



BRIEFING BOOK ON ETHIOPIA

Briefing Book with a Focus on Ethiopia's Economy

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General Introduction to Ethiopia

The Federal Democratic Republic of Ethiopia (Ethiopia for short) is a landlocked country in the Eastern part of Africa. It borders Sudan, S. Sudan, Kenya, Somalia, Eritrea, and Djibouti. Ethiopia has a population of 117 million people, which is the 2nd most populous country in Africa, and the 12th most populous country in the world. The capital of Ethiopia is Addis Ababa which is within the Oromia region and somewhat in the center of the nation. It is believed that the first human lived in present-day Ethiopia because a fossil named Lucy was discovered in 1974 by paleoanthropologists called Donald Johanson and Maurice Taieb. Lucy was named after the song 'Lucy in the Sky with Diamonds by the Beatles. Lucy's fossils were found in the Afar region of Ethiopia, in a city called Hadar. Lucy's fossils are a big pride factor to Ethiopians who believe they are the first people to live on the earth. (Wikipedia, 2022).

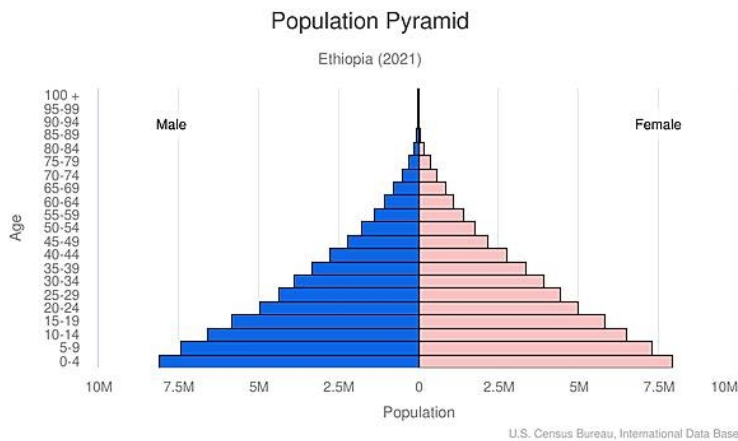
The Ethiopian governmental system follows a Parliamentary system. Like most countries, Ethiopia has Executive, Legislative, and Judicial branches. They are governed under the constitution of the FDRE adopted in 1995 by the Ethiopian People's Revolutionary Democratic Front. The leader of the government is the Prime Minister, which is elected by the Parliament. The Parliament is elected by the people where elections occur every 6 years. The Prime Minister has the highest executive power whose duties include nominating Ministerial positions and being the chairman of the council of the ministers. Currently, the Prime Minister of Ethiopia is Abiy Ahmed and the ruling party is called the Prosperity Party (PP for short). (UK Embassy, 2022) and (Global Edge, 2022). The PP is a new party that was formed in December 2019 under the leadership of Abiy Ahmed. The country has seen multiple changes, including the addition of 2 new states under the PP party.

Ethiopia has a constantly changing number of regions. Until recently, Ethiopia had 9 regions. However, after recent votes, 2 regions broke out from their respective states to form their region, making the total 11. The 11 states are Afar, Amhara, Oromia, Somalia, Benishangul-Gumuz, Gambella, Sidama, Tigray, Southern Nations Nationalities and People Region (SNNPR), Southwest Ethiopia Peoples' Region (SWEPR), and Harari. SWEPR and Sidama are the 2 new regions formed under the PP party, which were formed in 2020 and 2021 respectively, after a referendum. Addis Ababa, the capital of Ethiopia, is a city with no state affiliation. The city is found within the Oromia region. (ethiovisit, 2022).

