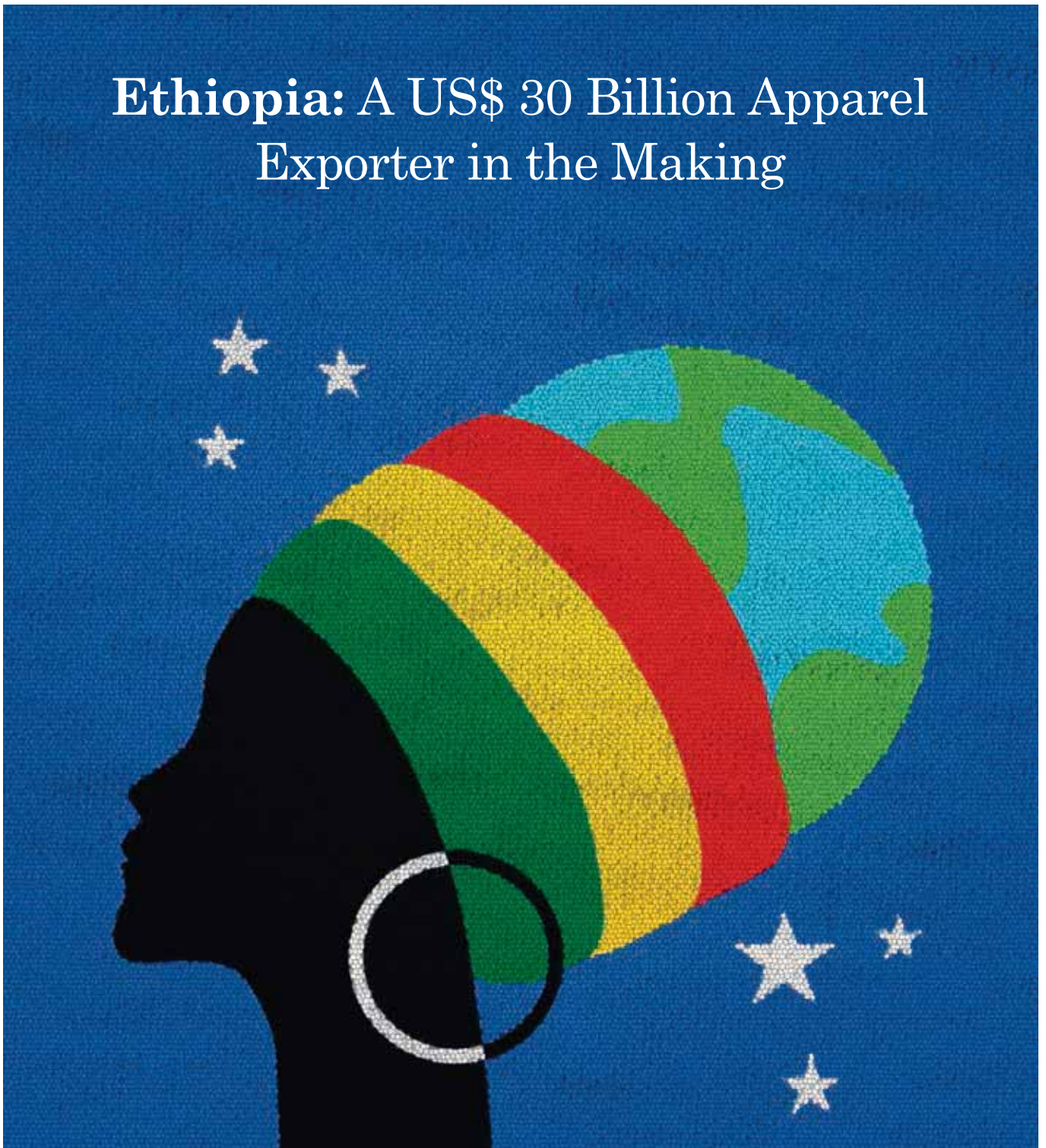


INSIGHTS | IDEAS | BREAKTHROUGH

The Edge

by **wazir**
ADVISORS

**Ethiopia: A US\$ 30 Billion Apparel
Exporter in the Making**





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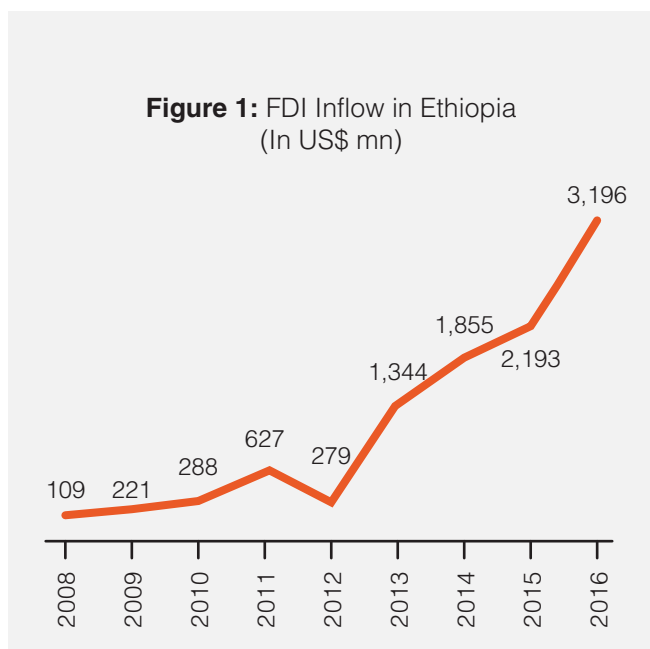
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Introduction: Ethiopia - The Making of a Multibillion Dollar Exporter

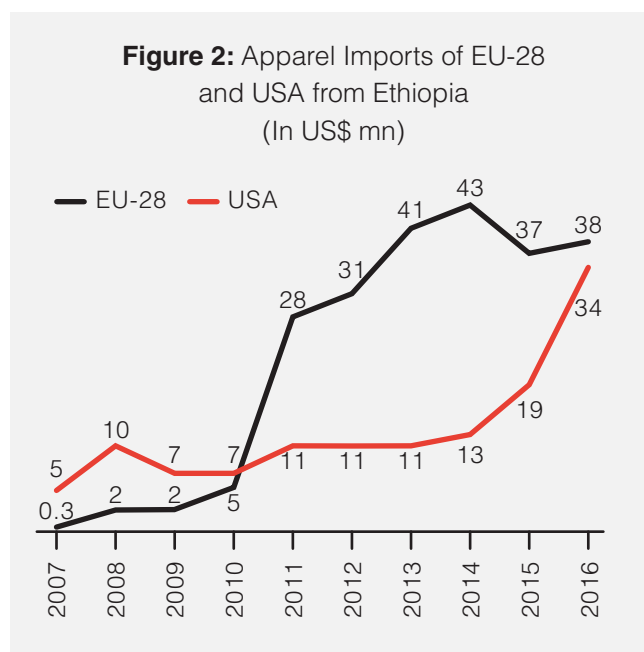
The latest buzzword in international textile and apparel investor circles today is Ethiopia. This North East African country with a population of around 100 million is rapidly attracting foreign direct investment (FDI) in textile and manufacturing sector. In the past few years, Ethiopia has emerged as one of the largest recipients of FDI among African nations. The FDI inflow in Ethiopia increased from around US\$100 mn in 2008 to more than US\$3 billion by 2016. The manufacturing industry has been a major attraction for FDI, considering the large workforce and low labour wages in the country.



Data Source: World Investment Report, UNCTAD

From 2014 onwards, textile, apparel and leather manufacturing sectors have attracted the maximum FDI. In 2014, globally, 20 projects were announced in the textile, apparel and leather sector with a combined value of more than \$2 billion. More than US\$1.8 billion of this investment (in 11 projects) went to Ethiopia. Most of the investment was from Chinese, Indian and other Asian countries. In 2015, and in 2016 again, apparel manufacturers from Bangladesh, China, India and Turkey, seeking alternative production bases for export to the USA and EU, announced large textile and apparel manufacturing projects in Ethiopia.

