

Business in Ethiopia
FIELD AFRICA



Ethiopia Market Overview

Ethiopia has a large population and thus potentially one of the largest domestic markets in Africa. With a population of about 71 million, it is the third most populous nation in Africa, next to Nigeria and Egypt. With a per capita income of roughly \$100 (one fifth of the sub-Saharan average), however, Ethiopia ranks among the poorest countries in the world. Despite its poverty, Ethiopia has been among the top ten U.S. markets in sub-Saharan Africa over the last several years. U.S. exports to Ethiopia in FY 2003/04 were more than \$500 million, consisting mainly of aircraft exports. The agricultural sector accounts for about 45 percent of the nation's gross domestic product, 85 percent of total employment, and more than 80 percent of merchandise exports.

Since the early 1990's, Ethiopia has pursued a market-oriented economic development strategy. It has eliminated discriminatory tax, credit, and foreign trade treatment of the private sector and tried to simplify bureaucratic regulations and procedures. Addis Ababa is a regional commercial trading hub and the seat for many regional and international organizations. Multilateral and bilateral agencies commit considerable sums to the infrastructure, health and education sectors complementing the government's own spending in these priority areas. Ethiopia has been among the top ten U.S. markets in Sub-Saharan Africa over the last several years. The current foreign exchange rate is about Birr 8.65 to US\$1.00.

Market Challenges

Government procedures and paperwork are usually complicated and time-consuming, although some improvements are registered in recent years. Foreign businesses complain about frequent cancellation of government tenders. The commercial code is antiquated and the under-staffed judicial system is inadequate. The transportation and telecommunications systems, especially internet service, are fair to poor, but are improving gradually. The government retains control over the utilities sector and prohibits foreign participation in banking and insurance. Many sectors, particularly in services and trade, are off-limits to foreign investors. Land cannot be purchased or sold, but can be leased.

The 1998 – 2000 war between Ethiopia and Eritrea has been the primary political issue affecting the business climate. A peace agreement was signed in December 2000 and in April 2002, an independent Boundary Commission issued its decisions regarding delimitation of the border between the two countries. But demarcation of the disputed border has not taken place due to dispute over the location of 15 percent of the shared 3 border with Eritrea and the deadlock over Badme. The UN Mission in Ethiopia and Eritrea (UNMEE), whose mandate has been extended to March 2005, has found no evidence of mobilization, but tension remains because of the political deadlock.



Market Opportunities

Ethiopia's main imports include motor vehicles, petroleum products, civil and military aircraft, spare parts, construction equipment, medical and pharmaceutical products, agricultural and industrial chemicals, agricultural machinery, fertilizers, irrigation equipment, and food grains. The major manufacturing sub-sectors in Ethiopia are food processing, beverages, textiles, clothing, and leather goods. The country's primary exports are coffee, chat (a mild narcotic that is an illegal substance in the U.S.), hides and skins, sesame seeds, pulses, live animals, honey and beeswax, spices, natural gum, flowers, fruits and vegetables. Coffee is by far the most important export commodity, constituting between 35 - 40 percent of exports by value.

About 40 percent of Ethiopian imports are conducted through government tenders. The tender announcements are made public to all interested potential bidders, regardless of nationality of supplier or origin of the products/services. Both Ethiopian and foreign suppliers, especially those from Italy, Germany, France, Japan, the United Kingdom, and China who have local representatives, participate aggressively and tend to compete successfully. It is important that U.S. suppliers be involved at the earliest design stages to ensure that project specifications fit American products.

In May 2003, the World Bank (IBRD) approved a \$1.5 billion loan for undertaking various development projects to be implemented under the Country Assistance Strategy (CAS), while the African Development Bank granted Ethiopia \$200 million for the same purpose.

The funds would be used during 2003 - 2005 for food security, rural development, capacity building, infrastructure development activities and prevention of HIV/AIDS. In May 2004, the IBRD approved \$100 million of the above-mentioned CAS funds for capacity building and another \$100 million for water development and sanitation. Similarly, the EU has allocated over 500 million Euros (about \$570 million) towards the development of infrastructure, food security and capacity building projects for the period 2002 - 07.

Market Entry Strategy

Ethiopia requires that all imports be channeled through Ethiopian nationals registered with the government as official import or distribution agents. The importer or agent is required to apply for an import license and register with the Ministry of Trade and Industry. It is not difficult to find experienced and reputable agents and distributors in Ethiopia. To conduct business effectively and participate in local tenders, it is advisable for U.S. firms to appoint local agents to represent their products in Ethiopia. The Embassy maintains a list of experienced local representatives interested and able to assist U.S. companies in bids on major projects.

Contact Details

If you would like to further discuss your research requirements, please contact our fieldwork director on:

- tel: (+27) (0)31 277 2050
- fax: (+27) (0)31 202 1982
- email: info@fieldatafrica.com