Some important figures of Ethiopia:

Population and Popn. Distribution.	110 million (July 2021 estimate). High density in the highlands of the North and the capital and its surrounding. (See figure for population Pyramid). 22.7% of the population lives in the Urban, with a 4.4% increase annually.
Land Area	1.1 Million Sq. KM, 1.096 million is land while 7.7K are lakes. (Slightly less than Twice the Size of Texas. 5.9K Land border.
Climate and Terrain	Tropical Monsoon (64°F avg. temp). Mountainous with a Rift Valley
Religion	Ethiopian Orthodox (43.8%), Muslim (31.3%), Protestant (22.8%), Others (2.1%)
Population Pyramid	(See Figure Below). Signs of early death see in the population pyramid.
Land Use	36.3% for Agriculture, 12.2% are forests.

Ethiopia's Population Pyramid looks like the following:



The Population Pyramid is known as an Expansive population pyramid. The country has a high birth rate with a low life expectancy. (CIA , 2022).

Ethiopia's economy is what is known as a mixed and transition economy. A mixed economy is a system where the market economy is mixed with a planned economy, meaning that there is a lot of government intervention. A transitional economy is a system where a planned economy is switching towards a market economy. Currently, certain sectors are owned by the government. These are telecommunication, airlines, and roads. As of 2015, 40.5% of the economy was agricultural. Many economic activities depended on Agriculture. 81% of all exports were agricultural products. In 2020, improvements and growth have been seen in the industry. By then, 34.8% of the GDP came from agriculture, 21.6% from industries, and 43.6% from the service sector. (Wikipedia, 2022)

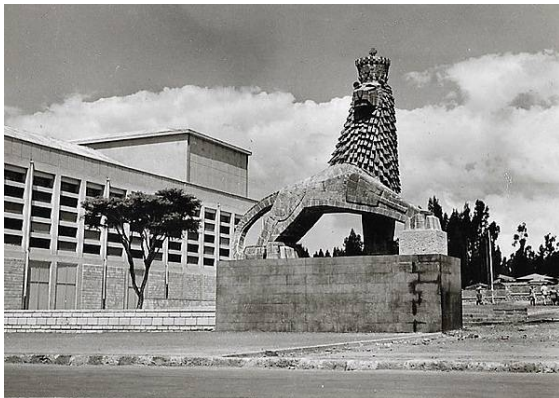
Tourist Destinations

Ethiopia is a top tourist destination. The old tradition, clothing, dances, hairstyles are still relevant and seen. Local food is seen as a delicacy by foreigners visiting Ethiopia. There are plenty

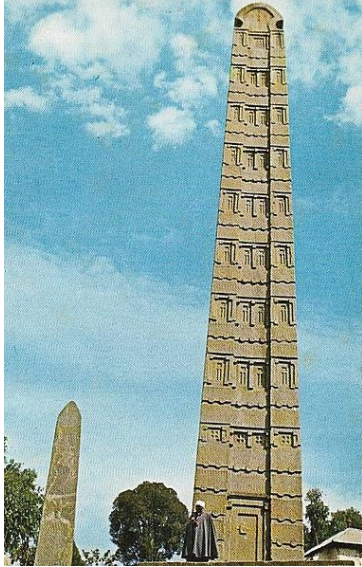
of destinations to visit in Ethiopia, like the obelisk of Axum which is an erected rock carved from a single piece of rock. Lalibela is a city with 11 rock-hewn churches. It is a mystery to many how these churches were carved from a rock. Plenty of other tourist destinations are available in Ethiopia, as seen in the images below retrieved from the CIA factbook.



Saint George's Cathedral is an Ethiopian Orthodox church in Addis Ababa noted for its distinctive octagonal form. It is located in the capital of Ethiopia, Addis Ababa.



The Lion of Judah Monument is one of the most distinctive landmarks in Addis Ababa. The statue, by sculptor Maurice Calka, was commissioned by Emperor Haile Selassie and erected in front of the National Theater in 1954.



King Ezana's Stela is a 21-m (69-ft) tall obelisk in the ancient city of Axum. The monument, which dates to the 4th century A.D., stands at the center of the Northern Stelae Park along with hundreds of smaller and less decorated stelae. It is decorated with a false door at its base, and apertures resembling windows on all sides. The obelisk's semi-circular apex used to be enclosed by metal frames. In 2007-08, the stela was structurally consolidated and today is braced to prevent its leaning any further.