Ethiopia's textile and apparel exports have grown rapidly in the past few years. In 2007, Ethiopia's apparel exports were approx. US\$5 mn to the EU—28 countries and the USA combined—and which have increased to more than US\$70 mn in 2016. The base might be small but none of the other comparable exporting nations has registered such exponential growth rate.



Data Source: UN Comtrade and Eurostat (only for 2016 EU Imports)

Future Prospects

The investments announced between 2013 and 2016 are currently in various phases of implementation and their impact will be visible over the next few years. Even if textiles and apparel projects worth only 5% of this investment (i.e. US\$430 mn out of US\$8.6 bn) become operational by 2020, then using an average 1:2.5 capex to revenue ratio, the textile and apparel exports in 2020 can reach US\$1 bn. Though the estimates may appear high as per the current level of exports of US\$ 130 mn, but development of industrial parks coupled with FDI announcements in textile and apparel manufacturing strongly support the growth of exports in the recent future.

After reaching US\$1 bn exports, Ethiopia may be able to trace the path of Bangladesh and Vietnam, albeit at a faster rate. Bangladesh in-

creased its exports from US\$1 to 30 bn in a period of 26 years, which Vietnam did in a shorter period of 20 years.

This whitepaper, in subsequent sections, discusses why and how the above targets could be achieved. The document starts with coverage of

Table 1: Timeline of Achieving Key Exports Milestones by Bangladesh and Vietnam

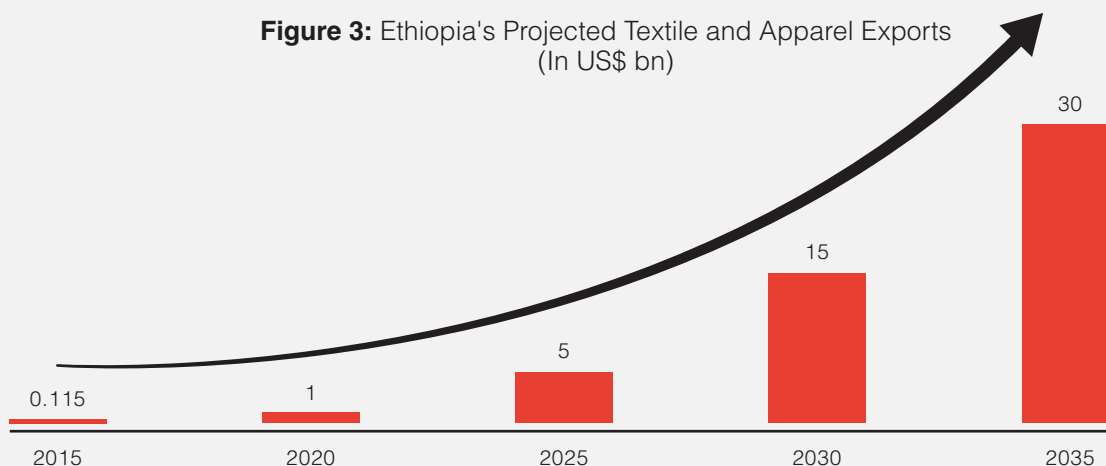
Exports milestone	Bangladesh			Vietnam		
	Achievement year	T&A exports (US\$ bn)	Years taken	Achievement year	T&A exports (US\$ bn)	Years taken
US\$ 1 bn	1990	1.1		1996	1.3	
US\$ 5 bn	2003	5.5	13	2005	5.3	9
US\$ 15 bn	2010	16.7	7	2011	16.8	6
US\$ 30 bn	2016	31.5	6	2016	30	5

Data Source: UN Comtrade

It is important to state here that Bangladesh had Duty Free, Quota Free (DFQF) access to EU while Vietnam only had 20% duty advantage in EU under GSP status. Ethiopia, however, has duty free access to the USA, EU and all other important markets. Beyond this, Ethiopia also boasts of low-factor costs, fast development of support infrastructure, stable economic and political environment and a strong political will to attract investment. With strong growth drivers in place, Ethiopia can exceed the performance of Bangladesh and Vietnam and can touch an export level of US\$30 bn by 2035.

the changing global trade landscape and Ethiopia's emergence as an export base. It then elaborates macro as well as industry-specific drivers, which can take Ethiopian textile and apparel industry on the path of high growth. Beyond describing the current status of the Ethiopian industry, its potential and key elements for attractiveness, this document more importantly deliberates on the strategic perspective for global textile and apparel companies to invest successfully in Ethiopia.

