seminars in Japan are always full and organizers are forced to decline many guests. PM Abe's visit to Ethiopia in January 2014 accelerated this momentum. We must admit that a wave of Japanese FDI may arrive and even a large firm may invest in Ethiopia in not-so-distant future.

In August 2014, we were informally informed of an official idea to build an area reserved for Japanese firms. In November 2014 we heard a similar plan from the Prime Minister's Office. The following is the intention of the Ethiopian Government as we understand it. Industrial park development is a key pillar of industrialization in the coming decade, and the Government already started enhancing this policy even before GTP2 is finalized. A number of countries will support this policy, and construction is already underway in some areas. As for Japan, it would be best if a Japanese developer built an industrial zone (through JV with the Government or with Ethiopian budget). If that is difficult, a small area within a planned industrial park can be reserved for Japanese investors. Again, the Government prefers joint development of such an area with a Japanese developer, but construction by Ethiopian budget, with Japanese firms providing FDI marketing and investor support services on a contract basis, is another possibility.

The situation at the end of November 2015 is as follows. JICA and GRIPS separately sent Japanese experts to explore the feasibility and concrete details of a Japanese investment area. Our conclusion is that part (about 50ha) of proposed Kilinto Industrial Zone Phase 1 can be developed jointly by the Ethiopian Government (providing basic infrastructure) and a Japanese industrial zone developer (providing rental factories and investor marketing and support services). Kilinto Industrial Zone will be developed by the Ethiopian Government with support of the World Bank in the south of Addis Ababa (see map at outset). Dohwa Engineering, a Korean consultant firm, is in charge of detail design. It is adjacent to a new highway which is already passable though not completed. The Government (IPDC) and a Japanese industrial zone developer are currently exchanging basic information and, if things

proceed smoothly, they will be expected to negotiate concrete conditions and sign a contract. The Ethiopian Government greatly welcomes this initiative and the World Bank is also happy with the idea. We do not see any problem with Dohwa's detail design either. While this is a move by a private developer, Japanese official organizations including the Embassy, JICA, JETRO, JBIC, etc. are willing to offer necessary support to the creation and marketing of the proposed Japanese investment area.

Remaining concerns, if any, are as follows. First, basic infrastructure of an industrial zone such as ground preparation, drainage, power, and waste water treatment is often constructed with poor quality and inferior materials even if the detail design is adequate. In many countries including Ethiopia, such irregularities by contractor firms are commonly observed. An effective mechanism must be devised to avoid this situation because Japanese firms do not tolerate substandard infrastructure. Second, we want commitment of the Ethiopian Government' to improve the investment climate which is quite poor at present. Investors of all nationalities complain about customs clearance, tax administration, foreign exchange control, power shortage, accounting system, logistics, and a mechanism to hear and respond to investors' opinions. Third, among these, problems associated foreign exchange control can be eased by the CMP scheme (garment producers receive only processing fees while materials are provided "free of charge" by a buyer abroad, eliminating the need to secure foreign exchange to import materials—widely practiced in Myanmar). The Ethiopian Government is concerned that CMP will discourage domestic production of materials, but some (non-Japanese) FDI firms already engage in CMP production in Ethiopia. Fourth, group investment and nokisaki business (temporary rental of unused factory space to another firm for operation) should be allowed to minimize the initial cost and risk of investment for manufacturing SMEs. These points have already been explained to the Ethiopian Government through the bilateral policy dialogue.

As for establishment of a JETRO office, which was strongly requested by the Ethiopian Government, Prime Minister Abe informed to Prime Minister Hailemariam the decision to set up a JETRO office in Addis Ababa on the occasion of the UN General Assembly in New York in September 2015. Preparation is ongoing and the new JETRO office is expected to be inaugurated by March 2016.

If a sufficiently large number of Japanese companies come to Ethiopia, or even before then, we would like to do two things in our policy dialogue. First, we will declare the unique merits of the Japanese business model mentioned above, such as long-term engagement, strengthening local workers and partner companies and legal compliance. At the same time, we will assist problem-solving and local partner enhancement of Japanese companies in cooperation with the Ethiopian Government, making it the role model of FDI-local firm linkage. Second, we will broadcast this linkage model to the rest of Africa and publicize the notion that Japanese investment brings benefits to host countries mainly in terms of quality, and not quantity, of enterprise activities. For Japanese manufacturers, this will constitute no additional burden because what we are asking is to do in Ethiopia what they are already practicing in any other countries.



Proposed Japanese area in Kilinto, adjacent highway, and apartment construction across highway.

PM Hailemariam on JETRO

“From my days of the Foreign Minister, I heard and witnessed the wonderful functions and services of JETRO and have been requesting a JETRO office in Ethiopia. My hope is to invite Japanese investors and trading houses to Ethiopia; the current number is too small. We will set a target for Japanese FDI and continue our effort. I am convinced that the presence of JETRO here will be a great help. If Japanese firms can invest in other African countries, they can certainly come to Ethiopia. Maybe our country image has improved after Mr. Abe’s visit. I insist on a JETRO office because I believe JETRO can persuade Japanese businesses on the ground to invest here. The presence of Japanese companies will teach us a lot. No other countries can do the same” (at the Prime Minister’s Office, February 25, 2014).

Chapter 3

Manufacturing FDI from Emerging Economies



According to the Ethiopian Investment Commission, FDI inflow is on the rise. Based on Ethiopian Calendar ending in June, it recorded \$1.0 billion in 2013/14 and \$1.5 billion in 2014/15. (the current exchange rate is about 21 birr/USD; birr slides down against USD at the annual rate of 5-6%). These figures are actual implementation, not license registration, of projects that have invested all proposed capital and physical equipment. The Ethiopian Government disregards registration figures as unimportant and does not even publish them. Past investment data had many inconsistencies such as the listing of non-existing companies and the lack of follow-up after registration, but these problems are being rapidly dealt with. In 2014, about 2,000 ghost companies were removed from the database for a major cleanup, and a system of post-investment monitoring and assistance for registered projects was created at EIC where 35 staff regularly visit 300 important projects and follow up all other projects through submission of semi-annual documents. Even so, there still remain irregularities in Ethiopian FDI data which we hope will be eliminated in the future.

The Ethiopian Government is very eager to attract manufacturing FDI. Partly thanks to lessons from Japan and Malaysia, FDI policy is swiftly changing. In 2014-2015 alone, we saw revisions of the Investment Proclamation and Regulation, upgrading of the Ethiopian Investment Agency to the Ethiopian Investment Board and the Ethiopian Investment Commission, introduction of new policy, proclamation and organizational arrangement for industrial zone development, as well as strengthening one-stop investor support and the follow-up mechanism for key FDI projects as mentioned above. A new policy to target Japanese FDI attraction was also launched in 2014. We welcome all these policy actions and hope to assist their effective implementation.

Among FDI source countries, Turkey and India are competing for the top position and China ranks the third. These three countries alone have over 1,500 registered investment projects of which about 500 are already in operation. The majority of these projects seem to be manufacturing (see below). It is important that these are precisely the three largest garment exporters in the world. They target Ethiopia in order to relocate domestic production abroad because their labor-intensive processes are losing competitiveness mainly due to rising wages at home. Another strong incentive for their relocation is the existence of import privileges for African products in the US and EU market (AGOA & EBA). FDI firms from Korea, Taiwan, US and UK are fewer in number, but their interests are also rising rapidly. Japanese FDI is still very few, but we hope to accelerate it in the near future (just like Japanese, German firms are also said to be cautious in coming to Africa).

The following pages summarize the results of hearings conducted by the Japanese Embassy in Ethiopia, GRIPS and JICA regarding the current status of industrial zone development, tenant firms, and FDI inflow from emerging countries.

Tab.4 Implemented FDI

Firm	Home	Sector	Production in Ethiopia	Employees	Year	Remark
Ayka	Turkey	Knit garment OEM	Integrated production of mid-range knitted goods for Western markets	7,000	2009	Expanding; has a plan to build rental factory apartments.
Huajian	China	Footwear OEM	Footwear for EU & North America	3,500	2012	Expanding; has a plan to build an IZ.
H&M	Sweden	Apparel	Apparel for Western markets		2012	Opened office in 2012; production contracts with local factories
George Shoe	Taiwan	Leather shoe OEM	Footwear for US & Chinese markets	800	2013	Operating in Bole Lemi 1; building a leather IZ in Mojo.
Tesco	UK	Large retail	Apparel for Western markets			Opened office in 2014.
Pittards	UK	Leather products	Leather gloves, bags, garments	1,430	2011	730 in production, 700 in tannery; plan to expand to 5,000 in 5 years.
GE	US	Conglomerate	Medical device for African market		2014	Plan to build factory; products to be exported by Ethiopian Airlines.
Shri Vallabh Pittie	India	Spinning	Cotton fiber		2014?	Building the largest spinning factory in Africa.
Kanoria	India	Denim	Denim cloth	350 (plan)	2012?	Factory under construction; using latest technology including robots.
Myungsung Medical Center	Korea	Medical service	Medical service for domestic market	120	1994	A hospital with 161beds.
Hiroki	Japan	High quality leather goods	Leather jackets, shoes, products	30	2013	Started production in rented factory space in 2014. Shoes are contracted out to local producer.
Jay Jay Mills	India	Babywear	Babywear for western markets (one type only)	100	2014	Production at Bole Lemi 1. Engaged in CMP contract.
Arvind	India	Denim	Jeans (export to EU & US using tariff privileges)		2014	Using imported materials from India.
Shints ETP Garment	Korea	Garment	Outer & sports wear (for US market using AGOA)	4,800 (plan)		Occupies 5 sheds in Bole Lemi 1. 2nd overseas factory after Vietnam.
Beconnected	Belgium & Holland	Apparel accessories	Design prints and tags for apparel	100	2014	Moving from Asia to Africa. Operation at Eastern Industry Zone.
Unilever	UK & Holland	Food and consumer goods	Detergent, health care products, beverages, ice cream, etc.		2014	Attracted by large population & demand. Success in Vietnam to be replicated in Ethiopia. At Eastern IZ.
Heineken	Holland	Alcoholic beverages	Beer	280	2011	Besides own brand, acquired local brands (Harar, Walia). New factory built in 2015.
Castel	France	Alcoholic beverages	Wine, beer	800	2007	Besides own brand, acquired local brand (St. George). Started producing Rift Valley Wine in 2014.
Diageo	UK	Alcoholic beverages	Beer		2012	Acquired local Meta Beer in 2012. New factory built in 2015.
BMET	Turkey	Cable	Home, building & telecom cables for domestic sales	700	2010	Importing materials from Malaysia & India; equipment from Turkey.