The rock-hewn Church of Saint George in Lalibela, Ethiopia was one of the earliest nations to adopt Christianity in the first half of the 4th century. In the 12th and 13th centuries, in a mountainous region now called Lalibela, eleven medieval monolithic churches were carved out of rock. The layout and names of the major buildings in Lalibela are widely accepted to be a

symbolic representation of Jerusalem. The churches were declared a UNESCO World Heritage Site in 1978. (CIA, n.d.)

Above are only a few examples. The capital is home to various cultural and western restaurants, bars, and local drink shops. Addis Ababa is home to several bars and clubs, while most of the city is quiet at night, some wake up only at night for the people looking to live the nightlife.

There are plenty of recommendations for a person traveling to Ethiopia. One thing to keep in mind is that Ethiopia moves through connections, so it is best for anyone traveling there to know someone from Ethiopia that's either living abroad or at home. People traveling to Ethiopia for tourism purposes should take advantage of the several touring companies. Suggestions for tour companies include the following:

- Welcome Ethiopia Tours
- Ethio Target Tours (<http://www.ethiotargettravelandtours.com/>)
- Imagine Ethiopia Tours (<https://www.imagineethiopiatus.com/en>)
- Stunning Ethiopia Tours (<https://stunningethiopiatus.com/>)

Tourism companies are recommended as Ethiopia is behind on using the internet for such a service. It is also best for the safety of the visitor to use such services. Some locations, at night, are not safe for locals let alone foreigners, and some locations even during the day. Foreigners without cars may travel using the 'Ride' app, which is the Ethiopian Uber, or taxis, which are Blue, but recently advanced forms of taxis have arrived where the user can make a call and a taxi will come to his location, and these are usually yellow. A foreigner should know how much it will cost for certain distances, but there is no doubt that a foreigner will pay more than they should because his driver knows they can get more money out of them.

Ethiopia is a country with many advantages. Its rich culture, land resources, friendliness towards foreigners, and many more have made it a favorable place. But the country comes with plenty of issues from within. Although improving, the country lacks electricity and clean water in the rural areas, and to some extent in the cities. Power outage is a common occurrence, potholes are on most streets, government bureaucracy is very high...

In November 2020 a civil war broke out between the regional government of Tigray and the central government of Ethiopia or the Federal Democratic Republic of Ethiopia. This has been creating complicity in the country's relations and other administrative factors. The civil war has been the cause of many deaths, manmade famine, loss of valuable artifacts, infrastructural destruction, and other results of war. Recently, the war has cooled down and talks of peace have been initiated, with hopes of changes and improvement from all sides.

Economic Situation of Ethiopia

Overview

Ethiopia is constantly going through change. An economic fact about Ethiopia today, might not be true in a year. The economy has also changed with every governmental change in the country. Sometimes a government brings economic growth and other times it brings stagnation. The country also has frequent disagreements and internal conflicts between different regional states, ethnic groups, cities, and conflicts of ideology. Almost always, frictions between different groups have historical backgrounds and are almost always handled with weapons. For accuracy purposes, I will avoid mentioning any type of group names or conflicts that have happened or are happening. These conflicts have a huge impact on the country's economy. Whenever a region is struck with conflict, businesses in that region shut down and transportation to, from, or through that region becomes stagnant, complicated several business operations, especially import and exports to and from the cities respectively. Ethiopia has one of the biggest economies in Africa, and one of the fastest-growing economies in the world.

