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FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE

Home-grown Economic Reform Agenda Progress Highlight (2012)

Acronyms

AGOA - African Growth and Opportunity Act
CRB - Credit Refence Bureau
DSSI - Debt Service Suspension Initiative
ECA - Ethiopian Communication Authority
EEG - Ethiopian Engineering Group
EEP - Ethiopian Electric Power
EEU - Ethiopian Electric Utility
EFY - Ethiopian Fiscal Year
ERC - Ethiopian Railway Corporation
ESC - Ethiopian Sugar Corporation
ESLLE - Ethiopian Shipping Lines and Logistics Enterprise
FX - Foreign Exchange
GC - Gregorian Calendar
IPDC - Industrial Parks Development Corporation
IPP - Independent Power Producers
METEC - Metals and Engineering Corporation
MInT - Ministry of Innovation and Technology
MoF - Ministry of Finance
MoWIE- Ministry of Water, Irrigation and Energy
MOU - Memorandum of Understanding
NBE - National Bank of Ethiopia
NDPS - National Digital Payment Strategy
SOE - State Owned Enterprise
UAF - Universal Access Fund
UASF - Universal Access and Service Framework
WTO - World Trade Organization

Disclaimer

All data are provided in EFY (Ethiopian Fiscal Year), which runs from 1 June - 7 July. Other notes and events may be captured in the Gregorian calendar. Years that don't start with EFY are noted as stated in the Gregorian Calendar.

This report is a highlight of the major reform measures taken during the 1st year of implementation of the HGER agenda (EFY 2012) as submitted by the HGER implementing institutions. It is not comprehensive assessment of all measures taken to implement the agenda.

Contents

Executive Summary

The Government of Ethiopia (GoE) launched the Home-Grown Economic Reform (HGER) agenda in September 2019 to sustain the country's rapid economic growth. The reform agenda has three key objectives to 1) ensure macro-economic stability, 2) rebalance the role of the public and private sectors, and 3) unlock new growth potentials across sectors.

The reform measures cut across three pillars — macro-financial, structural, and sectoral pillars. These comprehensive reforms aim to correct macroeconomic imbalances, improve public investment efficiency, ease structural and institutional bottlenecks to doing business, address market failures, and create new sources of jobs and productivity growth.

During the first-year implementation of the reform agenda in EFY 2012, reforms across the three pillars were initiated and executed in a coordinated manner. The Ethiopian economy showed remarkable resilience in the face of global-economic downturns due to the COVID-19 pandemic.

The economy grew at 6.1%, while the average growth in Sub-Sharan Africa remained at 3%. The economy's downward trend was reversed, including through improved revenue mobilization, export performance, debt management, and financial sector stability. Compared to the EFY 2011, tax revenue increased by 16%, the debt to GDP ratio decreased to 51%, and the budget deficit was maintained at 2.8% of GDP. The financial sector showed improved stability and a notable expansion, including increased mobilization of deposits and expansion of credits, by 16% and 14%, respectively. Fundamental measures were taken to remove financial repression, including the repealing of the 27% NBE bill, to improve the market-based allocation of resources. The private sector's access to credits increased to 64% of total credits.

The reform of state-owned enterprises was deepened and accelerated. The liberalization of the telecom and logistics sectors, the partial privatization of Ethio-telecom, and the privatization of ten sugar estates have been fast-tracked to be completed by the end of the EFY 2013.

More than 80 investment and business administrative and legal frameworks were revised to improve the doing business climate. A new investment law is enacted that liberalized several sectors for private investment and aligned investment procedures with international best practices.

Several upstream policy and regulatory frameworks are developed to align sectoral policies to macro-economic and national development targets. Decades-old agriculture and industry sector policies are being revamped to emphasize the role of the private sector, export promotion, and import substitution. The 1994 agriculture and rural development policy is under revision to reduce the focus on public investment and introduce market fundamentals in the sector. Similarly, the national industrial development policy is being revised to promote diversification of the manufacturing sector towards the development of complex industrial bases.

Foundational legal and policy frameworks were laid out in the ICT and mining sectors. A digital economy momentum has been built with the launch of the Digital Ethiopia 2025 strategy and laying out key regulatory frameworks to promote digital transactions and digitalization across the economy. Extensive mining sector reforms are laying a conducive mining investment environment to promote investment, ensure the development of and guarantee a sustainable and inclusive mining industry. While laying out strategies to diversify tourism products, flagship tourist attraction projects in Addis Ababa – Entoto, Unity, and Friendship parks – inaugurated to show a glimpse of the country's historical, natural and cultural attraction.

Commendable progress was achieved during the first year of the reform implementation—on track to achieve the reform objectives. In EFY 2013, the economy is expected to rebound with GDP growth reaching 8%. The completion of the pipeline and upcoming reform measures is expected to further unlock opportunities for the private sector, improve productivity and accelerate growth—laying the ground for the successful implementation of the ambitious national 10-year development plan.

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General Highlight of the Macroeconomic Reforms

What were the pillars of Macroeconomic Reforms?

Macro-financial stability is the base for economic growth and job creation. The HGER agenda aims to correct macro-economic imbalances through improvements in public sector finances, modernizing the monetary policy framework, developing financial systems, and improving forex availability.

Maintaining a stable macro-economy is foundational to private sector growth. Streamlining public sector finances to avoid inflationary pressure, high risk of debt distress, and crowding out of the private sector's access to finance is a priority of the reform agenda. Fiscal policy will focus on supporting high-quality growth through revenue mobilization and improving the efficiency of public spending - in both general government and SOEs investments.

A modern monetary policy and developed financial intermediation are essential to support economic growth. Financial sector reforms aim to release the potential of the financial sector including through facilitating the market-based allocation of funds, development of capital markets, ensuring financial sector stability, and promoting financial inclusion. Sustainably addressing the forex imbalances is aimed through the removal of policy distortions in the forex market and by instituting a mechanism to allow the exchange rate to be determined based on economic fundamentals.

What were the Key Achievements

The economy showed strong resilience during the past fiscal year in the face of the global economic downturn due to the COVID-19 pandemic. Growth was kept at 6%. The agricultural sector especially showed remarkable growth as it grew at 4.3%, while manufacturing and service sectors showed a slight negative trend after the second half of the fiscal year. Exports showed a 12% increase after close to a decade of stagnant performance, while the foreign exchange reserves improved to 3.1bn USD – covering 2.5 months of imports.

A prudent fiscal policy was pursued. Financing of the budget was managed through improved tax revenue mobilization, concessionary external finances, and raising funds from local markets. Tax mobilization increased by 16%, the budget deficit was maintained at 2.8% (lower than the targeted 3%), and the debt to GDP ratio was reduced from 58.5% to 51.4% during the fiscal year.

Measures to improve the country's risk of debt distress from 'high' to 'moderate' were successfully implemented. Concessional loans were limited to ongoing projects, where the share of non-concessional loans to total loans decreased from 46% to 13% of total loans disbursed. To complement the prudent borrowing policy, debt reprofiling has been undertaken with a saving of close to 2.5bn USD during the 1st phase of debt reprofiling.

In line with efforts to enhance the efficiency of public investments, the SOE reform agenda has been accelerated and deepened. The liberalization of the telecom sector, the partial privatization of Ethio-telecom, and the privatization of ten sugar estates are expected to be completed in EFY 2013. Broader SOE reforms on the policy environment and across the portfolio of enterprises have been launched.

Judicious monetary policy was pursued with contractions in broad money growth (maintained at 17%), along with notable improvement in the financial sector. A savings growth of 16% was achieved, while credits were expanded by 14%. Gradual measures are underway towards a market-based exchange rate regime, along with measures to improve and diversify sources of forex. The average parallel market premium was reduced by 8 percentage points from June 2019.

Private sector access to finance showed a positive trend, with fundamental changes undertaken to remove financial repression including the removal of the 27% bill (requirement on banks to deposit with NBE 27% of their total portfolio) and improvements in the financing of SOEs. The private sector's access to new credit increased by 20% – accounting for 64% of total credits in the fiscal year. The institutional frameworks for the establishment of capital markets are being finalized, which is expected to further boost the availability of finance in the economy.

The Ethiopian economy showed a remarkable resilience in the face of global economic downturns due to the effects of the COVID-19 pandemic

GDP Growth, GDP per Capita and Sectoral Growth

GDP Growth

In the EFY 2012 GDP growth was 6.1%. This is a 2.9 percentage points decline from the targeted 9% GDP growth rate. The decline is attributed to the unprecedented effects of the COVID-19 pandemic on the domestic and global economy. The economy is expected to rebound in EFY 2013, with a GDP growth rate of 8%, due to better management of the effects of COVID-19 on the economy as well as improvements in the overall global economic outlook.

GDP per Capita

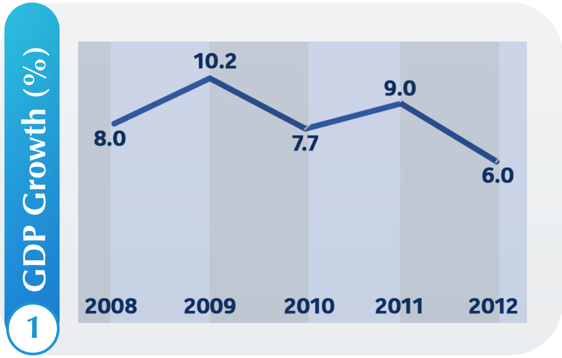
GDP per capita passed the 1000 USD mark, reaching 1,080 USD, from 983 USD in EFY 2011.

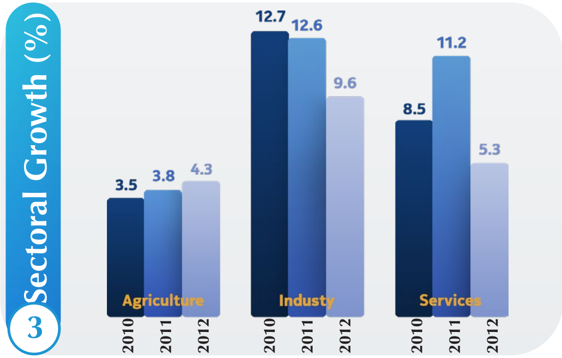
Sectoral Growth

Agriculture sector growth reached 4.3% from rates of 3.8% and 3.5 % in EFY 2011 and 2010, respectively. Service and manufacturing sector growth showed a decrease from previous years, due to the effects of Covid-19, reaching 9.6% and 5.3% respectively. The service sector was the hardest hit by the COVID_19 pandemic, where the growth rate decreased by close to 50%.

