Report to G20 Compact with Africa – Compact Narrative
Ethiopia
Goal: Improve framework conditions for private investment (domestic and foreign)

Ethiopia has experienced a rapid and sustained economic growth over the past decade. From 2004 to 2014, real gross domestic product (GDP) growth averaged 10.8 percent per year. The most recent reports by the World Bank (Global Economic Prospect, 2017) and IMF (World Economic Outlook, 2017) forecasted that Ethiopia will be one of the fastest growing economies in the world and a star performer in the African continent in the year 2017. Since 2010, FDI flows into Ethiopia have grown at an average rate of nearly 50 percent per year, reaching $3.2 billion according to UNCTAD Investment Report of 2017.

Ethiopia is currently at a historic moment of economic transformation. In its plan to sustain growth, the Government has adopted a strong focus on leveraging foreign direct investment (FDI) aimed to foster industrialization and export diversification. The Government's economic strategy is laid out in the second phase of the Growth and Transformation Plan (GTP II), which seeks to provide the framework to sustain economic growth rates of at least 10 percent per year up to 2025. Specific goals include (a) creating 2 million jobs in medium and large businesses by 2025; (b) increasing the contribution of manufacturing to overall GDP from the current level of 5 percent to 18–20 percent; and (c) ensuring that the manufacturing sector contributes 50 percent of exports by 2025.

Growth in agriculture and service sector as well as public investments has largely driven Ethiopia's rapid growth. For such growth to be enduring, the Government realizes that a different balance between public and private sector involvement is needed. Development of a strong foreign and domestic private sector will be needed to sustain the rapid growth.

Though, the Government has been hugely investing on infrastructure and human capital over the past two decades, **limited access to reliable energy supplies, inefficiency in trade logistics and access to credit remains a challenge that impedes competitiveness and limit growth and employment.**

In this regard, the main tools the Government envisages to promote are targeted export-oriented manufacturing investment, the development of industrial parks, the creation of a vibrant "plug and play" business environment", provision of quality infrastructure in transport, energy and logistics, and skills development. **The current political environment and desire to realize structural transformation provides a clear window of opportunity to embark on broad and deep reforms that can help Ethiopia enhance its competitive position and catalyze private sector development.**

Ethiopia is also coping with a rapid increase in the labor force, which has doubled in the past 20 years. Between 2005 and 2015, the working age population increased by 14 million and this trend is expected to persist in the coming decades. As the urban population is expected to triple by 2034, with 30 percent of the population living in cities, many of these young people will be in urban areas. At the same time, Ethiopia hosts more than 800, 000 refugees, mainly from South Sudan, Eritrea and Somalia which makes the country the second largest refugee hosting nation in Africa. Creating job opportunities is therefore an urgent priority if Ethiopia is to exploit its demographic dividend. In this regard, catalyzing private investment and supporting the manufacturing sector could help absorb this rapidly growing labor force.

As part of the operationalization of the policy objectives above, the Government of Ethiopia would like to submit the following reform priorities and policy actions based on Ethiopia's country specific circumstances with the following objectives: (a) Attracting greater flows of private investment, (b) Scaling up investment in infrastructure, (c) Leveraging export-oriented FDI for industrialization, (d) Creating a secure and predictable market access for exports.