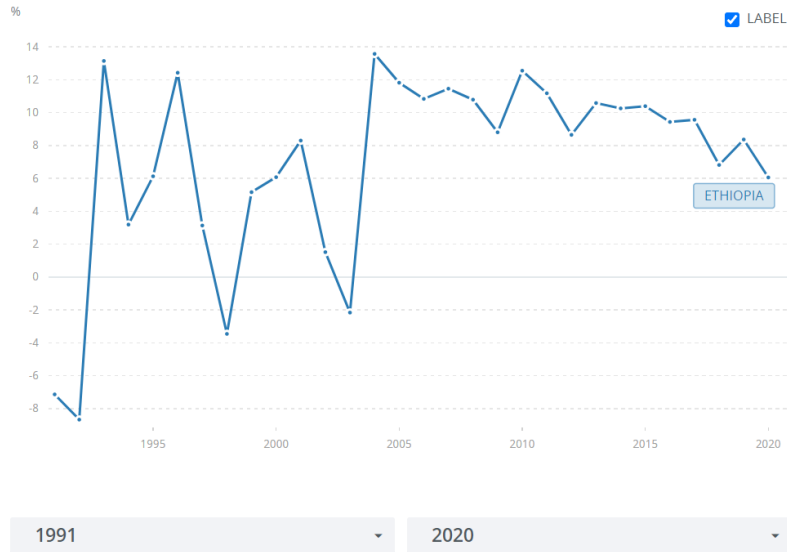
GDP and Construction Activities

A country's GDP is its production of goods and services within the border of the country in a year. Recently, Ethiopia has seen fast growth in its GDP due to infrastructure projects. These projects include highways connecting cities, in-city roads, cross-country railroads, and hydroelectric power plants. Since 2010, Ethiopia has shown consistent growth in GDP. The percentage of Ethiopia's GDP is attributed mainly to agriculture. (World Bank, 2021). Agricultural export is the main source of the country's foreign currency. Hard currencies gained from exports are then used for the imports of goods from other countries, mainly from China, Saudi Arabia, the United States, Russia, and India. The major imports of Ethiopia are foodstuffs, textile, machinery, and fuel. (Trading Economics, 2021). Recent construction activities are also a huge factor of the country's GDP growth. Some of these construction activities are the following;

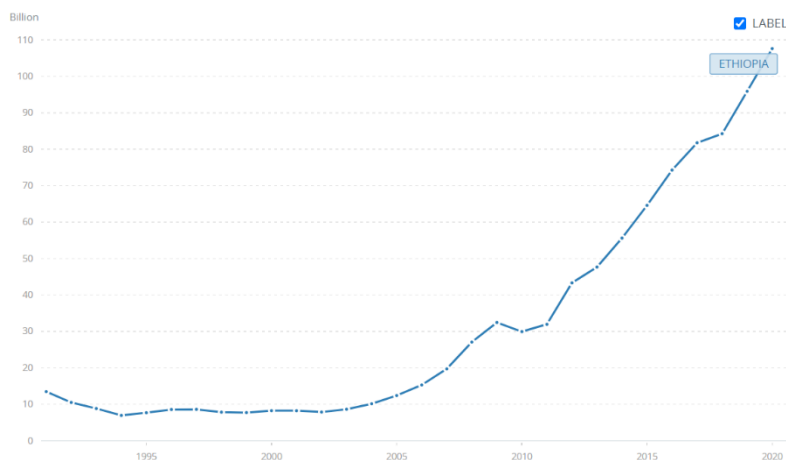
- Meskel Square Redevelopment – Reconstruction of Meskel Square in the capital city, this construction includes the development of an underground parking lot, a large weatherproof TV, and beautifying the area. The funding of this project is 2.5 billion ETB.
- Addis Ababa City Library – The construction of a world-class library. This library will rest on a 38,687 square meter.
- Unity Park – This is an enjoyment area built on the top of the mountain in the city. It has a view of all the city and many activities and restaurants for people to enjoy.
- Addis-Adama Toll Motorway – A highway connecting the capital Addis Ababa and Adama, this highway makes transportation much easier. The budget for this construction was 8.1 billion ETB and was constructed by Chinese companies.

- Addis-Djibouti Railway – A railway connecting the capital of Ethiopia with Djibouti, the funding is 4 billion USD. The railway is partly owned by Ethiopia and partly by Djibouti and built by Chinese construction companies.

(allaboutETHIO, n.d.).



The image on the left is the growth rate of Ethiopia's GDP since 1991. (World Bank, 2020) It has been showing a promising growth rate.