Mitigation of COVID-19 Effects

The effects of the Covid-19 pandemic on the economy were mitigated through extensive policy measures and stimulus packages including liquidity support, tax relief, and debt restructuring to support affected sectors and prioritization of government investments. Despite the overall negative impact of the pandemic on the economy, tax collection, exports, agriculture, and the banking sector showed robust growth. Negative effects were sustained on FDI and remittance flows, tourism, and the manufacturing sectors.





Export revenue showed a notable increase, after close to a decade of stagnant performance, despite the adverse impact of COVID-19 on the sector

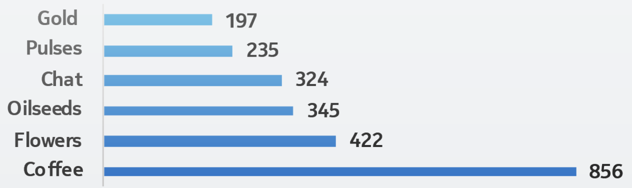
Export Revenue showed a 12%

Increase from EFY 2011, reaching 2.89 bn USD. Agricultural exports accounted for more than 80 % of total revenue, with coffee, flowers, and oilseeds leading, while gold exports showed a 6-fold increase from the last fiscal year.

FDI and remittance flow showed a 20% and 13% decline from the previous fiscal year due to the effect of the COVID-19 pandemic.

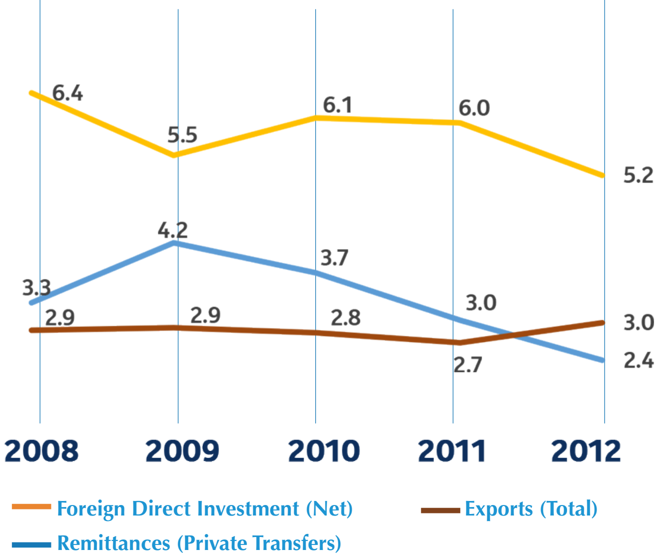
The foreign exchange reserve was maintained above 3.1 billion USD to cover 2.5 months of imports.

Top Export Commodities in EFY 2012 Value in Millions USD



Exports

Foreign Inflows



2007	2008	2009	2010	2011	2012
3,249	3,402	3,197	2,847	3,415	3,110

Foreign exchange reserves (EFY 2007-2012)

A record high number of jobs (3.4 million) created by the economy, with an increased focus to make the private sector the major employer

Ten year national action plan for job creation

The first national action plan for job creation (2020 - 2025) was launched in November 2019. The plan sets a vision to create 14 million jobs by 2025 to absorb the currently unemployed as well new jobs for new entrants. As part of this, 3 million jobs are planned to be created in EFY 2013.

The plan has six main strategic objectives addressing both supply and demand-side challenges of the labor market. It places greater focus on stimulating the private sector to create sustainable jobs.

1. Job-rich macro-policies: ensure macroeconomic stability, optimize the job-creation potential of public investment, improve the financial sector, and upgrade the institutional and statistical frameworks for a jobs-rich macro-economy;
2. A vibrant local private sector by supporting high-potential and high-growth MSMEs;
3. A human capital that meets the changing needs of the labor market: improve the labor force's level of work-readiness and ensure its proficiency in the 21st-century skills, and develop the entrepreneurial mindset;
4. Improved labor market intermediation and linkages: build modern employment centers, improve access to labor market information and facilitate mobility in the labor market;
5. Inclusive labor market: provide targeted services to populations excluded from the labor market as well as to vulnerable populations, such as refugees, migrants, and people with disabilities;
6. Realize the job-creation potential of high-yield sectors: providing policy support to agriculture, industry, and service sectors (ICT and tourism included).

The plan of action also aims to transform the governance of the job agenda through coordinated and well-aligned government structures to ensure coherence and alignment within the government.

3.4 Million
Employment Opportunities Created by June 2020.

62% Permanent

38% Temporary

35.5% Female

64.5% Male

49% Urban

51% Rural

Jobs Created by Sectors

1,545,000
SMEs

1,018,000
IPS, large manufacturers, public service

783,000
Tourism, and creative industries, irrigation, horticulture, mining , technology

16,000
Oversees employment

25,000
Others, housing, solar energy,

Prudent fiscal policy is improving domestic resource mobilization and effectively reducing the budget deficit

Domestic revenue reached
354.3 bn ETB

with increase in both tax and non-tax revenue, despite the effects of COVID-19 on the economy. Revenue increased by 13.8% from EFY 2011.

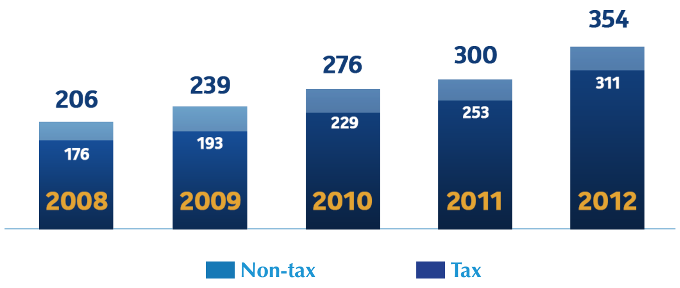
Tax revenue increased by 16%, reaching
311.4 bn ETB

Tax revenue accounted for 88% of the total domestic revenue, with 94.1% of the target for the fiscal year achieved.

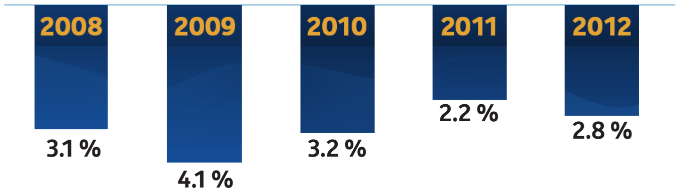
Tax revenue as a share of GDP remains at 9%, indicating a substantial tax collection potential. On-going economy-wide reforms along with tax policy and administration reforms are expected to boost tax to GDP revenue by 1-2% anually.

Despite continued reforms and measures, inflation remains a challenge, at double-digit. It is expected that ongoing targeted reforms to address supply-side inflation drivers and broader policy adjustments would help to achieve the goal of a single-digit inflation rate.

Domestic Revenue in Billion ETB



Overall Fiscal Deficit Including Grants (In %GDP)



General Government budget deficit maintained at
2.8% of GDP

The government continues to follow a prudent fiscal policy to reduce the budget deficit and contain inflation.

EFY 2012 domestic finances covered 54.6 percent of the deficit in the fiscal year.

Direct advance from the NBE to the budget deficit financing was notably minimized. The NBE net direct advance to the budget was maintained at ETB 15.6 bn, showing a 61% decrease from the previous fiscal year.

Market-based T-bills were introduced in December 2019, to place more budget constraints on the government and improve fiscal discipline. T-bills raised close to ETB 29.6 bn, at a market rate. Market-based T-bills replaced the MoF's fixed-rate bills, which were offered to the public and private employees' pension funds at an effective rate of 1.2-2% for the past decade. Fourteen rounds of bi-monthly auctions were held, with bill maturity days of 28, 91, and 182.

Notable tax policy and administration reforms are underway to further boost domestic revenue collection

Tax Policy and Administration Reforms

New Excise Tax Proclamation (No. 1186/2020) Enacted

Close to 23.8 billion ETB was mobilized in excise taxes during the fiscal year, achieving 135% of the annual plan. The new law has broadened the excisable goods to 378 and was applied at a rate of 5 to 500 on luxurious, socially & environmentally hazardous goods, and demand inelastic goods. The law removed or reduced tax rates on certain goods, while it increased rates on items such as tobacco, alcohol, and used cars. The new law replaces the cost-based assessment of the tax with the ex-factory price-based assessment method; which helps to address the poor predictability of tax amounts. The revised law replaces Proclamation No. 307/2002.

The Value Added Tax (amendment) Proclamation No.1157-2019 Enacted

The VAT law reforms are aimed to ease the cost of filing VAT and to simplify tax governance. The Proclamation amended the VAT filing period from one calendar month to three calendar months based on the annual turnover of a taxpayer (for those with less than 70 million ETB annual turnover) and reduced the VAT refunds processing time from 49 weeks to 4 weeks, among other measures.

Customs Tax Reforms Underway

Customs tax reforms are currently underway. The first phase of customs tax reforms, including tariff schedule adjustments, has led to an increase of revenue by 11 bn ETB in EFY 2012. These measures include the reduction in duty on inputs and raw materials while increasing duty on final products. This is mainly aimed to encourage local investment and production.

Upcoming Tax Reforms

A new tax incentives regulation is expected to come into effect in the EFY 2013. The regulation aims to simplify the targeting, monitoring, and governance of investment tax incentives, which is currently estimated at close to 7% of GDP. A directive to ban new tax incentives was passed in EFY 2012, which forces the government to maintain a zero net increase in tax incentives i.e. any new tax incentive passed should be accompanied by the repealing of an equivalent amount of tax incentive to maintain a no increase in tax incentives.

Targeted tax policy revisions were implemented to encourage manufacturing and agriculture sectors including removal and reduction of import taxes on inputs and equipment.

Sur tax and property tax reforms are underway to reduce the tax burden, simplify tax governance, and overall boost tax revenue. The surtax reforms are expected to reduce the cost of goods production and contribute to the reduction of inflation.

Tax Revenue as a Share of GDP

EFY	2008	2009	2010	2011	2012
Total Tax Revenue	11.2	10.5	10.4	9.4	9.2
Excise tax	0.7	0.7	0.7	0.6	0.7
VAT	3.6	3.4	2.8	2.9	2.8
Sur tax	0.8	0.7	0.6	0.5	0.6

Debt sustainability measures are underway to achieve moderate debt distress status by 2023/24 (1/3)

Total public debt stock as a % of GDP was decreased by **7%** points while limits on non-concessional loans were maintained, leading to a notable decrease in the share of non-concessional loans by 18 percentage points.