Note: The table lists a selection of implemented FDI projects which could be confirmed by site visit, company homepage or electronic media as of November 2015. Unknown information is left blank.

(Interview with Turkish sources, August 2014)

In 2013, export from Turkey to Ethiopia amounted to \$4 billion (iron and steel occupied two-thirds and the rest composed of foodstuff, machinery, cosmetics, chemicals, etc.) and import from Ethiopia to Turkey was \$500 million (sesame, coffee, textile and garment, etc.) At end 2013, cumulative Turkish FDI in Ethiopia was \$1.6 billion (implementation as of end 2013), placing Turkey at the top position as investor in Ethiopia followed closely by India. The third largest investor was China. In 2014, Indian FDI is likely to be greater than Turkish. As of now, there are 465 registered Turkish investors in Ethiopia of which 155 are in operation. Manufacturing, construction and services are the most prominent sectors. Within manufacturing, textile and garment is the leading sub-sector with the top eight projects accounting for 70% of total (AYKA, ELSE, SAIGIN, ETUR, Dire Dawa Textile, MNS, AKPER, DEMKA). For all these firms Ethiopia was the first overseas production location. Large firms in other sub-sectors include BMET, a producer of fiber optical cables and transformers. Turkish SME investors manufacture steel pipes, detergent, construction materials, macaroni, and so forth.

The largest investor from Turkey is Ayka, a garment manufacturer established in 1988. In 2009 it built a large factory complex in western Addis Ababa as its first overseas investment. It specializes integrated production of knitted products such as polo shirts and pajamas which are sold to Western markets through a German buyer. Ayka procures domestic cotton as well as imports cotton because domestic cotton production is insufficient for its volume. Ayka is additionally planning to produce cotton in Ethiopia. The operation size is expanding from the original 5,000 workers to 7,000 and even 12,000 workers in the future. The success of Ayka, which has become the largest single exporting firm in Ethiopia, is prompting many other Turkish textile and garment firms to move here and has increased the visibility of Ethiopia as an FDI destination among multinational companies around the globe.

Our policy dialogue team also visited Ayka Addis. Vertically integrated production from raw materials to preparation, spinning, knitting, dyeing, drying, sewing and packing was proceeding in grand scale using brand-new machines. Even the knitting section alone had one-hundred and a few dozen machines, which was an amazing sight. We also saw a similarly integrated garment factory in Mauritius. Integrated large-scale garment production is unfamiliar to firms in East Asia where specialization and division-of-labor are the norm.

Domestic wage increase is the main reason for the exodus of Turkish firms to Ethiopia. A typical unskilled worker costs about \$500 per month inclusive of social security contributions. At this wage level, labor-intensive manufacturers cannot compete with Bangladesh, Pakistan, Vietnam, Laos, India, etc. Ethiopian wage is \$50 per month or lower and has remained stable. Several other reasons also make Ethiopia one of the best investment destinations for Turkish firms. First, export credit guarantee

with favorable conditions is available from the Development Bank of Ethiopia (if you are a manufacturer). Second, Ethiopia is politically stable, security conditions are good, and people are kind and good at learning. Third, production costs including labor and energy are relatively low. Additionally, some Turkish companies which initially went to Egypt are now relocating to Ethiopia because of political instability in that country.

There are also problems, however. Labor turnover is high (about 35% per year). Government procedures are bureaucratic, complicated and change rapidly which often necessitates meetings with the Prime Minister, Deputy Prime Minister and other high levels for solution. Inter-ministerial coordination does not exist; MOT, MOI, ERCA, etc. make decisions separately in disregard to each other's decision. Export firms earning foreign exchange are promoted, but FDI firms producing for the domestic market and therefore compete with domestic products (especially construction materials) are not treated well due to political pressure from local companies. No such pressure is encountered if you export 50% or more of your products, and EDB export credit guarantee is available if you export 75% or more.

Joint venture with local partners is problematic because corporate cultures are so different between the two countries. Ethiopians are slow decision makers and this creates problems in purchasing new equipment or access to finance. Logistics has improved and is good at present. Transport from Turkey to Addis takes 25 days on average (20 to 40 days depending on shipping routes). Land transport from Djibouti to Addis takes one week for a large investor such as Ayka that enjoys special treatment from the government. But SMEs face longer delays because they have to cope with administrative procedures themselves. Recently, commercial attachés of various embassies in Addis Ababa began to exchange information every three months. It is hoped that cooperation of stakeholders with open mind will contribute to the betterment of investment climate.

Ayka is expanding from the first phase (5,000 workers) to the second and third phase with strong support of MOI. Ayka also plans to secure land in two locations (Jemo and Gulale) in the Addis suburbs to create concentration of Turkish firms, including three 4-5 story factory apartments to receive fifty 100% export-oriented Turkish firms, in joint venture with the Ethiopian Government [As of November 2015, this project is behind schedule. Non-Turkish tenant firms are also welcome]. Separately, another Turkish group plans to build a large industrial city in the north of Addis Ababa with an expected investment of \$10 billion [this project, at the water source of Addis, has encountered a problem in environmental assessment].

President Mulatu Teshome (in office from November 2013) was previously the Ethiopian Ambassador to Turkey for seven years and actively courted Turkish firms to come to Ethiopia then [he was also an ambassador to Japan in the 1990s]. Former PM Meles also marketed Ethiopia aggressively to Turkish investors upon his visit to Turkey.

(Interview with Indian authorities, August 2014)

Total bilateral trade between India and Ethiopia amounted to \$1.3 billion in 2013, of which India's export was as much as \$1.1 billion (steel, infrastructure, pharmaceuticals, paper, etc.) overwhelming the flow in the other direction (leather, spice, etc.) India's investment in Ethiopia is about \$4 billion (registration base), with 608 firms registered and 221 firms in operation. In agriculture, commercial enterprises aiming to create large-scale farms face delays in land procurement due to resident resettlement, environmental issues, etc. but small-scale investments are more successful. Prominent Indian investors include Pidilite (adhesives), ShriVallabh Pittie (textile spinning) and Kanoria (denim). Just recently, five more firms invested in Ethiopia. While Chinese firms invest actively in the infrastructure sector supported by their government, Indian FDI is private sector-led and implements projects quickly. Our speed of implementation is appreciated by the Ethiopian authorities.

The India Business Forum was created recently with the initiative of the Indian Ambassador. 110 firms are now registered members. Meetings are held monthly to discuss common problems and exchange information. If necessary, the Indian Ambassador will approach the Ethiopian Government to solve problems.

Indian companies are attracted to Ethiopia mainly by low labor cost and additionally by good personal security, cheap water and electricity, and low corruption. On the other hand, problems include frequently changing laws and regulations, the problem of inability to bring experts without high formal education (visas for such experts are hard to obtain), and difficulty in buying foreign exchange. ERCA is a source of many problems not only for Indians but also for investors from other countries. High transportation cost due to landlockedness is also an issue. Recently, the German Embassy initiated a meeting of commercial officers of investor countries (Germany, China, US, India and Turkey) to discuss investment climate issues. The next meeting will be hosted by India and participation of the Japanese Embassy is welcome.

India supports Ethiopia through human resource development and technical cooperation and there are multiple channels for these. They include (i) scholarship and technical economic cooperation for training and studying abroad—India Technical and Economic Cooperation (200 people per year), Indian Council for Cultural Relation (50 per year), and Indian Africa Forum Summit (20 per year); (ii) technical cooperation by the Central Leather Research Institute to LIDI (dispatch of Indian experts and training of Ethiopians for three years with the Ethiopian budget); and (iii) dispatch of Indian instructors to Ethiopian universities and other educational institutions (1,500 Indian instructors, including retired professors, have been dispatched so far with the Indian budget and additional support from the UN).