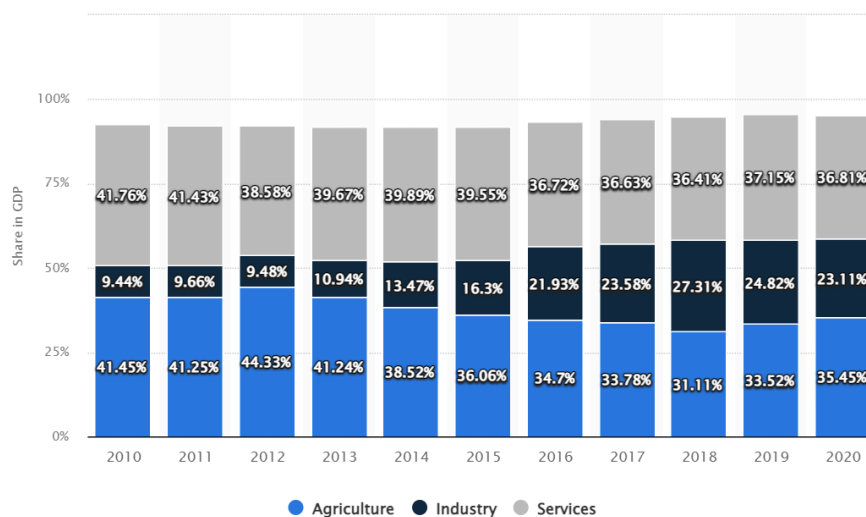


The country also shows a promising GDP growth as shown on the graph. (World Bank, 2020).

Economic and Industrial Activities

Ethiopia's major economic sector is the agricultural sector. Different sources state different numbers as to how many percent of the GDP is agricultural, but all hover around 45%. The agricultural sector of Ethiopia is classified into 3: smallholder sector, cash cropping, and subsistence livestock raising. The smallholder sector is the most important of the 3 when it comes to feeding the local population. It is a collection of small farmlands ranging from 3 to 6 acres. Productions include teff, wheat, barley, oats, sorghum, corn, millet, and different types of pulses like chickpeas and lentils. Teff is the most important to Ethiopians as it is used to make the traditional food eaten all over the country almost on the daily, Injera. Cash cropping, on the other hand, uses larger farmlands and is mostly for export purposes. The major cash crop is Coffee, followed by Oilseeds, beeswax, sugarcane, and khat (a type of narcotic) in no order. Khat is a drug that is culturally accepted in East Africa, to some, it is like coffee, where they chew it during their lunch break. Coffee and Oilseeds are the biggest exports of the country. Subsistence livestock raising involves growing large herds of cattle and mitigating with them each season. These types of activities are seen in the lowlands of the country where there is a more humid temperature.

(Britannica, n.d.)



As we can see on the image, Agriculture, and Service dominate the Ethiopian economy. (O'Neill, 2022).

The agro-based industry is a major contributor to the Ethiopian economy. It includes processed products such as eggs, milk, meat, leather, and textile. Most of these products are used for either export purposes or for local consumption. As of 2017, half a billion USD was gained from the export of oilseeds, another half a billion from the export of fruits and vegetables, 880 million from Coffee, and 97 million from meat-based exports. Plans to grow these are underway, especially for Coffee, since Ethiopian Coffee is favored around the world. Along with the agro-based industry is the food processing industry which includes meat, butter, pasteurized milk, frozen foods, fresh fruits, bakery products, sugar, and cheese.

The construction industry has been promising, with an annual growth of 11.6%. This increase has been fueled by the heavy investment across the regions for different projects like housing, railroad, cross-city state highways, and more.

The manufacturing industry, although smaller, plays a significant role in the country's economy. Production of footwear, soaps, leather, and many more. These manufacturing industries are also the suppliers to the furnishing industries of Ethiopia. The manufacturing industry is mostly available on smaller scales industries.

Mineral resources make up a smaller industry section in Ethiopia, except for Gold and Tantalum. The energy industry is another important sector for Ethiopia. All the output of hydro powerplants is for the consumption of the country, and still, more is needed. Currently, there is an ongoing expansion of hydro powerplants to cover all areas of the country with electricity.