Total Public Debt Stock as a Percentage of GDP

Total public debt stock as a percentage of GDP decreased to 51.3% of GDP at the end of the fiscal year, from 55.9% in EFY 2011. Total public sector debt stock stood at USD 55.8 bn in EFY 2012, compared to EFY 2011 debt stock of USD 53.7 bn.

Total external debt stock decreased to 25 %, from 28.1% in EFY 2011. Similarly, domestic debt stock decreased to 24% of GDP, from 29% in EFY 2011.

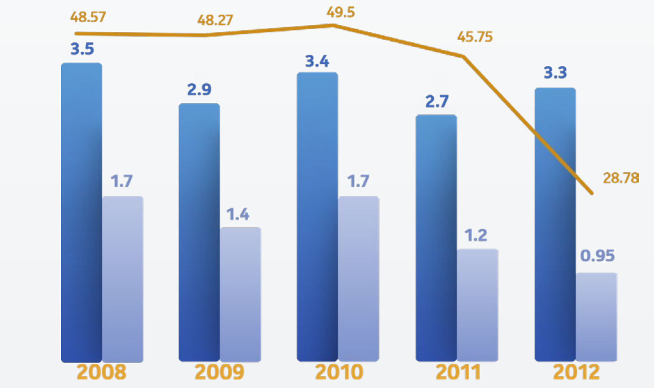
Total public debt stock as a % of GDP

Limits on Non-concessional Loans

The volume of disbursement from non-concessional sources decreased to 760mn USD in EFY 2012. The total share of non-concessional loans to total loans decreased by 18 percentage points - from 46% in EFY 2011 to 28% of total disbursements in EFY 2012.

A total of USD 3.1bn of loans was disbursed in EFY 2012, compared to USD 2.7 bn last year in the same period. A total of USD 4.7 bn of loans has been mobilized in commitments in EFY 2012.

Non-concessional loan amount disbursed as % of total debt disbursed



Debt sustainability measures are underway to achieve moderate debt distress status by 2023/24 (2/3)

Debt restructuring of close to

4 Billion USD

is underway to reduce the short and medium term debt service burden on government finances.

The debt restructuring will help the country buffer its FX reserves by removing immediate FX payment obligations. The restructuring of SOEs' debt also provides the enterprises with the respite to focus on the completion of the existing projects. The debt restructuring includes an extension of grace and maturity periods and improvements in interest rates.

Debt Restructured

2.5 Billion

USD 2.5bn in principal and interest payment has been postponed for five years by commercial creditors under the 1st external debt restructuring scheme.

Debt Restructuring Underway

1 Billion

Negotiations are underway with creditors for the 2nd external debt restructuring/ reprofiling scheme, with an expected restructuring of more than a billion USD. The restructuring is expected to provide up to a six years grace period and ten years of maturity extension.

125 Million

A debt service suspension of close to USD 125 million under the G20's Debt Service Suspension Initiative (DSSI) is underway. An MOU is signed with Paris club countries to suspend debts for the period May-December 2020, and bilateral negotiations are underway with creditor countries. All central government's debt service to the Paris Club Creditors has been suspended.

Debt sustainability measures are underway to achieve moderate debt distress status by 2023/24 (3/3)

A debt resolution framework has been developed for highly indebted SOEs including EEP, ERC, EEG/METEC, CIC, ESC and EEU.

The resolution aims to restructure close to

ETB 780 Billion

where the government will takeover close to 570 bn ETB distressed debt from the SOEs to improve their financial health and address the effect of SOEs distressed debt on the financial sector. The resolution proposes a mechanism to restructure the debts of the SOEs including through government takeover, and the restructuring of interest rates and grace and maturity periods to allow the SOEs to service their debts. It further stipulates principles and sector-wide reforms that will allow the SOEs to improve their commercial mandate, efficiency, and transparency.

The establishment of a liability and asset management company is envisioned as a mechanism to implement this resolution.

Restructuring of domestic central government debts

Domestic central government debts have also been restructured by converting short-term bills to long-term notes and bonds.

ETB 192 billion NBE direct advance amount was restructured by converting the 15-year bond/ repayment period with a 10 year grace period. 149.3 billion birr old treasury bills were converted into long-term treasury notes. This arrangement improves the lending terms for the domestic creditors as well as lessens the immediate debt service burden on the government.

The medium term debt management strategy (MTDS) is currently under preparation

The medium-term debt management strategy (MTDS) is currently under preparation and aims to revise the composition of the government debt portfolio through a cost-risk trade-off. The new MTDS will also incorporate a mechanism to manage the debt of SOEs, which provides a broader picture of the public sector's debt portfolio and debt sustainability strategy. This is expected to be launched by the end of the EFY 2013.

Existing debt directives are under review

Existing debt directives are under review to employ a more rules-based mechanism for contracting and guaranteeing public debt, and the consolidation of oversight over public debt.

The reform of the SOE sector is progressing well; robust institutional structures for market competitiveness, improved efficiency and service delivery are being put in place (1/4)

Robust Legal Frameworks

Outdated SOE legal frameworks from the 1990s are being revised to reflect the country's current economic context as well as adopt international best practices.

The new Public Enterprises Privatization Proclamation

A new Public Enterprises Privatization proclamation (No 1206/2020) is enacted to enhance the transparency and efficiency of the public enterprises' privatization process. The law also sets out a framework to improve public enterprises' efficiency, competitiveness, access to capital, and quality and accessibility of their services. The new law replaced the Privatization of Public Enterprises Proclamation No. 146/1998.

The Revised Public Enterprises Proclamation

The Public Enterprises proclamation (No 25/1992) is currently in its final stages of revision to enhance the governance, efficiency, and competitive neutrality of SOEs. The revised proclamation introduces a robust framework to make SOEs commercially viable while ensuring they meet their public service objectives. The new law is expected to come into effect by EFY 2013.

More SOE Reforms

SOE regulatory and oversight institutions are being strengthened through redefining and refining of mandates, enhancing organizational structures, and capacity building of staff. The MoF has established a permanent SOE oversight and pre-privatization unit to strengthen and institutionalize the SOE reform efforts and sustain the gains from the reforms. The Public Enterprise Administration and Holding Agency is undergoing a 5-year transformation to drive the performance of its SOEs.

SOEs are adopting the International Financial Reporting System (IFRS); eleven of the largest SOEs have completed IFRS adoption. All SOEs are expected to adopt IFRS by EFY 2015.

Optimization of the Federal level SOE portfolio has been initiated to ensure value creation and enhance public investment efficiency. This exercise aims to take stock of the performance of all 40+ federal level SOEs and assess their commercial viability and policy objectives.

The assessment will be followed by a reform action plan to lead the overall market and ownership restructuring of the SOEs in line with the government's focus on enhancing public investment efficiency and encouraging private sector participation.

The reform and privatization of strategic SOEs is progressing well; the telecom sector liberalization is expected to be completed in EFY 2013 (2/4)

To improve market competitiveness, expand access and improve the quality of telecom services in the country, the government has announced its plan to liberalize the telecom market with the sale of licenses to two new operators and partially privatize the state-owned Ethio-telecom. As a pre-condition to the liberalization of the sector, robust legal and institutional frameworks are being laid down. Both the sale of licenses and the partial privatization of Ethio-telecom are expected to be completed by the end of the 2013 fiscal year.

Partial Privatization of Ethio-telecom

Partial privatization of Ethio-telecom is progressing well, intending to attract private capital and expertise into the enterprise to allow it to improve its efficiency and compete in a liberalized market. The valuation has been completed by an independent advisory firm. Deloitte Consulting has been hired as the transaction advisor to lead the partial privatization process to a financial close.

Telecom Sector Liberalization

Following a thorough market assessment and institutional structure development, the government has invited bidders for the purchase of two telecom service licenses, and an EOI has been received from 12 international companies. The draft license valuation for incoming operators has been completed and triangulated. Extensive stakeholder consultations will continue to guide the next steps for the issuance of the licenses by EFY 2013.

The Ethiopian Communication Authority (ECA)

ECA has been established under the Communication Service Proclamation 1148/2019 as an independent telecom sector regulator. ECA serves as the lead entity to ensure the development of legal and institutional frameworks to place the necessary market structure, promote competitiveness, and ensure consumer protection in the telcom market. The Authority has drafted and submitted the following regulation and directives for stakeholder consultation to date.

The Authority has to date submitted the following regulation and directives for stakeholder consultation.

1. Telecommunications Interconnection,
2. Telecommunications Infrastructure and Collocation,
3. Lawful tariffs,
4. Competition,
5. Sim card registration
6. Mobile Number Portability Directive,
7. National Roaming Directive,
8. Universal Access and Service Framework (UASF),
9. Universal Access Fund (UAF) Regulation

The reform and privatization of strategic SOEs is progressing well; ten sugar estates are slated for privatization and the logistics sector liberalization is underway (3/4)

Ethiopian Sugar Corporation

The privatization of the sugar corporation's assets is aimed to exploit the country's sugar production potential through the attraction of private sector capital and expertise into the market, which has been monopolized by the government. The preferred privatization options for the 13 sugar estates under the Corporation have been identified with the decision to privatize ten of the estates, while the government maintains ownership of the oldest 3 estates including Wonji Shewa, Methehara, and Fincha. The ten sugar estates to be privatized are Kesem, Tendho, Arjo Diddiesa, Omo Kuraz Two, Omo Kuraz Three, Omo Kuraz One, Beles One and Two, Omo Kuraz Five and Welkayite. The sugar estates are expected to go into a tender by EFY 2013. In a bid for a comprehensive reform of the sector, a sugar policy and proclamation have been prepared to help establish the market structure for the sugar industry promoting competitiveness, efficiency, and consumer protection. An economic and social impact assessment is finalized to guide required measures to ensure that privatization is undertaken with limited impact on the labor force, local communities, and the environment.

Ethiopian Shipping Lines and Logistics Enterprise

An in-depth logistics sector diagnostic has been completed to identify reform options for the sector and the Ethiopian Shipping Lines and Logistics Enterprise (ESLLE). Reform recommendations are strong for the government to promote private sector participation in various logistics services to expand the availability of value-added services as well as improve efficiency and quality of service. While the sector is liberalized, the ESLSE will remain in government ownership noting both its strategic importance and potential for value addition to the logistics sector. The enterprise will be restructured and transformed to improve its governance, revamp its business model and build capabilities to compete in a competitive market. Additional details about the logistics sector reforms are found in section two.