According to the World Bank survey published a few years ago on Chinese enterprises in Ethiopia, as of March 2012 there were 372 registered Chinese firms of which 86 were already in operation. The sectoral distribution of Chinese FDI was wide covering food processing, garment, IT, machinery and nonferrous metals. At that time Chinese investment in Ethiopia amounted to \$450 million, generated 15,910 regular jobs with an average wage of \$85 per month. Motives for coming to Ethiopia included Chinese networks (invited by a friend), selling to the Ethiopian market, low wage, incentives offered by the Ethiopian Government, and incentives offered by the Chinese Government. Business impediments included difficulties in customs clearance and business transactions, control in foreign exchange and the exchange rate, irregularities and non-transparency of tax administration, finance, and the shortage of skilled workers.

Among Chinese manufacturers in Ethiopia, Huajian has a relatively large operation. At home, Huajian is the largest OEM producer of brand shoes in the world hiring 25,000 workers in China. To establish a new production site, the company built its first Ethiopian factory that employed 1,750 workers in the Eastern Industry Zone, an industrial estate developed by a private Chinese group in Dukem, south from Addis. Huajian has also secured land of 99ha for expansion with the purpose of creating an agglomeration of footwear makers. It was former PM Meles who requested Huajian to come to Ethiopia. The company immediately made a decision, quickly built a factory and trained workers, and started operation after three months—speed which can hardly be matched by any Japanese company. Initially, the preparation and operation of Huajian was guided by Ms. Helen Hai, a young Chinese business promoter with British experience. After retiring from Huajian, she for a time joined the industrial zone development project of the World Bank (see below) as an advisor. Ms. Hai also promotes Chinese investment in Rwanda. Her dream is to create accumulation of labor-intensive manufacturing in Africa and her name is well known not only in Africa but also among economic officials and business people in Europe and America.

Korean FDI remains less than Turkey, India or China in terms of volume. According to the hearing of KOTRA by the Japanese Embassy in March 2014, there were eight Korean firms registered in Ethiopia: Keangnam Enterprise (construction, 1997), Myungsung Medical Center (medical service, 2004), Angel Industries (wig production, 2006), BM (textile and garment, 2010), Standard Diagnostics (diagnostic reagents and pharmaceuticals, 2011), Access to Bio (diagnostic reagents, 2011), LG (electronics, 2013), and Wooam (IT telecom, 2013). [Besides these, Shin Textile Solutions, a contract manufacturer for outer and sport wear, is building its second global production site in Ethiopia

following Vietnam.]

Among Taiwanese firms, arrival of George Shoe (OEM production of leather shoes) is most visible. In 2014, it started operation in two rental factory sheds (total of 16,500m²) in Bole Lemi 1 Industrial Zone. Initial operation was prepared and managed by Mr. O.K. Kaul, an Indian expert and a former CEO of Tata International with business experiences in over 30 countries. Mr. Kaul is highly satisfied with the support of MOI (with then State Minister Mr. Sisay visiting his factory each week to see if there was any problem), speed of customs clearance and infrastructure construction, and personal safety and good security of Ethiopia. He plans to hire 2,000 workers after in-house training. George Shoe is building a new tannery complex in Mojo for supplying leather for internal use, and shoe production will reach 15,000 pairs when this facility is completed. George Shoe specializes in OEM production of high-end leather shoes for men and women. Ethiopia is the third production location for the company after Taiwan and China.

In 2014, interests among British and American firms also rose in such areas as large-scale retail (outsourcing products), geothermal power, bio-fuel, chemicals and pharmaceuticals. The number of visits by American firms increased sharply after the US-Africa Leaders Summit (the first such meeting by the US, similar to Japan's TICAD) held in Washington, DC in early August. There is a plan initiated by an American group to collectively relocate a large number of suppliers from Asia to Ethiopia. Makers of alcoholic drinks such as Castel (France), Heineken (Holland), and Diageo (UK) are responding to the growing demand for beer in Ethiopia by buying up local breweries and building new factories.

FDI firms employing a large amount of labor and competing effectively in the global market such as Ayka and George Shoe evaluate highly the investor support provided by the Ethiopian Government and especially MOI-associated institutes such as TIDI and LIDI. We believe the present support mechanism, in which state ministers and responsible officials spend much time and energy to monitor and support VIP investors, is realistic and acceptable for Ethiopia which is not yet equipped with more sophisticated policy institutions, sufficient industrial human resource, or effective cooperation among ministries. However, other companies which are not regarded as highest priority routinely face serious hurdles in customs clearance, tax matters and land acquisition. Although the time available to state ministers and responsible officials is limited, we urge the Ethiopian Government to expand red-carpet treatment to all investors regardless of size and nationality. We are also happy to assist improving Ethiopian business climate.



Ayka's Spinning and Knitting Section
 (for Sewing Section see the cover page of ch.3)



Eastern Industry Zone:
 The gate, Huajian Factory,
 and inside a factory shed



George Shoe Factory in Bole Lemi 1 IZ:
 First row from left to right: Mr. Kaul,
 Ambassador Suzuki, and Mr. Yaregal
 (Former Deputy DG, Ethiopian Industrial
 Development Zones)



Chapter4

Investment Climate



Ethiopian investment policy is in a transition period for expansion and enhancement. In the next five-year plan (GTP2), the Government will emphasize FDI attraction in manufacturing and agriculture and is preparing laws and institutions for this purpose. This is a welcome move, but concrete details and actual implementation as well as the authorities and functions of new mechanisms need to be monitored and evaluated on the ground. The following information reflects our current knowledge obtained from the Prime Minister, advisors to PM, Ethiopian Investment Commission, Industrial Park Development Corporation, MOI, the Japanese Embassy, UNIDO, JICA and others. Given the flexibility and ambiguity of the current policy, investors are well advised to check the latest information.

Investment-related organization

Investment-related organizations are rapidly changing in Ethiopia. Below we skip past evolutions and explain organizational arrangements we are aware of as of late November 2015.

The highest body in deciding investment policy is the Ethiopian Investment Board (EIB) chaired by the Prime Minister, which was established in 2014. The Ethiopian Investment Commission (EIC), which serves as the secretariat for EIB as well as an implementation body, was simultaneously created. EIC is an upgraded version of the previous Ethiopian Investment Agency (EIA) under MOI, and thus overtakes the latter's functions including investor licensing and support. Mr. Fitsum Arega, who used to be the Director General of the Ethiopian Investment Agency, continues his duties and became the first EIC Commissioner. The reason for establishing EIB and EIC in 2014 is given in the box below. Additionally, at the end of 2014, the Ethiopia Industrial Development Zone Corporation under MOI was strengthened and reorganized as the Industrial Park Development Corporation (IPDC) under the Prime Minister's Office, where Mr. Sisay Gemechu (former State Minister of Industry) was appointed as CEO with the rank of State Minister. The Board of IPDC is chaired by Prime Minister's Economic Advisor Dr. Arkebe Oqubay. As temporary arrangement, EIC is housed in the old EIA building on Bole Road and IPDC is operating in rented office space near the Kenyan Embassy. There is a plan to relocate both organizations to newly constructed buildings near the Prime Minister's Office in the future.

In October 2015, the Export Promotion Agency was created under MOT. In the past, the Ethiopian Export Agency was established in 1998 but was abolished in 2002 due to the lack of effectiveness. The revival of this agency in a new form may improve the chance of enhanced export promotion. However, it is still not clear how the new agency will work with existing mechanisms such as Economic and Business Diplomacy, economic ministries, EIC, TIDI, and LIDI. Besides this, a professional agency to support and develop SMEs, which we believe is essential for Ethiopia's industrialization, is

PM Hailemariam on new investment policy arrangement

“We have upgraded the Ethiopian Investment Agency, which was under MOI, to the Ethiopian Investment Commission, which is directly under my supervision. We also created the Ethiopian Investment Board as the high-level decision making body, and I chair this Board. In the past the Council of Cabinet Ministers had to decide special incentives for priority projects on an ad hoc basis. Now the Board can take over that function on a regular basis without the trouble of convening a cabinet meeting. You ask if there is any duplication or complication with existing systems such as MoFA’s Economic & Business Diplomacy, MOT’s Export Promotion Directorate, and sectoral promotion by line ministries, and my answer is no. Promotion of manufacturing is the main pillar of GTP2 [next five-year plan]. Manufacturing FDI will require far more sophisticated marketing than agricultural FDI. MOA can oversee production of agricultural commodities and MOT can market processed food. Meanwhile, I will personally guide the policy for manufacturing FDI. Upgrading of EIA to EIC and EIB, and industrial zone development, are also for the same purpose. This means that manufacturing is a national priority” (at the Prime Minister’s Office, August 13, 2014).

still missing. However, manufacturing SMEs are under MOI even in the current arrangement.

Manufacturing is under the jurisdiction of MOI. Under the leadership of Minister Ahmed Abitew, MOI has currently two State Ministers: Mr. Tadesse (in charge of priority sectors) and Mr. Mebrahtu (in charge of plans and strategies). We also work closely with Mr. Ahmed Nuru, Director General and Advisor at the Directorate of Policy and Program Study and Monitoring & Evaluation, a reliable person who drafts policy documents and coordinates external relations. To move things ahead, policy discussion and problem-solving must be held with these leaders and officials of MOI.

Furthermore, Ethiopia has specialized institutes that support investors. Particularly worth mention are the Ethiopian Kaizen Institute (EKI) headed by Mr. Getahun Tadesse, the Textile Industry Development Institute (TIDI) headed by Mr. Sileshi Lemma, and the Leather Industry Development Institute (LIDI) headed by Mr. Wondu Legesse. There are also the Metal Industry Development Institute (MIDI) and the Food, Beverage & Pharmaceuticals Industry Development Institute.