Report to G20 Compact with Africa – Policy Matrix Ethiopia Goal: Improve framework conditions for private investment (domestic and foreign)			
Focus Areas	Government action	Indicators and targets	Partners' support
Macroeconomic framework			
Macroeconomic stability	♣ Pursue prudent monetary policy in order to keep inflation in the single digit range. To achieve the above, GoE will establish a mechanism for coordination between monetary and fiscal policy as well as broader public sector expenditures in order to maintain macroeconomic stability including price and exchange rate stability.	♣ Average annual rate of inflation (<10% in 2020)	**IMF**: - Surveillance, policy dialogue and analytical work aiming at strengthening internal and external macroeconomic stability, and reducing the risk of debt distress. - Policy advice with a focus on private sector development, export diversification, and competitiveness. - Technical assistance on strengthening management of liquidity, and supervision of the financial sector. - Technical assistance on compilation, quality, and adoption of international standards of economic statistics. **WBG**: Policy dialogue and analytical work to support macroeconomic and fiscal stability and long-term growth through structural transformation and transformational productivity growth. Activities include macro monitoring, regular economic updates with special topics, and technical assistance on debt management and macro courses. **AfDB**: Technical Assistance: domestic debt/ capital markets development and debt management training and capacity development for the Government of Ethiopia **EU**: Support to macro modeling through EDRI
	♣ Stabilize and improve external debt distress rating and government budget deficit through: - Increased export performance and diversification (promote export-enhancing investment projects) - Promoting alternative sources of financing - Improved public investment prioritization - Enhanced debt management capacity	♣ IMF and WBG's external debt distress rating (Moderate or Low in 2020) ♣ Level of government budget deficit (around 3% of GDP in 2020)	
Domestic revenue mobilization	♣ Introduce improved tax collection and other tax transformation reforms for increased share of domestic tax revenue: - Support tax administration through data management and other ICT tools - Introducing simplified tax regimes for micro and small enterprises - Enhance competency of ERCA employees - Rationalization of tax exemptions and	♣ Share of domestic tax revenue to GDP (17.2% by 2020) ♣ Share of domestic revenue to GDP (19.1% by 2020)	**IMF**: Expanded 5-year program of technical assistance on tax administration and policy, funded by a new Revenue Mobilization Trust Fund. **WBG**: Analytical work on enhancing revenue mobilization including the analysis of the fiscal management framework on tax expenditure, the VAT code and excise taxes. **DFID**: A new tax transformation program (TBC £35 million) which will build capacity and drive delivery in ERCA and cover tax policy.

	incentives - Improve tax audit quality and coverage		
Public investment management	♣ Strengthening public investment management through: - improved planning, management, monitoring and evaluation of public projects - competitive and transparent procurement process - Sound supervision on SoEs for enhanced efficiency and competitiveness	♣ Ethiopia's overall PEFA scores improved (aggregate scores in 2020 improved from that of 2015)	**IMF**: Enhanced support for capacity building on the public financial management reform strategy, treasury single account, and adoption of public reporting and accounting international standards. **WBG**: Technical assistance to enhance public investment management and public financial management and procurement. **AfDB**: Fiduciary clinic - at least one AfDB supported clinic per year focusing on procurement and financial management for executing/ implementing agencies. **DFID**: EIAF programme is set to support on PIM reforms, building on the PIM diagnostic. This would have to be agreed by MOFEC. DFID's EIAF SOE Transformation program will help build capacity of supervisory function and support selected SOEs develop transformation roadmap
Business Framework			
Business environment and regulation	♣ Enhance the ease of doing business in Ethiopia through implementation of the below reforms: a) Trade logistics (Trading across borders): - Implement integrated risk management and coordinated inspection for import/export procedures; - Provide clearing agent license to importers and exporters; - Implement customs electronic single window - Expand the participation of the private sector in logistics service provision b) Business regulation - Provide streamlined and expedited investment services through one-stop shop to be established in each industrial park and at the EIC; - Introduce online registration and licensing at the Ministry of Trade and EIC; - Reduction in business regulation impediments including licensing-related restrictions	♣ Average time to import (40 days by 2025 - 20% reduction from 2017) ♣ Average time to export (14 days by 2025 - 20% reduction from 2017) ♣ Increased satisfaction of investors on efficiency of business regulation and administration	**WBG**: Technical assistance on doing business reforms including trade logistics, implementation of electronic single window, automation for business registration and licensing etc. **DFID**: Invest Africa could help with the review of regulations **AICS (Italian Agency for Development Cooperation):** Support through the Multi-Donor Initiative on Private Sector Development, implemented by IFC. The Initiative addresses issues of business climate (business registration, taxation, export logistics, customs, PP dialogue) and access to credit (leasing, collateral registry, commodity collateralized financing, promotion of investments in agri-business) **EU**: New Customs management system (ERCA), direct support to EIC for investment promotion activities and commissioning of IT equipment