The reform and privatization of strategic SOEs is progressing well; private sector participation options for rail, power, and industrial parks are under consideration (4/4)

Ethiopian Railway Corporations (ERC)

Given the country's railway development ambition, a reform and transformation of the sector and ERC is important to ensure sustainable financing of operations and efficient delivery of services. An in-depth diagnostics of the sector has been completed, and policy options are under consideration. Key reform considerations include: 1) sustainable financing of rail infrastructure investments, 2) management and operation of existing and new rail lines, 3) improvements in the regulatory and institutional structure for the sector including the establishment of a regulatory entity, and 4) options for private sector participation in both infrastructure development and rail line operation. Deliberations are underway to transfer the Addis Ababa Light rail line to the city administration.

Ethiopian Electric Power (EEP)

EEP has been leading the ambitious national energy generation aspiration to meet both domestic demand and export surplus to neighbouring countries. The reform of the EEP will be guided by a broader energy sector reform. A comprehensive energy sector diagnostic has been undertaken and broad reform measures are identified to guide the reform of enterprises in power generation and service distribution. Further assessments are being undertaken to guide options for private sector participation in the energy sector including the EEP, and a debt restructuring is being finalized to improve the financial health of the enterprise.

Industrial Parks Development Corporation (IPDC)

Developing a sustainable business model for the industrial parks (IP) program is integral to the country's industrial development ambitions. Therefore, a reform policy options to enhance private sector participation to drive the industrial parks development programs is under preparation. The government focus will move to develop a strategy to manage IPs in a sustainable manner where increased private sector investments for the development, operations, and management of IPs, and the ownership and management of IPDC will be promoted.

The financial sector is being augmented; the private sector's access to credit has showed a notable increase (1/3)

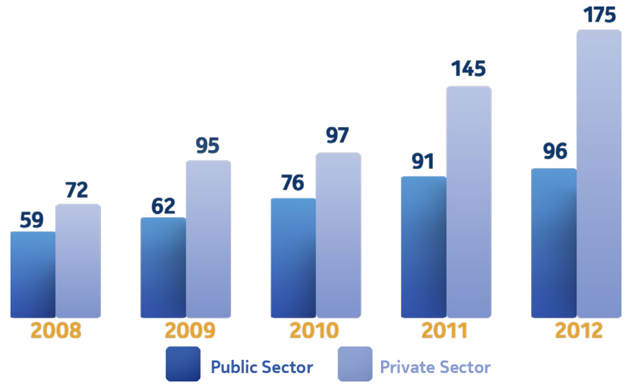
Deposit mobilization showed a 42.6% increase since EFY 2010 , reaching a deposit of more than a trillion ETB; similarly, credit expansion has increased by 57% reaching 271 bn ETB.

Deposits and credits grew by 16% & 14%, respectively, during the EFY 2012.

64.5%

Out of the total credits extended went to the private sector

The private sectors access to finance showed a 20 % increase from EFY 2011. Further increase is expected as the financial sector develops and financial inclusion expands.



The 27% NBE bill was repealed in November 2019

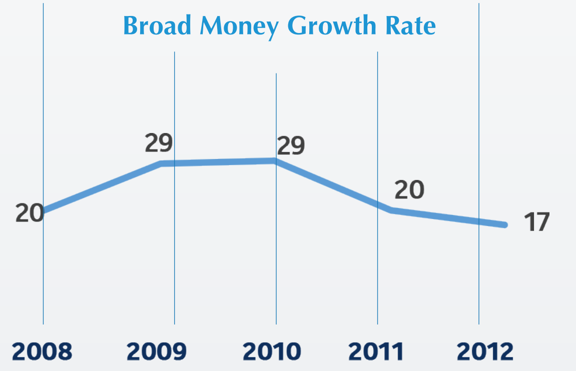
The NBE bill (MMFA/ NBEBILLS/003/2018) required private banks to purchase bonds amounting to 27% of their loan portfolio. The repealing of the bill has improved the liquidity of banks and access to credit for the private sector. Data on commercial banks' reserve position indicated improvements in banking sector liquidity condition.

The establishment of the capital market has seen progress

A legal framework to establish the institutional and regulatory framework for capital markets is being developed to guide the establishment of a capital market regulator, a securities exchange, and a clearing-house, as well as a licensing of capital market service providers and regulation for public traded securities. Furthermore, a capital market development plan and roadmap have been prepared to guide the next steps. The draft Capital Markets Establishment Proclamation has been approved by the NBE board and is submitted to the Council of Ministers.

Broad money grew at 17% in EFY 2012

Broad money grew at 17% in EFY 2012 (year-on-year), which shows a contractionary trend when compared to growth rates of 20 and 29 percent in EFY 2010 and 2011, respectively.



The financial sector is being augmented; financial inclusion and digitalization measures have taken root (2/3)

Financial inclusion measures are expanding rapidly including the launch of a financial education strategy and movable collateral system and diversification of financial products

The Credit Refence Bureau (CRB) has been expanded to include 3 million accounts

The Credit Refence Bureau (CRB) has been expanded to include 3 million accounts in its database. The credit registry now includes MFIs and their customers, and efforts are underway to include capital good financing companies. The CRB measures facilitate the assessment of the creditworthiness of borrowers and expand the availability of financial services to consumers.

Operationalization of the movable collateral registry directive MCR 01/2020

Operationalization of the movable collateral registry directive MCR 01/2020 has been enacted. The directive aims to facilitate the use of movable assets as securities for credit generation. This expands the access to and usage of financial services and products.

A national financial education strategy has been approved by the NBE board

The national financial education strategy is expected to be implemented starting EFY 2013. The strategy aims to increase financial inclusion from 35% of the adult population to 65%.

Islamic banking and lease financing options emerging rapidly

The first foreign lease financing company, Ethio-Lease, started operation at end of the fiscal year, which will improve the private sector's access to finance through the provision of machinery and equipment. Several Islamic banks are currently under establishment and are expected to launch in EFY 2013.

The financial sector is being augmented; financial inclusion and digitalizing measures have taken root (3/3)

Digital Payments System Strategy

A National Digital Payment Strategy (NDPS) (2020–2024) has been developed to guide the transformation of the payment ecosystem towards a cash-lite and financially inclusive economy. It aims to build a secure, competitive, efficient, innovative, and responsible payment ecosystem. The strategy has four strategic pillars:

1. Develop a reliable, inclusive and interoperable infrastructure;
2. Champion adoption of digital payments;
3. Build a robust and consistent regulatory and oversight framework; and
4. Create an enabling environment for innovation.. It is expected to enter into implementation in early 2021.

A Licensing and authorization of payment instrument issuers and operators directive

A licensing and authorization of payment instrument issuers and operators directive has been implemented. The directive allows non-financial institutions, including Ethio telecom, to engage in electronic payment and money transfer services, areas that were previously reserved for banks and micro-financial institutions. Payment Instrument Issuers are allowed to provide savings and credit services, sell insurance products, and payout pensions.

The Ethiopian Automated Transfer System

The Ethiopian Automated Transfer System - Automated Clearing House has been implemented to facilitate and fast-track digital credit transfers.

The forex management regime is being overhauled, along with targeted measures to improve forex mobilization

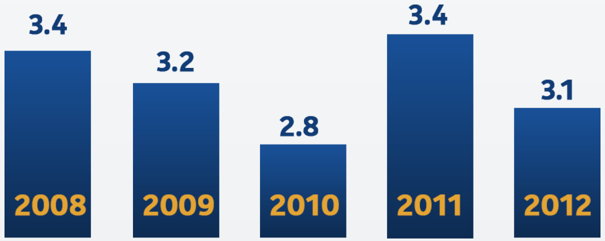
FX reserves are maintained at

3.1 Billion USD

covering 2.5 months of imports. This was facilitated through an improved balance of payment performance and mobilization of forex reserves from international partners.

The forex reserves are aimed to reach USD 4 bn during EFY 2013.

Forex Reserves (Billions, USD)



The gap between the official and the parallel market exchange rate has been reduced

Adjustments are being made to improve the valuation of the exchange rate, with a decrease in the gap between the official and the parallel market exchange from 38 percent in EFY 2011 to 30 percent in EFY 2012. On average, the birr has depreciated by 21.7% since EFY 2011, compared to the annual depreciation of about 6/7 percent in the past years. These measures along with improved forex mobilization would help close existing large forex imbalances and lay the ground for a smooth transition into a market-based forex regime.

A roadmap to deepen the forex market and facilitate the move towards a more flexible exchange rate is under preparation, and the existing foreign exchange directives have been consolidated.

Improvements are underway to incentivize diaspora forex savings

The interest rate has been liberalized on diaspora accounts. Banks are allowed to set their interest rate on non-resident fixed foreign currency account, which can not be less than the LIBOR rate. It also permits banks to set their interest rate payment on non-repatriatable Birr accounts, which can not be less than the minimum saving deposit rate set by the NBE instead of doubling the saving deposit rate.

Diaspora investment in the financial sector has been permitted

This will contribute to the development of the financial sector including through the transfer of international knowledge. The former proclamation, which considers Ethiopian-born diaspora as foreign citizens, barred foreign nationals from investing or acquiring shares in an Ethiopian bank or its subsidiaries

A comprehensive remittances strategy is under development

A comprehensive remittances strategy is under development, with the aim to enhance formal remittance flow through efficient, accessible, and low-cost formal remittance channels. It places particular focus to strengthen access to digital remittance channels. The strategy is expected to be approved by EFY 2013.

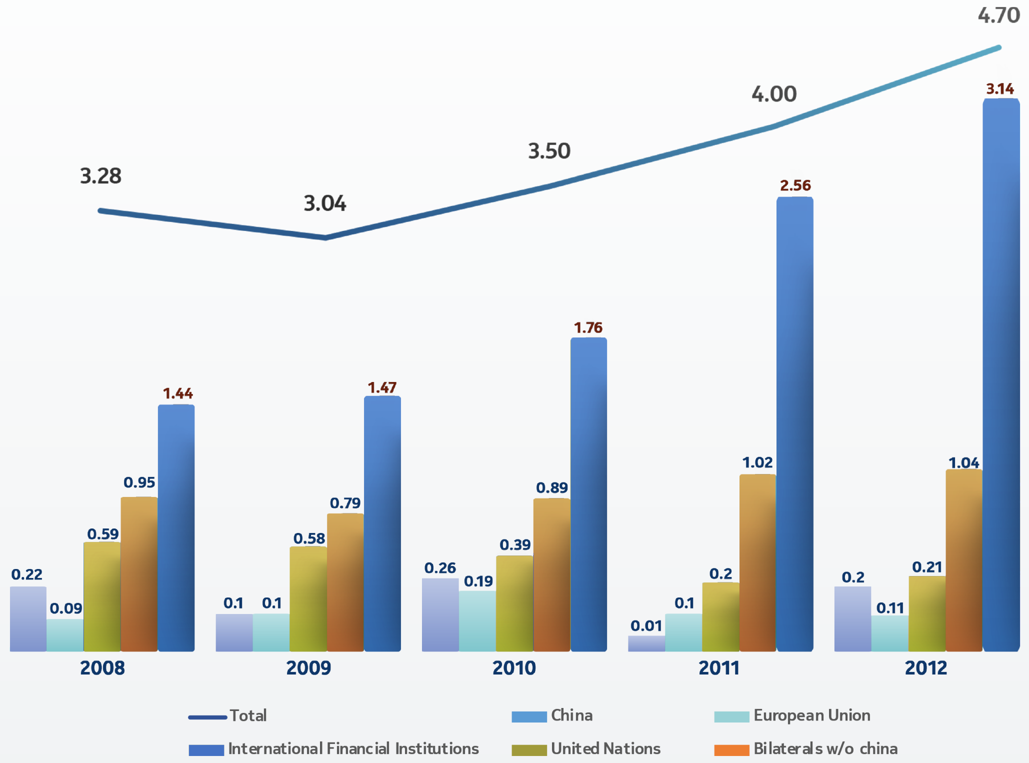
Support from international partners increased by 17%, which is a strong vote of confidence for the home-grown economic reforms

External Resource Disbursement Grants + Loans (Billions USD))

Development partners' support increased by 17 % in the fiscal year, reaching 4.7 bn USD. Grants accounted for 57% of resources, while the remaining 43% were provided in loans.