The tourism industry has one of the greatest potentials of the country. Ethiopia's tourism industry is gaining traction as the country is being noticed by people around the world. Plenty of impressive sites makes Ethiopia a big tourist destination. (Omondi, 2019).

The manufacturing industry has been growing recently due to foreign investment and local investment with the use of foreign know-how. Companies like Heineken have identified Ethiopia as a big potential and opened a brewery in Ethiopia. It is currently Ethiopia's biggest brewery.

Investment

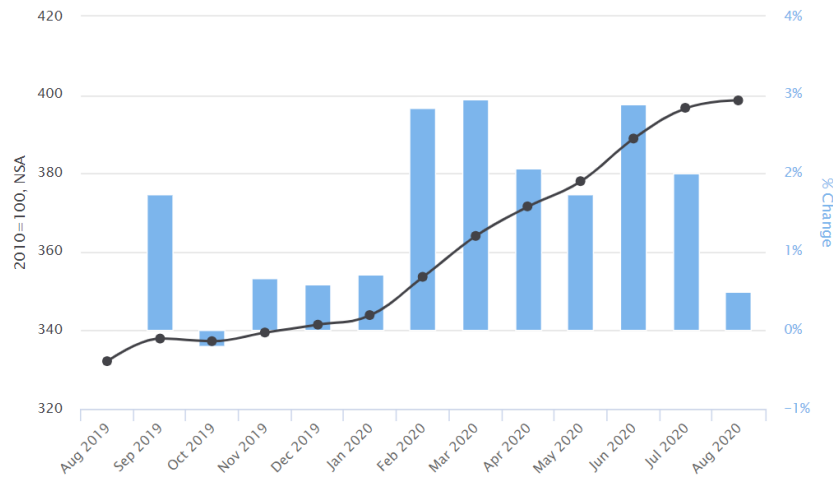
Investment has seen a major change in recent years. Ethiopia has been looking for ways of growing its economy, and investment is one way of doing so. Although its ease of doing business is ranked at 159 out of 190, its recent changes of rules and regulations say otherwise. In November 2019, IMF approved a 3-year plan that will encourage foreign direct investment with a focus on the growth of ICT, agriculture, tourism, manufacturing, and mining.

Policies towards FDI have changed drastically recently. Investment in the production of and owning of roads and power generation was government owned previously but has now been given to the private sector with a focus on foreign investment. The Ethiopian Investment Commission (EIC) oversees the 5 following designations:

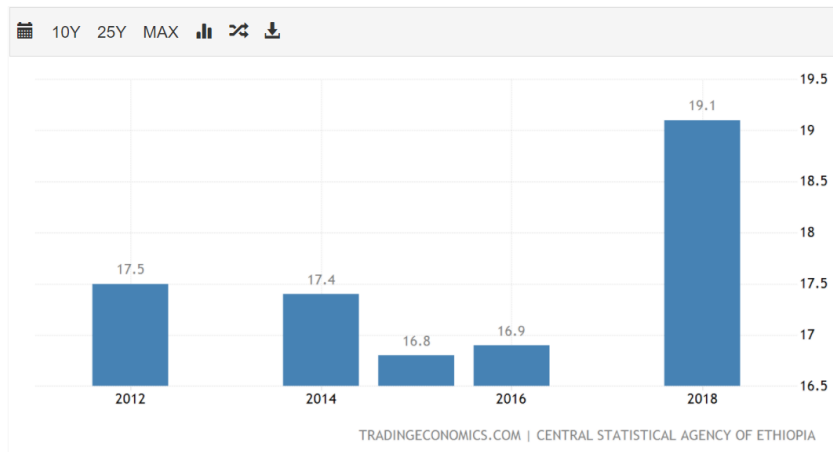
1. promoting the country's investment opportunities to attract and retain investment
2. issuing investment permits, business licenses, and construction permits
3. issuing commercial registration certificates and renewals
4. negotiating and signing bilateral investment agreements
5. issuing work permits
6. registering technology transfer agreements

(US Department of State, 2021).