Agricultural investment is under the authority of the Ministry of Agriculture led by Minister Tefera Derbew, an intelligent and experienced person. Attraction and support of large-scale agricultural investment is in the hands of State Minister Wondirad Mandefro. Among agricultural support institutes, most notable are the Ethiopian Horticulture Development Agency (EHDA) and the Ethiopian Agricultural Transformation Agency (ATA). It must be noted however that ATA is mainly targeting smallholder farmers for technology transfer and integration into global value chains and does not work directly with large-sized FDI.

Japanese Ambassador to Ethiopia Kazuhiro Suzuki and Ethiopian Ambassador to Japan Markos

Tekle Rike are also dynamically promoting Japanese FDI into Ethiopia. The Japan External Trade Organization (JETRO), in response to the strong request by the Ethiopian Government, has decided to open an office in Addis Ababa and this decision was conveyed directly from Prime Minister Abe to Prime Minister Hailemariam in September 2015 at the occasion of the UN General Assembly in New York. The JETRO office should be operational by March 2016. The Japan International Cooperation Agency (JICA) and our university, the National Graduate Institute for Policy Studies (GRIPS), are assisting the Japanese business community through kaizen, champion product development and industrial policy dialogue. The Japan Bank for International Cooperation (JBIC) can financially support eligible Japanese FDI firms. Mr. Tadesse Dadi Segni, Advisor at the UNIDO Ethiopia Office, is also assisting Japanese FDI in close cooperation with UNIDO's Investment and Technology Promotion Office (ITPO) in Tokyo. These are the prime policy contacts if a Japanese firm seriously wants to invest in Ethiopia.

Investment law

Ethiopian law combines continental law and British common law. Policy documents are divided into *Proclamations* that require parliamentary approval and *Regulations* which contain implementation details decided by the Cabinet. There are also ministerial directives under them. Ethiopian investment law is in the process of development. The latest legal documents consist of Investment Proclamation No.769/2012 and its amendment, Proclamation 849/2014, as well as Council of Ministers Regulation No. 270/2012 and its amendment, Regulation No.312/2014. Details such as the sectors and activities eligible for incentives and how industrial zones are organized are stipulated in Regulations. Besides these, two regulations were issued in 2014 to establish EIB, EIC and IPDC (Regulation No.313/2014 and Regulation No.326/2014), and a new Proclamation on Industrial Parks was produced in 2015 (Proclamation No.886/2015).

According to the explanation by EIA (precursor of EIC), key points about recent revisions are the following. First, one-stop investor service was strengthened. Second, adjustments were made in the sectors in which FDI was permitted—the previous negative list was replaced by a positive list, and loopholes were filled. Third, the minimum FDI size was raised with the intension of protecting Ethiopian SMEs. Fourth, industrial zone policy was revised and enhanced—state's role was increased due to the perception that private sector-led development had been ineffective. State-run industrial zones will be built for speed, but the Government will not rule out non-state developers or management contracts with private firms. Normal industrial zones will be developed instead of creating special economic zones or export processing zones. For agro-processing, the UNIDO-supported initiative of Integrated Agro Processing Parks is separately in preparation.

It must be understood that these policy directions are still provisional and subject to change and improvement. Our team expressed doubt about some of these revisions, but the Prime Minister

replied that Ethiopian investment policy was still under development and could be changed if problems arose. Incidentally, FDI in mining and agriculture which requires large-scale land use and development is separately dealt with. FDI in mining in particular, managed by the Ministry of Mines, is outside the purview of the new investment law.

Types and sector

Investment by foreign nationals can be made in any form including 100% foreign ownership and joint venture (JV) with Ethiopian partners with no restriction on the share of the foreign side. However, there are restrictions on the minimum size of FDI. Investment of \$200,000 or more is required for 100% foreign FDI and investment of \$150,000 or more is required for JV with a local partner. For technical consultancy service, minimum required investment is \$100,000 for 100% foreign FDI and \$50,000 for JV. These restrictions do not apply for re-investment. From January 2014, the policing of these minimum capital requirements became stricter and as a result the reported number of FDI fell during that year. This was to eliminate people who received investment licenses for the only purpose of getting residential permits to become teachers, dentists, company employees, etc. without any intention of investing (no relevance to Japanese people who rarely engage in such activities).

Prohibited sectors for FDI are as follows.

- Government monopoly areas—postal service, power transmission & distribution, passenger air transport
- JV with government required—weapons & ammunition, telecom services
- Areas only for domestic investors—certain designated items in the following sectors: export, import and wholesale trade; textile; leather; construction; construction materials; education; medical service, printing, etc. (for designated items see EIC documents)
- Areas only for Ethiopians—financial service, insurance, broadcasting, legal service, advertisement, domestic air transport, shipping business, etc.

Permitted sectors for FDI (the positive list) are as follows.

Manufacturing, agriculture, ICT, power generation, hotel & tourism, grade 1 construction, real estate, secondary & higher education with own building, TVET, health service with own building, architectural & engineering technical service, publishing, import of LPG & bitumen, designated export and wholesale trade

Customs duties on capital goods and construction materials are exempted for:

Manufacturing, agriculture, ICT, power generation, hotel & tourism, grade 1 construction, secondary & higher education with own building, TVET, health service with own building, import of LPG & bitumen

The above is a summary of information given in EIA/EIC investor brochures in 2013 and 2014. For investment purposes, the latest status and details of designated items should be checked by going to the windows of EIC or consulting newer documents if any. In our view, the global norm is to publish a relatively short “negative list” that defines areas not permitted to FDI, and declare all other areas to be open to FDI. In addition, a “positive list” of targeted products and activities eligible for special incentives (possibly with certain additional conditions) should be announced, and incentives should be given in a speedy, fair and transparent way to all projects that satisfy the criteria. The Ethiopian system is not like that at this moment.

Incentives and supporting measures

Main investment incentives are given below. Again, details should be checked with EIC.

- Customs duty exemption on imported equipment, construction materials and spare parts (not exceeding 15% of the value of equipment). Exemption is given during the entire period of operation for manufacturing and agriculture and for five years for other sectors. This privilege is decided by EIC for manufacturing and by ERCA for all other sectors (this is the current arrangement; approval procedure is under review at present).
- Corporate income tax (CIT) exemption for 1 to 9 years. For details please see Appendix V of EIC’s *Invest in Ethiopia: An Investment Guide to Ethiopia 2014*. Note that the number of years of exemption differs according to location and product export ratio (over 60% or over 80%) even for the same sector. CIT is either levied or exempted, and there seems to be no partial reduction (technically there is for investment in remote areas but this has never been actually applied). Years are counted from the receipt of Business License issued by EIC when operation was started (not Investment License). This is virtually the same as the number of years in operation.
- For a developer of an industrial zone, CIT exemption is available for 10 years if the location is within 40 km of Addis and 15 years if it is farther. Tenant firms in an industrial zone are also eligible for additional CIT exemption of 2 years (within 40km of Addis) or 4 years (farther) in addition to normal exemption, provided that they export 80% of their products or more. The above measures were introduced in 2014 to promote industrial zone development.
- FDI is permitted to employ managers, experts and workers. Approval is given by EIC for manufacturing, and by the Ministry of Labor and Social Affairs for all other sectors. (According to EIC, certain qualification is required for approval; work experience alone is not enough.)
- Losses incurred during the CIT exemption period can be carried forward after the exemption period is over, for half the duration of the CIT exemption. However, carry forward period cannot exceed five income tax periods (one income tax period is six months).
- More informally, special policy attention and support as well as negotiable privileges may be available for priority sectors and enterprises.

Export incentives include the following.

- Duty Drawback Scheme—imported and domestic materials used for the production of exported goods are eligible for exemption of customs duties and other taxes. Paid duties and taxes are refunded at the time of export of finished goods.
- Voucher Scheme—a voucher (printed paper having monetary value) which can be used to pay duties and other taxes is given to export firms.
- Bonded Factory and Manufacturing Warehouse Schemes—firms that have the status of a bonded factory or a manufacturing warehouse are allowed to use such facilities to import materials without payment of customs duties.

The export incentive system distinguishes Type 1 Import (equipment and materials imported for the purpose of production which are subject to customs duties of 10-20%) and Type 2 Import (goods imported for personal or non-productive purposes). EIC explains that Duty Drawback Scheme is not popular as it requires additional financing until final goods are exported. For this reason, virtually all firms that export regularly have moved to Voucher Scheme. Additionally, the Bonded Factory and Manufacturing Warehouse status has been granted to a small number of industrial zones and firms with records of large amounts of export. These export privileges are currently reviewed by MOI, ERCA and other responsible organizations for a possibility of revision.

As an example, Ayka Addis receives customs duty and CIT exemption for five years; pays land rent of \$1/m²/month (the same as in Bole Lemi 1 Industrial Zone, which is low), an electricity tariff of 2.7 cent per KW, and an average wage of about \$70 (plus lunch, commuter bus and clinic); with three work shifts and 5-day working week (information provided by the Japanese Embassy; these conditions may not apply to other FDI firms). Land rent in the future industrial zones developed by the Ethiopian Government will not be as low as in Bole Lemi 1; the first industrial zone offered bargain rent for attracting tenant firms as fast as possible but the Government now worries about the number of years required to recoup the initial investment for developing industrial zones.