Targeted support was provided for the economic reforms agenda through budget support including 1.9 bn USD and 716 mn USD in EFYs 2011 and 2012, respectively.

Record support from the IMF with an extension of 2.9bn USD loans under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for three-year arrangements to support the ongoing economic reforms. IMF's support to the country comes after a decade. The support is at 700% of Ethiopia's quota and among the highest in Sub-Saharan Africa.



COVID-19 Response Support

Robust support from development partners allowed the government to implement effective policy measures and allocate resources to contain the spread of the virus and mitigate its impacts on the economy.

A total of 2.1 bn USD was mobilized for the COVID-19 response. This included new and restructured funds from development partners, including World Bank (496 mn), IMF (411mn USD), EU (182 mn USD) AFDB (160 mn USD), Germany (131 mn USD), and UN agencies (100 mn USD), amounting to 94.28 % of COVID_19 response resource. The remaining 5.72 % was mobilized from seven bilateral partners.

Structural Reforms

Home-grown Economic Reform Agenda Progress Highlight (2012)

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General Highlight of the Structural Reforms

What were the pillars of Structural Reforms?

While macro-financial stability is necessary for restoring confidence and building a solid foundation for economic growth, success in rebalancing and sustaining productivity growth and job creation will depend on creating an enabling environment for businesses and sufficient incentives for investment.

Ethiopia ranks low in global *Doing Business* ranking, 176th out of 189 economies in starting a business, and 166th in trading across borders. While Ethiopia has invested heavily in transport and logistics and energy infrastructure, poor and inefficient logistics, transport services and unreliable electricity are key constraints to economic competitiveness and export enhancement. These inefficiencies have constrained the potential of the private sector to contribute to economic growth and job creation.

The structural pillar of the HGER agenda aims to support private sector development and economic competitiveness through streamlining of cumbersome regulatory and administrative procedures and improvements in logistics services and access to electricity. It further aimed to exploit the country's competitiveness by addressing barriers to international trade. These structural reforms are expected to lead to a multitude of gains in firm productivity, exports, and overall economic competitiveness, to fully unleash the potential of the economy.

What were the Key Achievements

Reforms to ease constraints to doing business have been fast-tracked including through revisions of legal frameworks to improve investment opportunities and governance and streamlining of administrative procedures to reduce time and cost of procedures businesses face in their life cycle. Comprehensive reforms in the logistics and energy sector are expanding opportunities for private sector participation, competition, and efficiency.

Outdated legal frameworks for investment and commerce have been updated to bring them up to date with the economic and political context of the country and align with international best practices. A new investment proclamation (# 1180/2020) was enacted; it liberalized several strategic sectors for private investments and shifted focus from investment regulation to include promotion. The imperial era commercial code (#166/1960) is under revision and is in its final stages of approval.

More than 80 investment and business administrative and legal frameworks have been revised to streamline regulations and procedures and clarify mandates. Digitalization of business processes has significantly reduced time for business license issuance, trade clearance, and tax payments.

Key sub-sectors of the logistics sector including the development and management of dry ports have been liberalized for domestic and foreign private investment. Options for greater private sector participation in the energy sector are being developed, while targeted measures are underway to promote IPPs. The transformation strategies for SOEs in these sectors including, ESLSE, EEP, and EEU are under development to improve enterprise governance, management, and efficiency.

Measures to streamline trade policies and remove barriers to international trade are being pursued systematically. Negotiations for WTO accession have been resumed after a decade of inactivity, where it is expected to be completed by the end of the reform period. Following the ratification of the CFTA, a strategy is under preparation to exploit opportunities in the continent. These trade accessions will improve access to foreign markets and support exports, as well as significantly enhance the transparency and predictability of the trade regime, which in turn provides confidence to investors and trading firms.

Investment climate reforms are being fast-tracked; a new investment law is in place and international trade accessions are progressing well (1/3)

A new investment proclamation (1180/2020) was enacted on April 2020 to modernize the investment climate. It expands on the previous proclamation's focus on the regulation of investment administration to include investment attraction.

Notable deviations of the new investment proclamation from the previous law include;

A shift from a positive to a negative listing approach to private investment, which opens many sectors to the private sector and foreign investment, while taking note of specific sectors as closed.

Intellectual property rights and other tangible and intangible business assets are now recognized as valid capital contributions.

Private sector representatives are included in the Investment Board to enhance the role of the private sector in policy-making.

A high-level inter-regional council, led by the Prime Minister, is established to coordinate federal and regional investment administration. The Council comprises all regional presidents and mayors of the two administrative cities. The Council's, primary objectives include overseeing relationships between the federal and regional states and work for the synchronization and simplification of systems; and render decisions on fundamental grievances and misunderstandings submitted by investors.

WTO accession negotiations were initiated after close to eight years of inactivity

This is in line with the country's ambitions to institute a rules-based trading system and ensure secure and predictable market access for Ethiopian goods and services. The accession is expected to be completed in the next two years.

National AGOA Response strategy (2019-25) has been prepared

National AGOA Response strategy (2019-25) has been prepared to exploit the recently renewed AGOA legislation. The strategy aims to address broader constraints to Ethiopia's exports to the US across industries, along with some product-specific strategies. It provides a "deep dive" into each of the products deemed most promising in the U.S. market, including coffee, cut flowers, specialty foods (oil seeds, herbs and spices, and edible oil extracts), textiles and apparel, and leather and footwear products. For each product, it reviews the U.S. market for the product and the supply-side potential and constraints to exploit the US market. A root cause analysis of factors hindering exports to the US has been undertaken to guide the development of specific action items and an action plan to address the bottlenecks.

Investment climate reforms are being fast-tracked; legal and administrative procedures have been streamlined and digitalized (2/3)

80+

More than 80 legal and administrative reforms have been launched to reduce the time, cost and procedural hurdles businesses face in their life cycle.

Electronic Single Window (eSW) being piloted

The Ethiopia electronic single window brings together 16 offices under one online platform to streamline the trading across borders documentation processing requirements and enhancing the predictability of the system. It allows traders to submit all import/ export related requirements, including customs declaration, bank permit, transit declaration and e-payment of required bills - in a single window.

It currently aims reduce trade clearance time for business from 44 days to 13 days. It is expected to bring-in additional regulatory agencies to reduce business clearance time to 3 days.

Business registration & licensing, construction & electricity permits digitalized.

E-filling & e-payment of taxes is currently on pilot for medium and large scale tax payers and a web-based customs management system has been implemented.

Amendment of VAT Proclamation No. 1157/2019

Value Added Tax (VAT) proclamation no 1157/2019 amended to simplify tax governance including;

1. Reduced VAT reporting period for small and medium taxpayers from every month to every 3 months;

2. Reduced VAT payment time from 72 hours to 24 hours; and reduced VAT refunds processing time from 49 weeks to 4 weeks, with a risk-based audit system.

An Online Trade Registration and Licensing database was rolled out throughout the country

An Online Trade Registration and Licensing database has been rolled out throughout the country (1000+ offices), which eliminated the newspaper publication of a trade name and the consequent 15 days wait period for the registration of a trade name.

Customs Service Delivery reforms have taken place

- Customs service delivery on main dry ports has been extended from 8 to 16 hrs/day;
- e-certificate of origin has been implemented;
- Risk-based inspection and clearance has been implemented significantly reducing physical & documentary inspection and simplifying customs procedures, advance ruling on tariffs & pre-arrival clearance.

Investment climate reforms are being fast-tracked; investment protection and arbitration frameworks have been strengthened (3/3)

The imperial era commercial code (No. 166/1960) is under revision to bring it in line with international best practices.

The draft legislation addresses many concerns raised by the business community. The following measures are among the most notable changes.

1. Introduction of a new insolvency procedures other than bankruptcy including preventive restructuring, reorganization proceedings and simplified reorganization. These would allow viable companies with the possibility to continue their operation after resolving insolvency.
2. Increased the list of trade activities from 21 under the former Code to 37 along with an illustrative list of trade activities where people in areas outside of the 37 listed areas can be considered as traders.
3. Formation of one-person company and holding company allowed; the draft code removes the existing requirement that members of a PLC, or any partnership, be at least two.
4. A number of improvements in corporate governance and management. The draft has introduced the possibility for businesses to assign 1/3rd non-shareholding board of directors. This will enable shareholders to assign capable non-shareholders of their choice to safeguard their interests better. Companies are allowed to conduct meetings online in place of physical meetings; companies are also required to have websites.
5. Provisions to protect minority shareholders were strengthened. Minority shareholders are permitted to have representation on the board; they have the right to transfer their shares to the dominant shareholder that owns 90pc and above of the shares of the company.
6. A commercial court has been established under the regular court system to improve the expertise of judges as well as increase the speed with which commercial disputes can be resolved.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards has been ratified

by the parliament on February 2020.

The Convention enforces the recognition and enforcement of foreign arbitral awards, according to a specific requirements set out in the convention and with maximum level of control by member states. It significantly contributes to the promotion of foreign direct investment by boosting the country's goodwill to enforce contracts involving foreign parties. Ethiopia's ratification of the Convention comes after close to six decades of signing the Convention; The country became among the 161 states that are parties to the Convention.