	♣ Expand productive infrastructure for business competitiveness mainly focusing on: - Expansion and modernization of integrated trade logistics and transport infrastructure (including improved dry ports freight handling and administration capacity) - Development of state-of-the-art industrial parks with a 'plug and play' business environment - Increased energy generation (hydroelectric, geothermal, wind and solar power)	♣ Number of industrial parks fully developed (10 by 2020)	**WBG:** **-** Financing: Ethiopia competitiveness and Job creation (US$250 million); Trade Logistics (US$150 million), NQI Development (US$ 50 million); Jobs Compact (US$270 million) - Technical assistance for efficient service delivery (OSS) in industrial parks, support to increase private sector participation for efficient trade logistics services **AfDB**: - Transport: UA 70.9m (USD 100m) for the Addis Ababa – Djibouti corridor, a Regional Operation (RO) that is expected to attract additional resources of up to UA 70.9m (USD 100m) from the RO window - Energy: UA 72.23m (USD 102.56m) for Addis Ababa Transmission and Distribution Rehabilitation and Upgrading Project, with UA 66.95m (USD 95.06m) co-financing loan from JICA/ ACFA UA7.09m (USD 10m) for 100MW Assela Wind Farm Project, with EUR 180m co-financing from the Danish Government via DANIDA Business Finance **DFID**: - EIAF programme works on the trade logistics sector can help support the logistics sector to become more efficient. Our current envelope is £35 million. We are planning for scale-up, which will include logistics, from 2019. - The Ethiopia Jobs Compact (£80 million from DFID) will help ensure the success of the industrial parks. **AICS (Italian Agency for Development Cooperation)**: Support to the Integrated Agro-Industrial Parks in Oromia and SNNPR (strengthening strategic value chains, infrastructure, promotion of investments in agro-industry) **EU**: Industrial parks
	♣ Targeted investor recruitment in priority sectors (manufacturing, industrial park development, energy generation, logistics services) supported by:	♣ Investment promotion strategy adopted and implemented (in 2020) ♣ Average annual	**WBG**: Technical support to EIC, targeted investment promotion support. **DFID**: Invest Africa is a £100 million program to support investment into East Africa

	- Well defined investment promotion strategy - Qualified investment promotion staff - Robust investor tracking and facilitation service - effective skills training programs for workers	percentage increase in FDI (20%)	(Ethiopia, Uganda, Rwanda and Tanzania). It will target investor recruitment and retention in manufacturing, with a likely focus on health manufacturing and agro-processing in Ethiopia **EU**: support for EIC investment promotion activities, participation in PPD through EU business group (EUBFE), implementation of the European External Investment Plan
Investor protection and dispute resolution	♣ Implement a structured approach of addressing investor’s concerns coupled with sound legal framework for dispute resolution through: - public-private dialogue (PPD) - systematic investor response mechanism (SIRM)	♣ Number of PPD organized (5 by 2020) ♣ Increased investor satisfaction in complaint resolution (at least 70% of surveyed investors think complaint resolution has improved over time)	**WBG**: Technical assistance in the implementation of SIRM and PPD. **DFID**: Support the World Bank SIRM initiative through Invest Africa.
Use of standard clauses in PPP	♣ Introduce a comprehensive legal regime (Proclamation) that governs Public Private Partnerships (PPPs). Ensure PPP contracts largely use standard clauses.	♣ Number of comprehensive legal reform on PPP (1 by 2020) PPP unit resourced and trained (with at least 3 PPPs with foreign investors by 2020)	**IMF**: Technical assistance on mitigating fiscal risks related to PPPs. **WBG**: support for PPP implementation in sectoral engagement in energy and transport.