Only leather has an export ban on raw materials and an export tax of 150% on semi-finished goods in order to encourage domestic processing. For all other sectors there is no export restriction.

Many exporting firms operating in Ethiopia avail themselves of privileges provided by the African Growth and Opportunity Act (AGOA) in the US market and by Everything But Arms (EBA) in the EU market. AGOA exempts import quotas and duties on textile products from Sub-Saharan African countries which are recognized (as democratic) by the US Government. AGOA was renewed by the US Congress in June 2015 which makes it available for producers for a foreseeable future. EBA similarly exempts import quotas and duties on all products except weaponry from poor countries.

Investment Procedure

A foreign firm seriously considering investment in Ethiopia should visit the Ethiopian Investment

Commission (EIC). If the firm decides to go ahead with the project after collecting and analyzing information, the first step it must take is to obtain Investment License from EIC. From there, a series of procedure flows such as company registration, construction, work permits, environmental impact assessment, etc. etc. Investment types include (i) commercial registration of a new company; (ii) commercial registration of a branch company; (iii) investment made by a business organization incorporated in Ethiopia; and (iv) expansion or upgrading of an existing enterprise. Needed documentation differ from one type to another.

The following are issued or approved by EIC, or EIC will assist firms to obtain them.

- Investment License (needs to be obtained first), Business License, and construction permit.
- Notarization of memorandum and articles of association
- Issuance, renewal, amendment, replacement, substitution or cancellation of commercial registration, trade or firm name, and work permit.
- Grading of construction contractor
- Registration of technology transfer agreement, and domestic investor and foreign investor export-oriented non-equity based collaboration agreement
- Customs duty exemption of capital goods and construction materials for manufacturing
- Securing land for the project
- Support for obtaining a bank loan, resident permits, and contracts for water, power and telecom
- Tax identification number (TIN)

Currently EIC is strengthening one-stop service for 28 types of procedure. As of January 2015, branch offices of the Development Bank of Ethiopia (11), customs (2) and visa issuance (1) were located on the sixth floor of the EIC building (number of seconded staff in parentheses). The Commercial Bank of Ethiopia, which handles bank accounts and foreign exchange, also opened an office on the first floor of EIC. Branch offices of power, telecom and environmental impact assessment are still not in place partly due to the shortage of space.

Following the JICA-supported official policy study mission to Malaysia in 2013, EIC (at that time the Ethiopian Investment Agency) internally created a directorate for investor follow-up in which seven teams (Relationship Building Teams with a total of 35 staff) monitored the progress of registered projects in leather, food processing, chemicals, agriculture & horticulture, textile & garment, metals, and others. Another directorate supports the realization of priority projects. EIC has about 180 staff (of which about 80 are professionals) not counting the seconded staff from other organizations noted above. In February 2014, EIC was receiving client service training from a British training institution.

EIC commits to the maximum time for issuing various licenses and permits following the receipt of application. Some of the promised delivery time limits are given below.

- Investment License—3 hours for first issuance, 19 working days for expansion investment

- Business License—10 working days
- Commercial registration—3 hours for issuance or amendment, 2 hours for renewal
- Work permit—2 hours for issuance, 1 hour for renewal, etc. etc.

Land

Land is public property in Ethiopia, and investors can obtain only the right to use land. Land use right and fixed assets attached to land are transferable and can be collateralized. The land rent is determined by demand and supply (“by auction”) reflecting location, soil, etc. Provision of industrial land to attract FDI has become a priority for the Ethiopian Government, with land for manufacturing and/or export-oriented enterprises being offered at reasonable cost (factory shed rental in Bole Lemi 1 Industrial Zone costs \$1/m²/month, which the Government says is a special pilot case which may not apply in the future). EIC supports land acquisition of foreign investors, and IPDC is in charge of raising funds for industrial zone development, management of state-run industrial zones, provision of industrial land, construction of factory sheds, etc. (see below for industrial zones). Land is under the authority of regional governments. Land acquisition is a headache that generates a budget problem and time delay due to difficult relocation negotiation with farmers (law requires compensation at market value). The Government plans to expedite this process by assigning industrial land preparation to the newly created IPDC which is directly under the Prime Minister’s Office.

For agricultural land, the Government aims to convert unused land in rural and peripheral areas into agricultural production through FDI attraction. The Ministry of Agriculture (MOA) is tasked to guide and allocate land over 5,000ha, provide information and technology, and build necessary infrastructure.

The following information was obtained in our interview with MOA in 2013. Agricultural investment so far amounted to 2 million ha with 3,000–4,000 projects, but large-scale projects has been few (about 25). Large-scale projects are usually initiated by Indians or Gulf state investors but few of them had actually been implemented. Small-scale projects are carried out mainly by Ethiopians and Diaspora people. MOA’s FDI policy is directed to four crops (cotton, rubber, palm and sugarcane) which are prioritized in GTP. MOA welcomes agricultural FDI from any country, but Ethiopia’s foreign missions can properly screen investors in several countries only—India, China, Gulf states, South Africa and Italy. Foreign investors who approach MOA directly, without going through an Ethiopian embassy, are screened carefully by MOA for past performance, project feasibility, land selection, environmental impact, etc. While the Government started one-stop service for investors, it is difficult for MOA to issue Investment License quickly because agricultural investment requires time to prepare infrastructure and check environmental impact. To expedite approval, MOA plans to create a list of land suitable for large-scale agricultural production and conduct land preparation, environmental impact assessment and facility construction in advance. Most of the candidate locations are uninhabited land in

Benishangul-Gumuz, Gambela and Southern Regional States for which resident resettlement is not required. This agricultural development model is an invention by Ethiopia and not a copy of some other country.

Logistics

Securing an access to the sea is a life-or-death issue for the Ethiopian economy. Ethiopia did have a sea coast until Eritrea broke up from it (declaration of independence in 1991, approval in 1993), but it is a landlocked country now. The present access to the sea uses trucking to the Port of Djibouti. Relationship between Ethiopia and Djibouti is favorable (Ethiopia supplies electricity and water to Djibouti) and the road to Djibouti is of acceptable quality. Road congestion has been serious as one approached Addis, but this problem was partly but greatly alleviated after the completion of three-lane Addis-Adama Highway in May 2014 (at least for approach from the south). Congestion still exists in and around Addis Ababa, but there are plans to build access roads from the south of Addis to the east (where Bole Lemi industrial zones are located) and the west without going through the center. As of December 2015, the new highway to the east of Addis is passable though not completed. Additionally, when the railway to Djibouti, currently under construction by CCECC (Chinese builder), is completed, rail access to the sea will also become possible. The Government says construction will be finished by 2016.

Transport infrastructure is still underdeveloped in Ethiopia, but construction is going on at full speed. Addis Ababa is seeing construction of Ring Road and other major roads and intersection improvements. The underpass crossings on Bole Road have been completed. In long distance, improvement of major roads, including roads to Djibouti, and construction of a new railway system are underway. An intra-city Light Rail which links Addis with two lines East-West and North-South started operation in September and November 2015, respectively. A number of donors, including Japan, are contributing to the construction of transport infrastructure but the most visible assistance is provided by China who can build things fast, cheap and in large numbers.

Despite progress in hard infrastructure, there are problems on the soft side of the story. Land cargo transport between Addis and Djibouti is a monopoly of state-owned Ethiopian Shipping & Logistics Services Enterprise (ESLSE), whose service quality must be greatly improved. Dry ports in Mojo and Dire Dawa are also operated by ESLSE. In October 2015 the official at Dire Dawa Dry Port told us that there are usually 400 containers kept at this dry port with the average staying time of 15 days (17-19 days at Mojo Dry Port). The reason for the long stay is nationwide shortage of foreign exchange and not the lack of staff capacity or equipment at the dry port. Importers have to wait until the bank provides them with foreign currencies during which time the documents cannot be processed.

Transport data reported by Ayka are as follows. Trucking from Addis to the Port of Djibouti takes three days with a land transport cost of \$3,700 (40-foot container) and customs duty at Djibouti of

\$1,100. Ocean transport from Djibouti costs \$2,600 to Turkey, \$1,500 to Germany, \$1,700 to India, and \$2,000 to China (information gathered by the Japanese embassy). During our visit to Ayka Addis in January 2012, it was explained that there had been a problem of pilferage (stolen cargo) in trucking initially but irregularity was corrected by the Government. By that time Ayka found no problem with logistics. It should be reminded however that Ayka is the largest FDI project in Ethiopia and receives high attention and red-carpet treatment from policy authorities. It is unlikely that the above information applies directly to other investors, especially SMEs. Further research is needed to grasp the overall logistics situation in and around Ethiopia, and it would be highly desirable if the Government made effort to solve logistic problems for all investors regardless of size and priority. JICA is currently undertaking a comparative study of business conditions in a number of African countries including Ethiopia, which covers transport and logistics situation also.