Logistics sector reforms are placing robust institutional frameworks to transform the sector and promote private sector engagement

National Logistics Sector Policy Launched

National Logistics Sector Policy has been launched to guide the logistics sector transformation and enhance competition and efficiency through increased private sector participation and improved governance of existing enterprises.

ESLSE Transformation Underway

The ESLSE transformation is underway to strengthen the organizational structures and capabilities including robust governance and business procedures for effective and competitive service delivery.

National Logistics Council Established

A National Logistics Council has been established to strengthen the logistics sector coordination; comprised of public and private actors. This is an important step noting the wide-ranging services and actors the logistics sector involves – from finance and customs to cargo. The Council will guide and oversee the implementation of the sector's reforms.

Development, Operation & Management of Dry Ports Liberalized

Liberalization of Dry Ports, Freight forwarding, and road transport is expected to attract private investors to enhance competition and expand the range of services. It aims to transform dry ports to a logistics hub through a multi-user system, which was limited to single-use by ESLLSE to-date which limited the efficiency and diversity of services provided at dry-ports.

Private sector participation will expand value-added logistics services, including maintenance, packaging, consolidation and deconsolidation, and bonded warehousing (current services are limited to storage and loading, and unloading). Road transport (trucking) is opened to foreign investors by the new investment law and freight forwarding is open to JV with foreign investors.

Multi-modal Transport Services Expanded

Expansion of multi-modal transport services through licensing of private actors. Multi-modal transport services are currently being provided by ESLSE, covering only 19%of the total cargo in the country. It is believed that the establishment of more (at least two) multi-modal operators will increase the multi-modal coverage to enhance the efficiency of the logistics sector.

Power sector reforms are placing robust institutional frameworks to accelerate service expansion and improve reliability by promoting private sector engagement

A power sector reform plan with six pillars has been prepared to guide the sector's regulatory, market, and institutional reforms. The notable reform measures identified in the reform plan include the following:

Cost-reflective Tariff

Cost-reflective tariffs are progressively under implementation. The tariff reforms were initiated in EFY 2011 after more than ten years; non-cost reflective tariffs had placed the energy sector institutions under a tight budget constraint limiting their service delivery and expansion capacity, as well as leading to a high debt burden. The tariff adjustments are multi-year with a detailed implementation schedule to improve cost recovery while protecting the poor.

Increasing the Private Sector's Role

Increasing the role of the private sector through IPP; Greenfield IPPs with solar projects in Methehara, Gad, and Dicheto; geothermal project in Corbetti and Tulu-Moye, as well as many more solar and wind projects are currently under preparation.

Policy Options for Privatization

The power sector partial privatization policy options have been prepared and are under consideration. The policy options aim to attract private investment and limit the need for further publicly financed investments in the power sector while taking steps towards brownfield partial privatization of existing utility assets.

Performance Improvement at EEU & EEP

Performance improvement measures are underway at EEU and EEP with a focus to enhance the reliability of services and reduce power wastage during transmission and distribution. This is a shift from the past decade's limited focus on energy generation capacity which led to high wastage (close to 21%) due to poor transmission and distribution lines.

Enhancing Regulatory Structure

Comprehensive measures have been outlined to enhance the regulatory and institutional structure and business models of EEP and EEU. Notables measures include consideration of vertical and horizontal unbundling in order to separate competitive activities from natural monopolies and enable competition while strengthening the institutional framework.


Home-grown Economic Reform
Agenda Progress Highlight
(2012)

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General Highlight of the Sectoral Reforms

What were the pillars of Sectoral Reforms?

Sectoral reforms complement macro-financial and structural reforms to address sector-specific market failures to exploit opportunities in a range of traditional and non-traditional sectors. Sector-specific policies and regulations, and improved access to inputs, finance, market systems, skills, and technology are needed to drive diversification of both products and markets across sectors.

The sectoral pillar of the HGER agenda aims to gear efforts towards facilitating and enhancing private sector engagement and exploring new sources of productivity and jobs. The reform measures aim to modernize pre-dominant sectors such as agriculture, improve competitiveness in the manufacturing sector and exploit untapped potentials in tourism, mining, and ICT. Import substitution and export promotion strategies remain a key focus of sectoral reforms. Strengthening forward and backward linkages across sectors are underscored as a vehicle of poverty alleviation, job creation, and economic growth.

Mining sector reforms aim to exploit the country's vast and diverse mineral resources to generate forex, create jobs, and substitute industrial imports. Agriculture sector reforms are targeted to enhance productivity and commercialization with a greater focus to introduce market fundamentals in the sector.

ICT sector reforms aim to unlock the digital economy potential, both as an industry in itself and as an enabler of socio-economic transformation, to create jobs, promote innovation and improve economy-wide competitiveness.

Manufacturing sector reforms aim to accelerate the country's structural transformation through improving the productivity of firms and individuals, competitiveness of export commodities and promoting forward and backward linkages across the economy. Tourism sector reforms aim to lay the foundation to exploit the country's untapped tourism potential for job creation and forex generation.

What were the Key Achievements

Several upstream policy and regulatory frameworks have been developed to ensure sectoral policies are aligned to macro-economic policies and national development targets. Decades-old agriculture and industry sector policies are being revamped to provide due emphasis to the role of the private sector, export promotion, and import substitution.

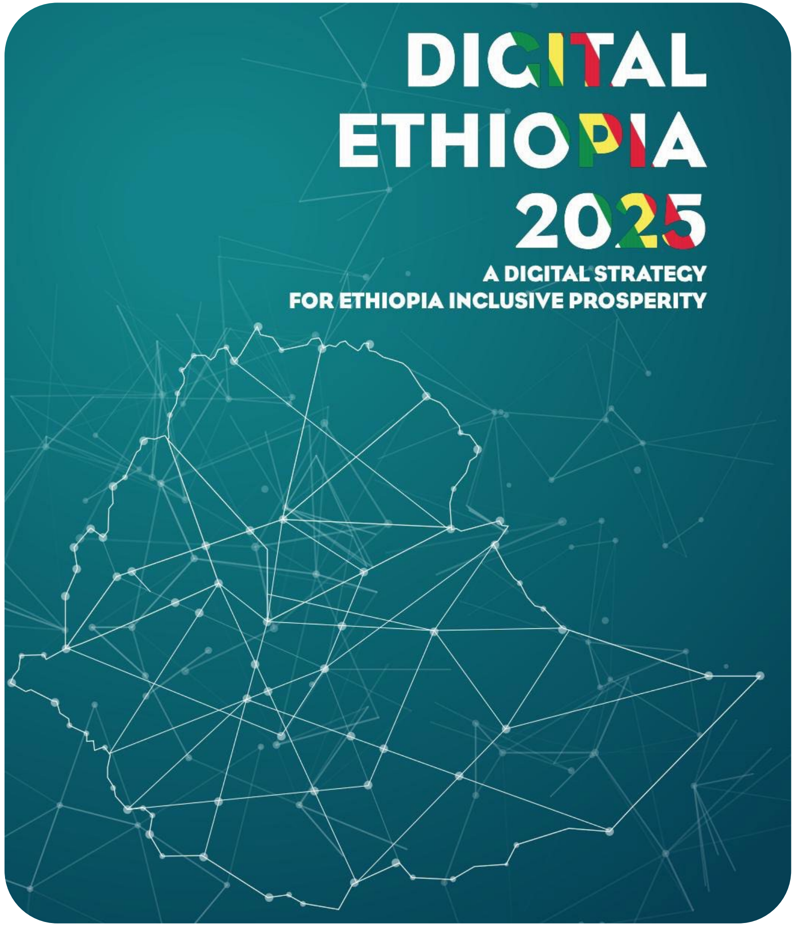
The 1994 agriculture and rural development policy is under revision to reduce the focus on public investment and introduce market fundamentals in the sector. Targeted measures were implemented to promote commercialization and private sector engagement including removal of import taxes on agricultural inputs and opening up the input markets for the private sector. The national industrial development policy is being revised to promote diversification of the manufacturing sector towards the development of complex industrial bases. It aims to strengthen the role of the private sector and gives due emphasis to building a domestic manufacturing base as well as attracting FDI.

Foundational legal and policy frameworks were laid out in the ICT and mining sectors. A digital economy momentum has been built with the launch of the Digital Ethiopia 2025 strategy and laying out key regulatory frameworks to promote digital transactions and digitalization across the economy. Extensive mining sector reforms are setting foundational policy and legal frameworks to promote investment, ensure the development of and guarantee a sustainable and inclusive mining industry. Notable measures include the launch of artisanal miners development strategy and a local content policy and the establishment of a cadaster and a single-window service system for mineral licensing and trade to promote and better govern investment.

While laying out strategies to diversify tourism products including the launch of the MICE strategy and development of domestic tourism strategy; flagship tourist attraction projects in Addis Ababa – Entoto, Unity, and Friendship parks – were launched showing a glimpse of the country's historical, natural and cultural attraction. Ongoing tourism sector initiatives are changing the face of Addis Ababa.

Exports were boosted across sectors – showing a 12 % increase across the economy -- with a 12% increase in agriculture and a more than 6-fold increase in gold exports. Sectoral reforms emphasized import substitution measures including the implementation of wheat and edible oil import substitution strategies to substitute wheat within two years.

Digital economy foundations are being put in place; an overarching digital strategy was launched to leverage digital pathways for inclusive prosperity (1/2)



Digital Ethiopia 2025

The national digital transformation strategy was launched at the end of the fiscal year to lay the foundation for and guide the development of the digital economy. It serves as an integrated strategy for leveraging digital pathways for inclusive prosperity.

The strategy is anchored on four pillars, comprising (i) Infrastructure, (ii) Enabling systems, (iii) Applications (digital services and products), and (iv) Broader Ecosystem (finance, human resource, and policies). It has identified four pathways to digital transformation, through the application of digital tools and services in agriculture, manufacturing, IT-enabled services, and tourism. 10+ foundational legal frameworks and policies are in place and/or underway to enable and promote digital transaction, e-commerce, and e-government.

- E-transaction proclamation has been enacted to enable e-commerce and e-government services.
- Personal data protection proclamation is in its final stages for approval. It aims to ensure individuals' constitutional rights for personal data protection are enforced.
- Start-ups Act preparation is in its final stages of development. it aims to create a business ecosystem to effectively and efficiently promote innovation and job creation. The Act includes the establishment of an innovation fund.
- E-messages directive is under preparation to legitimize and facilitate online interaction and create trust on online transaction.
- Open data policy is under preparation to create a legal framework for making government data accessible.
- E-service implementation directive is under preparation.
- E-government information security policy is under preparation.

Key enablers for e-commerce are being laid down.