Other Factors



The graph on the left shows the CPI of Ethiopia. We can see that there is a steady inflation. (Moody's Analytics, 2020).

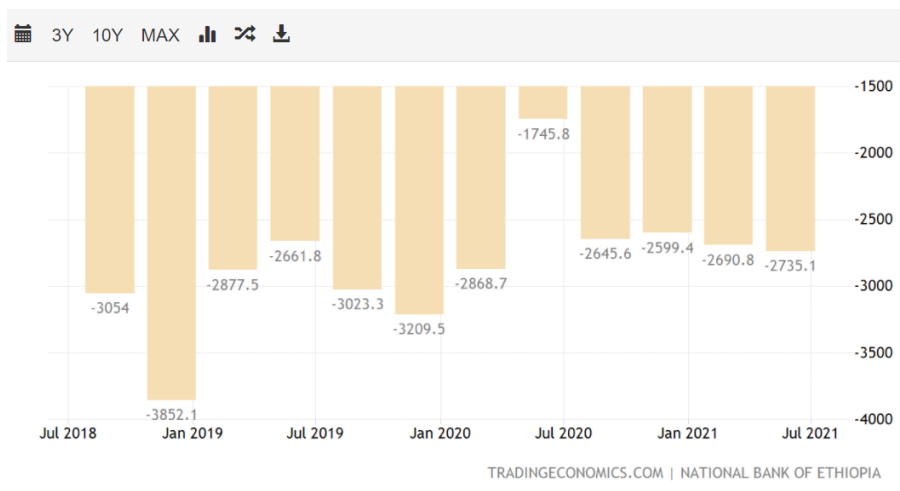


Unemployment is a growing concern in Ethiopia, as we can see the unemployment rate on the left. This is something that will be fixed through investment in the future. (Trading Economics, 2018).

2018).

Trade

As mentioned above, Ethiopia's main trade items are agricultural products. Coffee, Oilseeds, Pulses are the country's major exports, while automobiles, electronics, and a variety of products are imported. China and Saudi Arabia are the main trading partners of Ethiopia. Ethiopia, however, has a major trade deficit primarily due to its lack of exports and focus on only the export of agricultural materials.



We can see from the image on the left that Ethiopia has never been in a trade surplus, and it gets worse by the year. (Trading Economics, 2021).

Ethiopia is also in debt with China, meaning any exports to China must go through the government-owned commercial bank of Ethiopia. The reason behind this is to take charge of the USD to pay it back to the Chinese, as dollars gained from exports to China must be used to pay back the loan.

The government has put regulations to discourage imports and encourage exports. One is the high amount of tariff for imported items. Vehicles have the highest tariff and a car such as a Mercedes that has no value for construction and touring (such as a C-Class) can have a tariff of up to 100%.

Banking and Financial Institutions

Banking in Ethiopia is currently comprised of the central bank, which is the National Bank of Ethiopia, and private banks, as well as a state-owned commercial banks. Foreign banks are not allowed to provide financial services in Ethiopia as of now, but this can be something that can change in the future. Banks are the only ones that provide foreign currency to companies. (Privacy Shield Framework, n.d.) As of now, most foreign currency is attained through export. Depending on the policy of the bank, about 50% to 70% of exports can be available for imports and the remaining will be provided in birr, the currency of Ethiopia.

The previous ban on foreign banks was put in place to protect the banks from competition, however, the Prime Minister has told lawmakers that ‘banks need to prepare themselves with modern ways and information technologies,’ so that they can compete with foreign banks that seem to be entering the Ethiopian market soon. (Obulutsa, 2022)

Fiscal and Exchange Rate

It is no surprise that the birr has been getting cheaper against the USD over the years. As of now, 1 USD is 49.39 birr. The country is met with plenty of exchange rate issues due to the shortage of USD. Because of this, companies turn to other sources besides banks to get USD. This has been illegal, however, as trading of hard currency with birr is only allowed through banks in Ethiopia.

The birr has also been getting cheaper throughout the years as it can be seen on the graph below.



(XE, 2022).

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