Ethiopian Airlines, a national flag carrier owned by the Government, deserves special mention. It has sufficient regular routes and fleet to be considered one of the largest airlines in Africa. The company homepage reports 76 aircrafts in total which breaks down to 13 B787s, 10 B777s, seven B767s, two B757s, 19 B737s, 17 Bombardier Q400s, and eight cargo and other planes. It also has additional 42 aircrafts on order. Addis Ababa Bole International Airport is relatively modern. However, airport services and management has much room for improvement. Recent news on Ethiopian Airlines include a large order made on B787s, becoming a Star Alliance member, and racking up the highest profit in Africa in 2013/14 (beating South African Airways). Direct service to Narita started in April 2015 (with one-hour stopover in Hong Kong for refueling; currently three flights a week). After that, more new direct flights are rapidly established. Ethiopian Airlines is the model company among Ethiopian SOEs and its management is highly dynamic and growth-oriented. Separately, in 2013, tentative cold chain facility was installed in Bole International Airport to expedite flower export to the EU market. It is planned that this facility will be upgraded to full capacity and three other similar facilities will be built in the rest of the country.

Possibility of domestic finance

For large-scale investment or investment in priority sectors, financing from the Development Bank of Ethiopia (DBE) is available. DBE is a state-owned policy bank whose role is to extend medium- to long-term credit to national priority projects. It adopts the project finance model in which the borrower comes up with 50% (previously 30%) of needed finance and DBE provides the remaining 50% in either foreign or domestic currency with low interest rates (the priority rate of 8.5% and the normal rate of 9.5%) without requiring a collateral. For manufacturing, loan maturity is normally 10 years or less with a grace of 3 years, while long-term projects such as infrastructure and forestation may have a period of 20 years with a grace of 5 years at the maximum. In early 2013, client distribution was 18 foreign firms (mainly textiles and floriculture) and 59 domestic firms. In terms of loan volume, about

three-fourths was for foreign clients. DBE does not serve SMEs except for micro-finance programs funded by development partners. However, there is a plan for DBE to positively engage in SME finance during GTP2.

More specifically, the priority sectors of EDB are (A) commercial agriculture including horticulture, cotton, sugarcane, fishery, seed improvement, poultry and processing; (B) agro processing including food processing, cotton production and processing, dairy farming, animal feed, coffee processing, edible oil and juice production; (C) manufacturing including textile and garment, leather and leather products, footwear, paper and paper products, chemicals, packaging and pharmaceuticals. Ethiopia is one of the few poor countries that have a functioning policy finance institution serving domestic agriculture and industry in a significant way.

Additionally, working capital can be financed from the Commercial Bank of Ethiopia or other commercial banks provided that the project passes the bankability criteria.

Other

Except for the sectors closed to FDI mentioned earlier, domestic and foreign firms are treated equally under the Ethiopian law. Ethiopian Constitution and Investment Proclamation guarantee investors against expropriation or nationalization, and specify advance payment of compensation “corresponding to the prevailing market value” of a private property if expropriation or nationalization is necessitated for public interest.

Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA) and the World Intellectual Property Organization (WIPO). Furthermore, Ethiopia has concluded bilateral investment treaties with 30 countries (not with Japan yet) and double taxation treaties with 18 countries (not with Japan yet). To accelerate Japanese FDI into Ethiopia, it is imperative that these bilateral treaties be concluded with Japan as soon as possible. In fact, the Ethiopian Government is already urging the Japanese Government to do so.

Ethiopia is not a member of WTO and thus is not bound by WTO rules, but it is currently negotiating accession. It is the Government's policy not to open up the financial and telecom sectors for the stated purpose of retaining sufficient policy instruments for development. It is not very clear how this policy stance will affect Ethiopia's WTO entry negotiations. As explained above, Ethiopia has a number of investment incentives (including CIT exemption) linked with export performance, such as 60% or 80% of products being exported, but this is in clear violation of WTO rules that prohibit export subsidies. At some point in the future, Ethiopia, and firms operating in Ethiopia, will have to take WTO rules into consideration.

Barriers to business activities in Ethiopia most often cited by both domestic and foreign firms include shortage of foreign exchange, material procurement, power failure, tax matters, and customs clearance. To cope with these problems, it is necessary to have (i) a mechanism for collective voice-raising among investors of all sectors and nationalities; (ii) official surveys on actual situation; (iii) design, implementation and monitoring of an action plan for solution; and (iv) assistance by development partners to carry out the above. While everything cannot be remedied at once, the two parties (government and investors) should cooperate and make progress gradually and patiently. Final solutions to some problems such as those related to foreign exchange or power failure may take time, but short-term fixes should also be introduced to ameliorate such problems for priority sectors and firms.

Ethiopia is in chronic shortage of foreign exchange. The law says foreign investors have the right to make outward remittances in convertible foreign currency of profits and dividends, principal and interest payments on external loans, payments related to technology transfer agreements, proceeds from the sale or liquidation of an enterprise, compensation paid to an investor, and proceeds from the sale or transfer of shares or partial ownership of an enterprise to a domestic investor. But legal rights may not translate to actual receipt of convertible currency if banks are out of foreign exchange. According to EIC, a three-month wait is possible when market conditions of major export goods such as coffee and gold are unfavorable, but foreign exchange is made available to export firms on a priority basis. In other words, firms buying foreign currency for non-export purposes are likely to face a long wait. We need reliable fact-finding research.

Ethiopia still has foreign currency surrender requirement. Export firms earning foreign exchange must sell 90% (previously 80%) of it to a bank within 28 days whereupon the Government allocates it to targeted sectors and projects (the National Bank says exporters can retain as much as 10% of the foreign exchange, and there will be no need for surrender if imports are made within 28 days). Japan adopted this system under economic crisis immediately after WW2, but Ethiopia still operates this awkward system, apparently because capital transactions are controlled, interbank markets are primitive, and the earning power of foreign exchange remains weak. Since the objective of this policy is to increase the supply of foreign exchange, a more convenient system should be considered at least for firms that can earn foreign exchange in the net (sales minus purchase) with the same result. A Cut-Make-Pack (CMP) mechanism used in Myanmar and other countries where a foreign garment firm pays only the labor cost without using any foreign exchange for importing materials, may be studied. In fact, our policy dialogue team is making an inquiry to the Ethiopian Government if such a scheme is acceptable. On the other hand, there is already at least one non-Japanese FDI company that uses this scheme for operation in Ethiopia.

Power blackouts are another serious impediment. 99% of Ethiopia's electricity comes from hydro-

power generation. In the future when Grand Renaissance Dam on the Blue Nile near the Sudanese border with the capacity of 6,000MW is completed, Ethiopian power capacity will rise dramatically from the present 2,000MW to 10,000MW, satisfying domestic demand as well as exporting power to neighboring countries. A number of countries, including Sudan, Kenya and Rwanda, are waiting for Ethiopian electricity. The dam is being built with domestic funding only (national budget and people's contributions). It is 47% complete as of October 2015 according to the Government. Full completion is expected in mid-2017. But we must also be mindful of a possibility of delay associated with such big projects as well as a water dispute between Ethiopia and Egypt. Firms may install a generator in self-defense, but due to its high fuel cost it can be used only in emergency and not for regular use. In an effort to invite FDI and promote industrialization, many developing countries and localities commit to uninterrupted power supply to industrial zones even when the rest of the city is blacked out. We understand that Ethiopia will also follow this practice. If even that is difficult, the last resort is scheduled and pre-announced power stoppage as few times as possible.

Inefficiency and corruption are common problems in tax collection and customs clearance in many developing countries. In Ethiopia, investors complain bitterly about ERCA. In international comparison, we feel that Ethiopia suffers from inefficiency relatively more than from corruption. In a developmental state such as Ethiopia, is it not possible to mobilize benchmarking and BPR to set targets and an action plan for improving ERCA in a top-down manner?

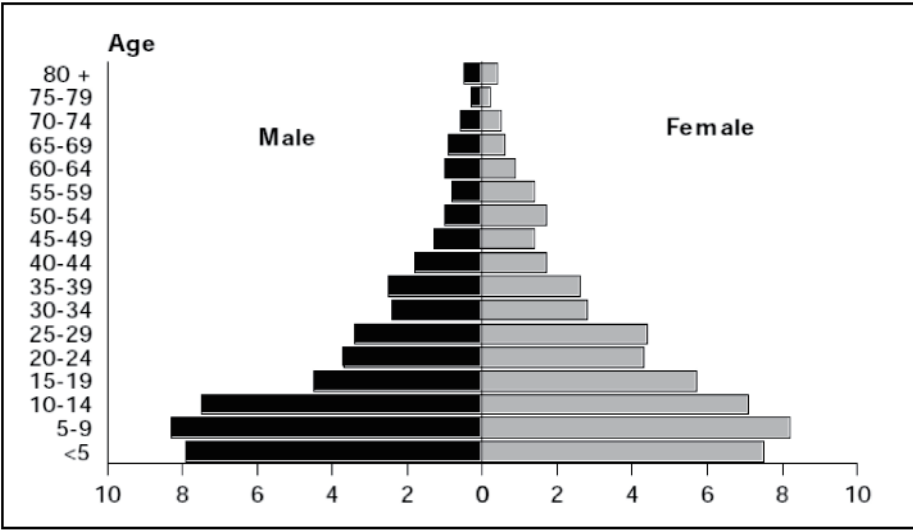
To solve these problems, we first need a good fact-finding survey. Then we need to urge and work with the Ethiopian Government to design and implement both temporary measures and ultimate solutions.