Pilots on door-to-door addressing system	Ethiopian Postal service enterprise reform is underway to backstop nationwide e-commerce services	E-Commerce pilot for coffee export project – Crop to Consumer - to start in November 2020

Digital economy foundations are being put in place; targeted initiatives are underway to promote e-commerce, e-government and digital jobs (2/2)

Establishment of Artificial Intelligence Center and Orange Digital Center

1. Artificial Intelligence (AI) Center has been established to support the development of AI services, products and solutions and the development of functional technological innovations based on research and capacity building.

2. The establishment of the Orange Digital Center is underway to train youth with digital skills and enhance their employability. The Digital Center will be established at the Addis Ababa Information Communication Technology park.

eGovernment Services Expansion

E-government services expansion both at the central and municipal level is taking root. 176 services were automated in 34 government organizations and more than 80,000 citizens received services electronically.

E-government Office has automated the internal operations of several ministries and government agencies. Automation is expected to significantly enhance and advance information management and sharing within the organizations.

E-Commerce Pilot Underway

An E-Commerce pilot in the coffee value chain has been initiated to connect farmers with the buyer through a crop to consumer (C2C) digital platform. This will improve traceability, increase farmers' income and export revenue.

National Roadmap for Emerging Technology R&D has been prepared while a Science, Technology & Innovation Policy is under revision and National Technology-based Productivity Enhancement & Commercialization Strategy is under development

1. Science, Technology and Innovation (STI) Policy is under revision to facilitate the goal towards becoming the African beacon of prosperity. The policy focuses on making STI accessible and adaptable for sustainable socio-economic development.
2. National Technology based Productivity Enhancement & Commercialization strategy is underdevelopment; it aims to promote the identification, development and use of home-grown technology and innovation for productivity enhancement. This is expected to enhance productivity of priority sectors(agriculture, industry, etc).
3. National Roadmap for Emerging Technology R&D has been prepared and is currently undergoing stakeholder consultation. The roadmap will mainstream R&D in all institutions and promote collaborations and partnerships among various entities for technology transfer.

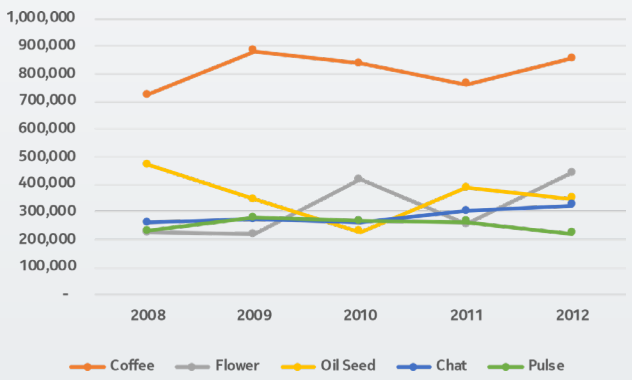
Agriculture sector reforms are transforming the sector; the sector remains major contributor to export, while import substitution measures are gaining momentum (1/3)

Agricultural exports reached

2.3 Billion USD

Contributing to 80% of the total commodity exports. This has increased by 12 percent from last year's performance. Coffee, flower, horticulture, and live animals are the top 4 export commodities recording a 12, 72, 32 and 18 percentage increase from last year's performance.

Top Agricultural Commodities Export Performance in Thousands USD



2.39	2.23	2.15	2.18	2.17	2.10	2.30
2006	2007	2008	2009	2010	2011	2012

Agricultural export value (Billion USD) in EFY

Wheat, Rice & Edible Oil Import Substitution Strategies

Wheat, rice and edible oil import substitution strategies are being developed to improve national food security and contribute to improvements in the terms of trade.

Wheat imports are expected to be substituted with in the next two years both through lowland irrigation cultivation and highland intensification.

Lowland wheat production demonstration has cultivated close to 20,000 ha through irrigation in Awash, Omo, Shebelle valleys, and parts of Oromia. Highland wheat intensification is underway , with close to 305,000 ha of wheat land covered through improved production technologies.

Rice and edible oil are the other two commodities targeted to substitute import in the coming years where preparatory works including early generation seed production and coordinated action plan is being developed.

Agriculture sector reforms are transforming the sector; policy frameworks are being revised to promote private sector development (2/3)

Revision of the 1994 Agriculture & Rural Development Policy

The 1994 agriculture and rural development policy, which directed significant investments by public institutions & cooperative societies to the sector to raise productivity in major crops (maize and wheat), is under revision. The policy revision deepens existing approaches and interventions and introduces fundamental shifts in approach to promote private sector participation and market fundamentals in the sector.

Policies to Encourage Private Sector Participation and Commercialization

National Seed Policy

National seed policy is under development to encourage private sector participation in the seed value chain. It provides the framework to adopt modern technologies, enforce quality standards, and reward innovators, and establishes an autonomous regulator. A Seed Proclamation and a Plant Breeders Right Regulation are also under preparation.

Review of Contract Farming Law

Contract farming law is under review by the House of Federation. The law provides a comprehensive institutional framework to address the peculiarities of farming contracts including for the promotion, facilitation, and coordination of contract farming arrangements. Putting in place a specific legislation that addresses the unique features of contract farming. Contract farming arrangement are currently governed by the general Civil Code.

Direct Seed Marketing Directive

Direct seed marketing directive was passed, which allowed seed enterprises, both public and private, to sell improved seeds directly to farmers. This has contributed to efficient seed distribution. Direct seed distribution contributed to the distribution of seeds worth of 3.5 bn ETB, from1.2 bn ETB in the previous year.

Removal of Duty & Taxes

Duty and taxes have been removed on 400+ agricultural inputs and equipment to incentivize the private sector to invest in importation as well as local manufacturing of agricultural machinery, equipment, and inputs. For smallholder farmers, the duty and tax removal makes agricultural mechanization services and investments in small irrigation equipment less expensive. In the last six months of the fiscal year, 51 new agricultural equipment importer/supplier licenses were issued, indicating increased private sector interest.

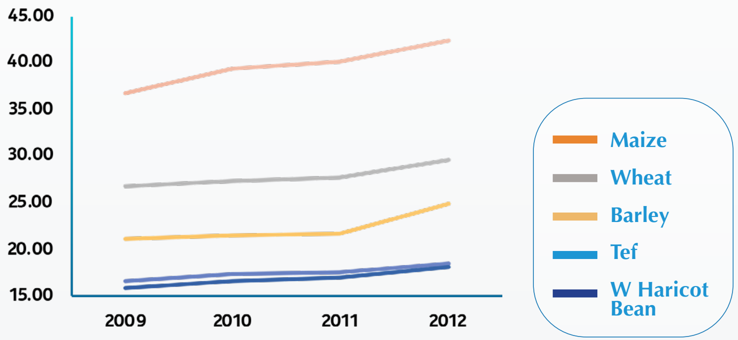
A Total of 1.5 Million Rural Jobs Created

Rural jobs were created via targeted support to agricultural interventions. About 54,825 enterprises were established to create jobs. Access to finance, land, and markets were the key interventions. where 3.23 Billion ETB in credit, 81,880 ha of land, and 6 Billion ETB markets were facilitated. Livestock and horticulture, the two most important job creating sub-sectors, continue to receive targeted support.

The jobs created included 67% permanent and 33% temporary jobs; while 30% of these jobs targeted females and the rest 70% targeted males.

Agriculture sector reforms are transforming the sector; measures to improve access to inputs have showed notable outcomes (3/3)

Productivity of Major Grain for Meher Season



Total Grain Production Increase

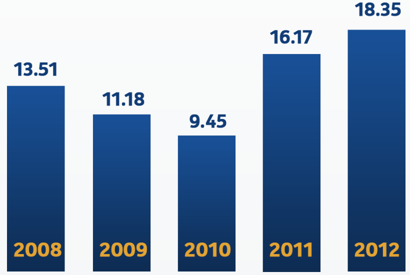
Total grain production increased by 6.2 and 9.5 percent from EFY 2011 and 2010, respectively. This production growth was a result of the intensive use of inputs (other than land). In the EFY 2012 production season, barely, maize, teff, wheat, and haricot bean recorded 18.5%, 15.4%, 11.2%, 11%, and 14.3% increase from EFY 2009 similar season.

Commercialization Cluster Farms Led Productivity Increase

Commercialization of cluster farms for selected crops led to significant productivity increases including wheat (78 percent), maize (140%), barley (76%), and teff (50%). In the EFY 2012 production season, the commercialization cluster approach has been implemented in 408 woredas in Tigray, Oromia, Amhara, and SNNPR, covering 3.6 million farmers and 2.8 million ha of land.

Access to input finance has improved by close to 40% since EFY 2010.

Inputs credit in billions ETB (2008 – 2012 EFY)



Inputs Use & Distribution

Access to fertilizer and improved seeds have shown a notable increase. Annual fertilizer distribution increased by 47 % from the last two years.

Input Voucher System

Inputs voucher system (IVS), launched in collaboration with local micro-finance institutions (MFIs) and Rural Saving and Credit Cooperatives (RuSACCos) is providing cash or credit vouchers to farmers, which can be redeemed for inputs at nearby cooperative stores.

IVS use by farmers increased by 49 %, while input provision increased by 213 % compared to last year's performance. A total of 7.2 million smallholder farmers have used IVS and purchased fertilizer, seed, and chemicals worth 16.68 billion ETB.

This eliminates the high initial costs that prevent farmers' access to inputs. By the end of the 2012 EFY, IVS has been implemented in all woredas of Amhara and Tigray regions, 145 woredas in SNNPR and 243 woredas in Oromia.

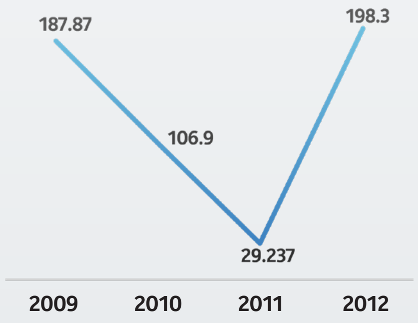
Mining industry reforms are exposing the sector's vast potentials; the sector's export regained momentum with a more than 5-fold increase in gold exports (1/3)

Mining industry exports reached 207.6 Million USD

Contributing to 7 percent of total export revenue. Mining sector exports showed more than four-fold increase from EFY 2010.

Gold Exports Recuperated from a Consistent Decline in the Past Years

Gold exports reached 198 million USD, showing a 578 percent increase from EFY 2011. The increase in gold price by the National Bank of Ethiopia, by close to 10-29 percent, has contributed immensely to the export performance by reducing illegal mining trade.