2 Wage and productivity

Ethiopia's population structure is pyramid-shaped as seen in the Ethiopia Demographic and Health Survey of 2011. On close examination, we detect that males in the 50s are relatively few and infants aged 5-9 are more numerous than those below the age of five. But overall, it exhibits a structure of a classical developing country with a large number of children in school age and few old people. This tendency has not changed very much from the Surveys of 2000 and 2005. This means a large number of youths will enter the labor market in the near future, and we can say that Ethiopia is a country suitable for labor-intensive manufacturing. However, labor shortage may arise in certain skills or locations (such as the vicinity of Addis Ababa). How much rural-urban migration will occur is still unknown in Ethiopia, but such migration will surely occur to some extent even with cultural and linguistic differences across regions. Ethiopians have already migrated to all over the world and labor exports to Middle East is also active.

Ethiopians are serious and nimble-fingered people. Ethiopia at present does not have minimum

Fig.2 Population Pyramid



Source: Ethiopia Demographic and Health Survey, 2011.

wages. Wage levels we hear are approximately \$50 per month for entry-level workers and \$70-80 for more experienced ones, but higher and lower numbers are also reported probably depending on location, sectors and benefits. In Ethiopia where large-scale labor-intensive FDI has just started to pour in, systematic wage statistics such as the ones produced by JETRO for Asian countries do not exist. To partly remedy this problem, JICA conducted a wage and labor productivity survey in 2015 by mobilizing Addis Ababa University researchers. The results show that average monthly wage in and around Addis was \$95 for leather (this includes both tannery and products), \$89 for textile and garment, and \$58 for floriculture. This survey did not effectively separate different functions, experiences or academic backgrounds of workers and thus can only report average wages of different cohorts of workers in each sector. Starting salary may be about \$50 but firms that intensively use skilled and experienced workers or middle managers (such as tanneries) naturally have higher average wages than those that hire a large number of unskilled workers.

Using available macro data, Ethiopian labor productivity can be calculated as follows. In the eleven years ending in 2011/2012, manufacturing real value-added per employee (i.e., labor productivity) rose at 2.7% per annum, which is relatively low if this number is credible. Labor productivity rose 10% per annum during Japan's high growth era (1955-1970). It annually rose 8.8% in China, 4.8% in India, and 4.5% in Vietnam during 1995-2013. Meanwhile, during the same period, only about 2% annual increase was observed in Malaysia, Thailand, and Indonesia, and the Philippines even recorded decline. We can say that Ethiopian productivity performance is low but not far lower than some of the Asian developing countries. We are advising the Ethiopian Government to aim at the labor productivity increase of 5-10% per annum if the country is determined to become a leader in light manufacturing.

No rising trend in wage is reported by EIC or the Ethiopian Industrial Development Zones

Corporation. We also do not hear about wage inflation but there is informal talk about possibly limited wage pressure. The Ethiopian Government advises FDI to consider rural areas where labor is more abundant instead of Addis vicinity in order to avoid wage inflation in the future, although no such trend is visible today. It strongly instructs labor-using large factories to locate in industrial zones outside Addis Ababa. On the other hand, real wage for workers (measured in price-adjusted birr wage, not dollar wage that concerns foreign investors) recently registered a decline due to high inflation. If this trend continues in the future, it will pose a very serious problem from the viewpoint of social stability.

We must admit that unskilled wage of \$50 per month is very low. It is lower than those in so-called low-wage countries such as Indonesia (\$263) and Vietnam (\$173). It is even lower than those in the poorest countries in Asia such as Myanmar (\$127), Cambodia (\$113), and Bangladesh (\$100) - these are JETRO survey results in 2015. Moreover, in many Asian countries wages are shooting up every year. If we look at Africa, apart from crisis or fragile countries, other politically stable countries already have wage levels comparable to Indonesia or India, which makes Ethiopian low wage very unique. Our team is urging the Ethiopian Government to jealously keep this wage advantage. We advise that all must make effort to improve productivity, let wages rise in tandem with labor productivity, and systematically collect necessary data on wage and productivity to enforce this policy.

The Ethiopian Government is already well aware of the crucial importance of productivity increase. For this purpose, it has introduced benchmarking, BPR and kaizen, and set up many sectoral institutes. It emphasizes education in science and technology and has built engineering universities at full speed. Adoption and scaling-up of the German-coached TVET system across the country was for the same purpose. GTP2, to be finalized and announced in early 2016, will emphasize quality, productivity, and competitiveness.

There is also good news. The World Bank published *Light Manufacturing in Africa*, a report comparing Asia and Africa, in 2012. It singles out Ethiopia as a model country and examines its potentials in apparel, leather products, wood processing, metal products, and agro business. The report concludes that Ethiopian wage is 1/4 of China and 1/2 of Vietnam, while productivity of Ethiopian garment worker (number of polo shirts per person per day) is 1/2 of China and the same as in Vietnam. This means that productivity-adjusted wage in Ethiopia is only half of China and Vietnam. In Tanzania, labor productivity is similar to Ethiopia but wage is 3.6 times higher than Ethiopia.

The World Bank lead economist in Addis Ababa was skeptical about realization of a large volume of manufacturing FDI into Ethiopia. But he was of the opinion that labor supply would not be a constraint in the foreseeable future because a large pool of unskilled and unemployed workers existed and migrant workers were likely to shift from going to Gulf states to coming to Addis. He added that the recent wage hike of public servants (about 30%) might exert some pressure on private sector wages, but in terms of USD, no sharp rise would be expected in the next several years; thus Ethiopia would remain a very low wage country. By contrast, he warned that skilled labor (middle-level technicians and engineers) might face skill-versus-industry needs mismatch despite fast expansion

of engineering universities in rural areas, and urged the Government to better target TVET programs to actual industrial needs.

3 Industrial parks

In the southern part of Addis Ababa and further beyond, called Akaki Kality, accessible by car within 30 minutes from the center if there is no traffic jam, there is an old concentration of state-owned and private factories. Leather tanneries have been scattered around Addis. In the northern region of Tigray, there is a two-decade old industrial cluster of companies founded by the Endowment Fund for Rehabilitation of Tigray (EFFORT) which critics call party-owned companies. Ethiopia also has a former military factory, Metal Engineering Corporation (METEC), privatized in 2011. These are the old industrial areas of Ethiopia, the existence of which however was not sufficient to strongly propel industrialization in a globalized world.

It was only recently that the Ethiopian Government became very serious about preparing industrial zones to attract FDI. Initial plans included construction of industrial zones by Indian and Chinese developers. However, impatient Ethiopians were not happy with the result; the speed of construction was too slow, rental prices were too high (though developers were given cheap land), and few tenant companies invested. To us Japanese these criticisms seemed a bit too harsh on foreign developers who must operate in less-than-perfect business environment. At any rate, the Government consequently decided to build industrial zones by itself to speed up. In October 2013 the 100% state-owned Ethiopia Industrial Development Zones Corporation was established. In 2014 it was made legally clear that industrial zone development could be undertaken by any developer whether it is foreign, state-run or JV. The Industrial Development Zones Corporation was reorganized and strengthened from MOI supervision to under direct guidance of the Prime Minister's Office. The Government explained that FDI developers were the best but the Government had to prepare industrial zones fast because "there is a long queue of FDI companies wanting to come" and such a chance should not be missed (Ethiopia is happy to let foreigners operate zones through management contracts).

We were initially apprehensive because there were not many industrial zones created by inexperienced governments which achieved brilliant success. But we had to eat our words when we saw that Bole Lemi 1 Industrial Zone, the first such zone established by the Ethiopian Government, was fully booked even before construction was completed. However, as an industrial zone Bole Lemi 1 is far from perfect, for example, with unusual management office buildings and scattered debris on zone roads. The World Bank is supporting the next two state-run industrial zones—Bole Lemi 2 and Kilinto—with finance and know-how (see below).

Ethiopia's industrial zone policy is active, but there are a few unfamiliar points to the Japanese eye. This may be partly because Japanese standards are unique but also because Ethiopian industrial

zone policy is still in an early stage.

Ethiopian policy makers led by Dr. Arkebe insist that each industrial zone should host only one (or a very few) type of investors among garment, leather, agro processing, pharmaceuticals, electronics, heavy industries, etc. However, Japanese industrial zones in East Asia are not choosy about sectors as long as investors abide by the common standards in environmental protection or handling hazardous materials (developing countries may prohibit plating or painting activities). Electronics or garment clusters may form naturally by market force. But industrial zones do not narrowly specify tenant firms which is disadvantageous to sales. Note however that the Ethiopian government promises not to apply the “only one sector” rule to the proposed Japanese investment area so this issue does not concern us for the moment.

Ethiopia is receiving large manufacturers producing garment and shoes using a large amount of unskilled labor. But this is just the first step in FDI-led industrialization. As in East Asia, there will be a long road ahead to develop local inputs and internalize technology and human resource. When many large factory sheds are being erected, it is easy to forget the importance of supporting industries and engineer training to which SMEs can contribute greatly. Transition from unskilled labor to technology transfer is a topic that should be taken up by future policy dialogue sessions.

The Ethiopian Government plans to raise \$1.3 billion for building industrial zones, of which \$300 million is covered by Euro Bond issue, \$250 million by World Bank loans, and \$350 million by government budget. For future industrial zones, the “turnkey contract” approach is adopted in which one designated contractor will undertake everything rather than multiple biddings for different works as the World Bank requires, which Ethiopia thinks is too slow. The Government also wants to secure tenant firms before construction so infrastructure and sheds are built to their specifications; recover infrastructure cost within 15 years (by setting the rental price accordingly); and enforce global standard environmental and green standards. In Bole Lemi 1, factory rental has a renewable 10-year term with the rental charge of \$1/m²/month in the first five years and \$1.25/m²/month in the remaining five years. This is cheap, and the Government says this was a special deal for initial zones which will not continue in the future.

Table 5 lists existing and planned industrial zones. Bole Lemi 1 (fully occupied), Bole Lemi 2 (planned), and Hawassa (almost fully occupied) offer relatively large prefabricated rental factories (“factory sheds” in Ethiopian terminology) and no land-only rentals. This was due to having to respond to large and urgent demand for factory space; the Government is not exclusively interested in supplying rental factories only. As noted above, the Government wants to create specialized industrial zones. Bole Lemi 1 and 2 and Hawassa are reserved for textile and garment while Kilinto can host agro processing, food and beverages, pharmaceuticals, and furniture only (no textile or garment). Dire Dawa, close to Djibouti Port, is earmarked for export-oriented manufacturers. The Government guides labor-intensive large operations away from Addis and into regional industrial zones in order to cope with expected urban labor shortage and allocate industry widely among regions.

Tab.5 Industrial Zones

Industrial zone	Developer	Location	Size	Status	Remark
Bole Lemi I	Government	15km SE of AA center, within 30 min. drive	156ha; 20 factory sheds, 10 each of 5,500m ² & 11,000m ²	Open in 2014, fully occupied; 5 in operation, all sheds completed	Factory sheds only, no land rental; possible to rent multiple sheds; 12 tenants from Taiwan, Korea, India, China & Pakistan; of which 10 are garment, 1 each in footwear & gloves; no labor supply problem; wage \$50-55/mo. Waste water treatment under construction
Bole Lemi II	Government	Adjacent to Bole Lemi I	186ha; 15 sheds and parcels of land planned	F/S done; finalizing detail design	F/S done by Korean company Dohwa; WB assists with finance & TA (sheds, infrastructure, etc.); for garment & footwear investors.
Kilinto	Foreign developer preferred but state development also possible	20km S of AA center	308ha with possibility of expansion		F/S done by Korean company Dohwa; WB assistance; for wide sectors incl. agro processing, electronics, furniture, etc.
Hawassa (previously Awassa)		175km S of AA via Mojo, half day drive (railway & highway planned)	270ha, 30 sheds, 100 apartments, shops, hotels, etc.	Construction started July 2015, to be finished Jan. 2016	Government is looking for foreign developers for these zones; if there is no taker, government is willing to invest according to specs required by tenant firms. A foreign group is moving into Hawassa with infra cost shared by group and government. F/S of Dire Dawa was conducted by China Association of Development Zones. Indian Government will support Kombolcha with a loan of \$50 million.
Dire Dawa		E of AA, 300km from Djibouti; near new RR station	1,500ha	F/S done by Chinese; detail design stage	
Kombolcha		N of AA near Dessie	1,000ha	F/S by Indian government fund	
Pharmaceutical Industrial Zone		Near AA		Initiative in 2015, details unknown	Supported by Bill Gates Foundation, study by McKinzey. To invite large pharmaceutical firms from EU, US and Asia for both domestic sales & export.
High Tech Park		AA, near Bole Airport		Details unknown	Study done by McKinzey. Adjacent to new Addis Ababa Science & Technology University.
Eastern Industry Zone	Jiang Su Qi Yuan Group (China)	S of AA; about 1 hour drive	500ha in total; 11 sheds of 10,000ha each	10 Chinese firms; sheds are fully occupied; Phase 2 construction started	The first IZ in Ethiopia; developed by a Chinese private group with Chinese government support; Huajian has been operating here in 2 factory sheds.

George Shoe City	George Shoe (Taiwan)	Mojo; S of AA, about 2 hour drive	50ha	Design stage	Building tannery and leather-related facilities for use by George Shoe and other Taiwanese companies; expanding from Bole Lemi I.
Huajian Shoe City	Huajian	Jemo area inside AA	138ha	Land procured; designing stage	Expanding from Eastern Industry Zone to its own zone; detail design to be finalized; delay seen.
Gaizo	Ayka	Jemo & Gulaleareas inside AA	3 factory apartments, 4-5 stories high; 5ha in 2 locations	Detail design finished	Initially to invite Turkish export-oriented textile firms but now any firm can come; Delay seen. Gaizo means Garment Industrial Zone.
Kingdom Linen	Kingdom Group (Hong Kong)	South end of AA	30ha	Negotiating land & designing	Largest Chinese linen producer.

Note: This table summarizes our knowledge as of November 2015 with information provided by the Government and site visits. The Ethiopian Government also has decided to build industrial zones in Adama (a.k.a. Nazaret) and Mekelle. There are plans for building industrial zones in Bahir Dar and Jimma also. An industrial area reserved for Japanese firms is being considered within Kilinto.

Addis Ababa is slated for skill- and knowledge-intensive activities rather than mass production of simple products. Other than these, a state-led industrial zone is planned in Kombolcha and Pharmaceutical Industrial Zone and High-tech Industrial Park are also proposed in the Addis suburbs. Further into the future, Adama, Mekelle, Bahar Dar, and Jimma are expected to have industrial zones.

The World Bank supports development of Bole Lemi 2 and Kilinto Industrial Zone with the Competitiveness and Job Creation (CJC) Project accompanied by an IDA loan up to \$250 million for the five-year period, which was approved by the Bank Board in May 2014. The CJC Project aims to create model industrial zones in Ethiopia through assistance in both software and hardware. It has four components: (i) legal framework and institutional capacity building; (ii) construction of factory sheds, infrastructure and management support; (iii) a TVET center (expecting participation of tenant firms, TIDI, LIDI, etc.); and (iv) linkage between industrial zones and local SMEs.

At present Hawassa Industrial Zone in the Southern Region shows rapid progress. The area has a large farming population suitable for labor-intensive works. A US-based group is relocating its supplier companies in large number from Asia to Ethiopia, and Hawassa was chosen as the place. The first phase (100ha) will have 35 large factory sheds, 100 residential units, worker dormitories, and commercial areas. China's CCECC is the builder under the "turn-key contract" starting construction in July 2015 and finishing by January 2016 (originally December 2015; we need to check the quality of infrastructure after completion). The Government will support Hawassa by building a new highway (within 3-4 years), a railway line, and a small airport (by end 2016). Private developers will receive 15-year tax holiday and tenant firms will enjoy two more years of tax holiday (8-10 years). Other than the US group, companies from Indonesia, India, Sri Lanka, China, and US have showed interest and Phase 1 is virtually full even before completion, with Phase 2 to follow. Some firms began worker

training. The shed rental is expected to be \$2/m²/mo. in the first two years, \$2.5 up to the 7th year, and \$2.75 up to the 15th year, allowing the developer to recoup the initial investment in 15 years.

These are state-led industrial zones. The fact is there are more FDI firms wanting to invest or expand in industrial zones in Ethiopia than the Government can offer, with the consequence that some of the FDI firms have started to build industrial zones or factory apartments for their own expansion or for inviting more manufacturers from the home country, as in Table 5. To us Japanese it is almost unthinkable to build first factories in remote areas far from Addis, but investors from other countries, especially emerging economies, seem to have no such worries. Investing in rural areas will certainly have benefits including low wage, easy recruitment of workers, and supporting the Ethiopian Government in allocating industry widely across Regions.

George Shoe (Taiwan), an OEM manufacturer of brand shoes, is building an industrial zone (Mojo George Industrial Zone) in Mojo, a town designated as the leather cluster by the Government, where 2 tanneries and 14 factories are to be constructed. Eastern Industry Zone (China), Ethiopia's first (private) industrial zone, is developed and managed by a private firm from Jiang Su Province since 2009. Huajian (China), another OEM shoe maker, rents two factory sheds there. Factory sheds are fully occupied but land is still available at Eastern Industry Zone. Separately, Huajian also develops its own industrial zone for expansion, but progress is slow—only land breaking and fencing were done and the Government is worried. Ayka (Turkey) has a plan to build factory apartments in two locations in Addis Ababa, but this project is also encountering delays. One of the location was to be developed jointly with the Ethiopian Government, but this proposal was cancelled.

In autumn 2015, discussion started to establish a Japanese investment area in part of Kilinto Industrial Zone, as explained at the end of Chapter 2. The Ethiopian Government and the World Bank welcome this idea, and the Japanese Government and its agencies will support this project. This area will be managed by a private company and it is too early to know if negotiations, contract and construction will go smoothly between Ethiopia and the company. Nevertheless, it can be safely said that, if this plan goes through, it will be a big step forward for Japanese manufacturing firms to come and operate in Ethiopia in particular and Africa in general.

Ms. Helen Hai, who established Huajian Factory in Ethiopia, subsequently became a World Bank consultant at MOI but her contract expired in June 2014. We hear that she is currently an advisor at the Prime Minister' Office. She is also the CEO of Made in Africa and a UNIDO Goodwill Ambassador for Africa's industrialization (appointment in November 2014).

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