231.2	133.6	48.9	209.7	207.6
2008	2009	2010	2011	2012

Mining Sector Exports in Millions USD - EFY

Import Substitution of Industrial Minerals

Six minerals which are used for domestic industry inputs, including Kaolin and Salt, have been identified with the aim to improve the quality and quantity of domestic supply in the short term. Mechanisms have been put in place to work closely with chemical and construction material suppliers and other institutions that use various minerals as industrial inputs.

Local coal has replaced 60% of imports for use as energy source for cement production.

Large Mining Projects Entering into Operation

Gas commercialization agreement with the Chinese POLY-GCL Petroleum Investments has been signed. Natural gas exports are expected to commence within the next three years with the capacity to generate up to 6bn USD

Mining industry reforms are exposing the sector's vast potentials; sectoral policy frameworks are being overhauled to ensure an inclusive mining sector development (2/3)

National Artisanal, Special Small-scale Mining (ASSM) Strategy

National Artisanal, Special Small-scale Mining (ASSM) strategy has been prepared to guide the formalization of ASSM, which employs close to 70% of miners in the country. In-depth local and regional value-chain analysis for identified strategic minerals has been completed to maximize value addition for job creation and import substitution.

The strategy further provides an effective governance framework including institutional mechanisms and a gender inclusion in ASSM.

Local Content Policy Framework

Local Content Policy Framework is under development; this is aimed to promote domestic investment and value addition.

Local community and investor coordination frameworks are developed to ensure an inclusive and sustainable mining sector. This also aims to ensure local community development and to address tensions between communities and mining and oil companies in different regions.

Large Mining Companies are Resuming Operation

Large mining companies that were forced to halt operation due to poor community engagement are in the process of resuming operation following successful engagement with local communities. The companies ready to resume operation include Adola Gold, Kaolin minerals and Tulu Kapi Gold mine in Oromia, marble manufacturers in the Benishangul Gumuz region, and salt producers in the Afar region.

Mining industry reforms are exposing the sector's vast potentials; institutional frameworks and policies are being strengthened and overhauled to promote investment (3/3)

10+

10+ legal frameworks and policies on the pipeline to overhaul the mining & petroleum industry.

1. Mineral works improvement proclamation – Ratified
2. Mining and Petroleum strategy
3. Minerals trade proclamation
4. Petroleum industry transparency proclamation
5. Biofuel development proclamation
6. Artisanal Small miners formalization roadmap
7. Geological Survey Agency re-establishment proclamation
8. Mining & Petroleum Regulatory Authority establishment proclamation
9. Mining, petroleum & bio-fuel corporation re-establishment proclamation

Revamped Investment Promotion and Management Systems

Cadaster System for Mineral Licensing and Investment Management system

Cadaster system for mineral licensing and investment management system has been developed for large scale miners. The system provides an online geoscientific information to help investors identify available resources and investment opportunities, provides online license application portal, and facilitates investor after care services. The cadaster system development for small scale miners is also underway in collaboration with regional governments.

Single Window Service Delivery System

A single window service delivery system has been set up, which significantly simplifies and regulates the mineral trading system. It provides services on pricing, quality assurance and value addition and facilitates customs services to exporters.

Integrated Geoscientific Information Management System (GIS-IGIMS)

Integrated Geoscientific Information Management System (GIS-IGIMS) roll out is underway to build a modern, accessible and high-quality geo-scientific information services for investors. The digital database provides comprehensive information on the occurrence of minerals, exploration findings, and economic feasibility assessments. It aims to avoid redundancy in exploration efforts and reduce cost of exploration for minerals.

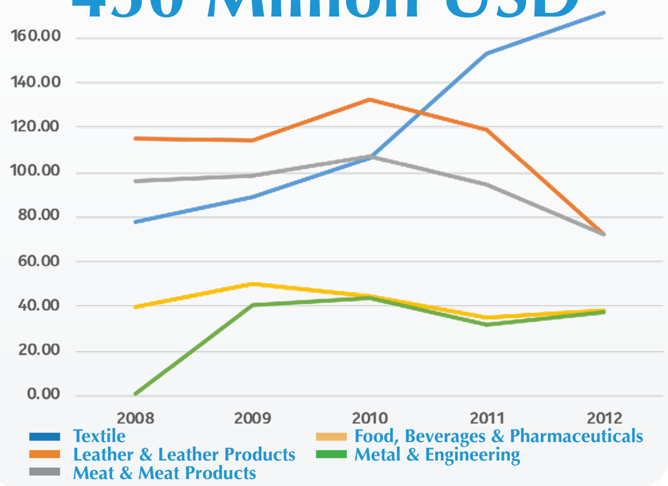
Offshore Accounts Permitted for Oil Industry Investors

Offshore accounts are permitted for investors in the oil industry. Lack of funding for mining investment had been pronounced by the ban on offshore accounts. Furthermore, discussions are underway to prioritize foreign exchange allocation for the mining sector.

Manufacturing sector development remains a focus for structural transformation

Manufacturing sector exports reached

450 Million USD



National Industrial Policy

The national industrial policy is under revision to guide the country's transformation towards a manufacturing led economy. The policy aims to exploit the country's potential in the manufacturing sector, along with measures to promote diversification of the sector towards the development of complex industrial bases. It aims to strengthen the role of the private sector and gives due emphasis to building domestic manufacturing base as well as attracting FDI.

National Entrepreneurship Strategy

A national entrepreneurship strategy (NES) (2020-2025) was launched. The NES aims to promote the creation of entrepreneurial opportunities for all and the development of innovative and competitive entrepreneurs across economic sectors. It's key objectives include 1) optimizing the regulatory framework, 2) enhancing entrepreneurship education and skills development,3) facilitating technology exchange and innovation and 4) improving access to finance. The strategy underscores the prominent role of start-ups and micro, small and medium enterprises (MSMEs) in the development of the country's economic growth, diversification, and resilience.

Review of Laws Related to Trade

Review of trade related laws are underway to simplify the licensing of businesses.

- Trade business licensing proclamation (1150/2011) issued, replacing 980/2008;
- Trade business licensing (461/2012) regulation passed, replacing 392/2009.

Integrated Agro-industrial Parks (IAIP)

- Integrated Agro-industrial parks (IAIP) construction and operationalization project is progressing well. The construction of three parks has been completed at more than 90%.
- More than 120 manufacturers have been registered to enter the parks where local firms occupy more than 80% of the shades.
- Three firms are already operational in yirgalem agro industry park.

IAIPs Construction Progress:

Overall Progress 90%

Burie	Amhara	96.3%
Baeker	Tigray	80%
Bulbula	Oromia	92.4%
Yirgalem	SNNP	95%

Tourism sector reforms are laying the institutional foundations to unlock the sector's potential (1/2)

Forex flow from the tourism sector reached

2 Billion USD

Forex flows from the tourism sector reached 2 bn USD, with tourist arrival reaching close to 420 thousand during the first 7 months of the fiscal year. Tourist flows remained at 48% of the target for the fiscal year, due to the effect of COVID-19 on the sector.

Tourist flow is expected to pick up with the promotion of domestic and stop-over tourism.

Policies and strategies under development

MICE Strategy

Stop-over and meetings incentives, conventions and events (MICE) strategy is developed to promote Ethiopia as destination for meetings and conventions.

Domestic Tourism Development

Domestic tourism development strategy has been prepared, along with its implementation plan. The strategy is expected to play pivotal role for the tourism sector's post-covid recovery and is expected to be launched in the coming months.

Digitalization of the Tourism Sector Services

A reliable tourism sector information management system is under development to provide tourists with up to date and organized information on tourist destinations and services

An integrated mobile app platform for tourist services will be rolled out to strengthen tourism sector marketing & promotion

Tourism Sector Development, Promotion, and Coordination

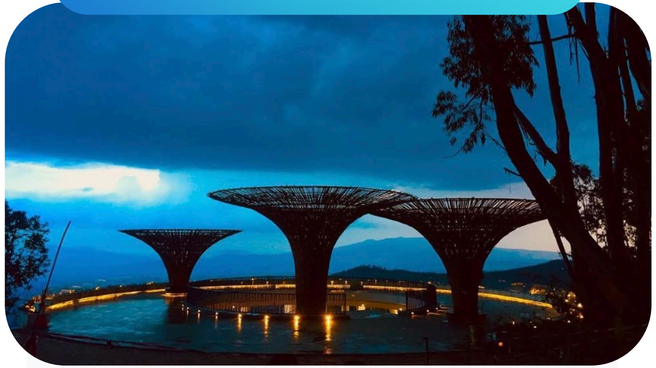
A coordinated and systematic tourism sector promotion framework is under establishment, including coordination mechanisms with Ethiopian airlines and the Ministry of Foreign Affairs.

Tourism desks are established in all airports across the country to provide up to date and organized information to tourists.

Harmonization of tourism development plans between federal and regional authorities and capacity building for key actors is underway to standardize and improve services across the country.

Tourism sector flagship projects are showing a glimpse of the country's historical, cultural and ecological attractions (1/2)

ENTOTO PARK

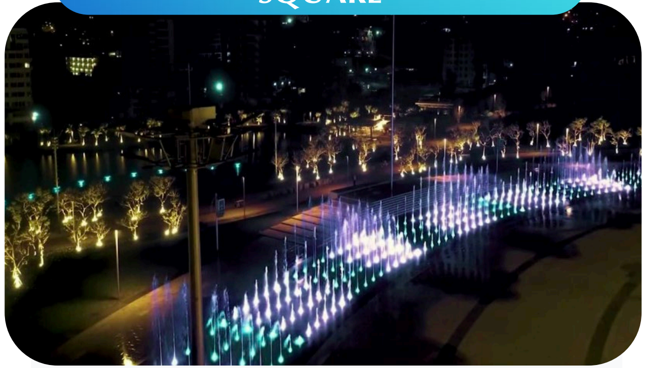


Entoto Park, on the historic Entoto mountain, overlooking the city of Addis Ababa, was inaugurated, with various indoor and outdoor facilities, including sport centers, library, restaurants and coffee shops, horseback riding, bike ride and football field, walkways, bicycle and scooter roads.

UNITY PARK

Unity Park, inside the Jubilee Palace, opened to the public celebrating the country's heritage, along with a park and a zoo inside the compound.

SHEGER PARK FRIENDSHIP SQUARE



Sheger Park Friendship Square, at the heart of Addis Ababa, is inaugurated elevating the status of the city. It's part of the 58 kilometers long Entoto-Akaki Riverside Beautification project.

Three additional flagship tourist site projects have been launched in Koisha, Gorgora and Wenchi in SNNPR, Amhara, and Oromia regional states, respectively.

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