Figure 3: Ethiopia's Projected Textile and Apparel Exports (In US\$ bn)



Data Source: Wazir Estimates

The Edge

Changing Global Landscape: *Steady Demand; Shifting Manufacturing Bases*

Global Apparel Market

The global apparel consumption in 2016 is estimated to be US\$1.7 trillion, which formed around 2% of the world GDP of US\$73.5 trillion. EU-28 was the largest apparel consumer market worth US\$400 billion, which was followed by markets of the USA, China and Japan. These top four markets together constituted approximately 62% of the global apparel consumption. The next four largest markets were India, Brazil, Russia and Canada, accounting for an ad-

ditional 11% share while the rest of the world held a 28% share.

The apparel consumption is forecast to grow at a CAGR of 5% and reach US\$2.6 trillion by 2025. It is expected that the market growth rate of developed countries will slow down whereas large emerging economies will be the key drivers of growth. China and India, with a large population base, will be the fastest growing markets in the segment.

Table 2: Global Apparel Market Size (In US\$ bn)

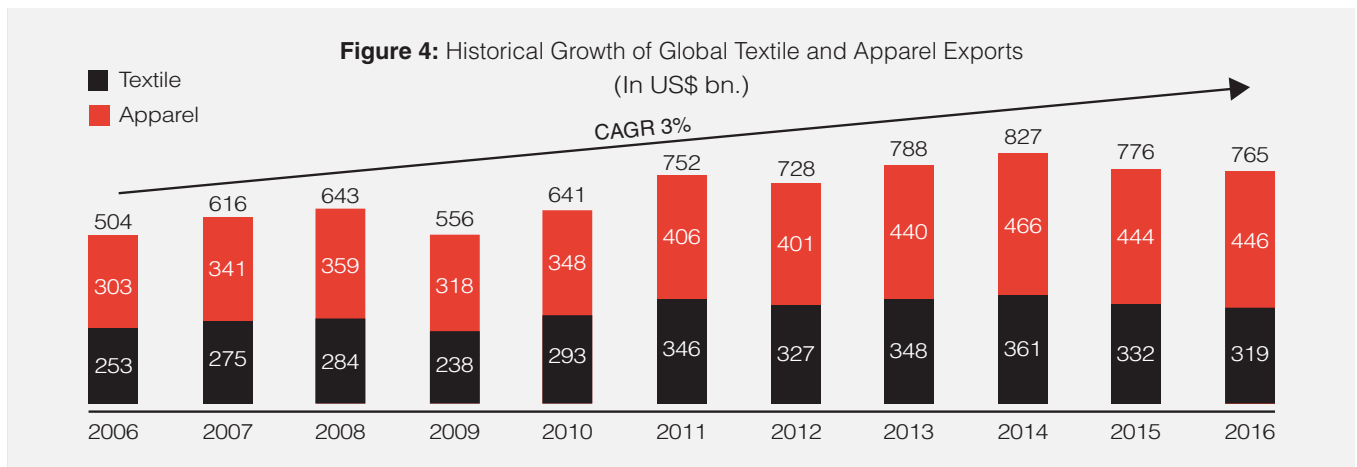
Country/region	Value 2016	Share 2016	Value 2025 (P)	Share 2025 (P)	CAGR
EU-28	397	24%	435	17%	1%
USA	326	19%	389	15%	2%
China	212	13%	500	19%	10%
Japan	99	6%	109	4%	1%
India	63	4%	180	7%	12%
Brazil	61	4%	94	4%	5%
Russia	25	1%	39	2%	5%
Canada	31	2%	37	1%	2%
RoW	470	28%	794	31%	6%
World	1,684		2,576		5%

Data Source: Wazir Analysis

Global Textile and Apparel Trade

Global textile and apparel trade in 2016 was US\$765 bn, which has been increasing at a CAGR of 3% since 2006.

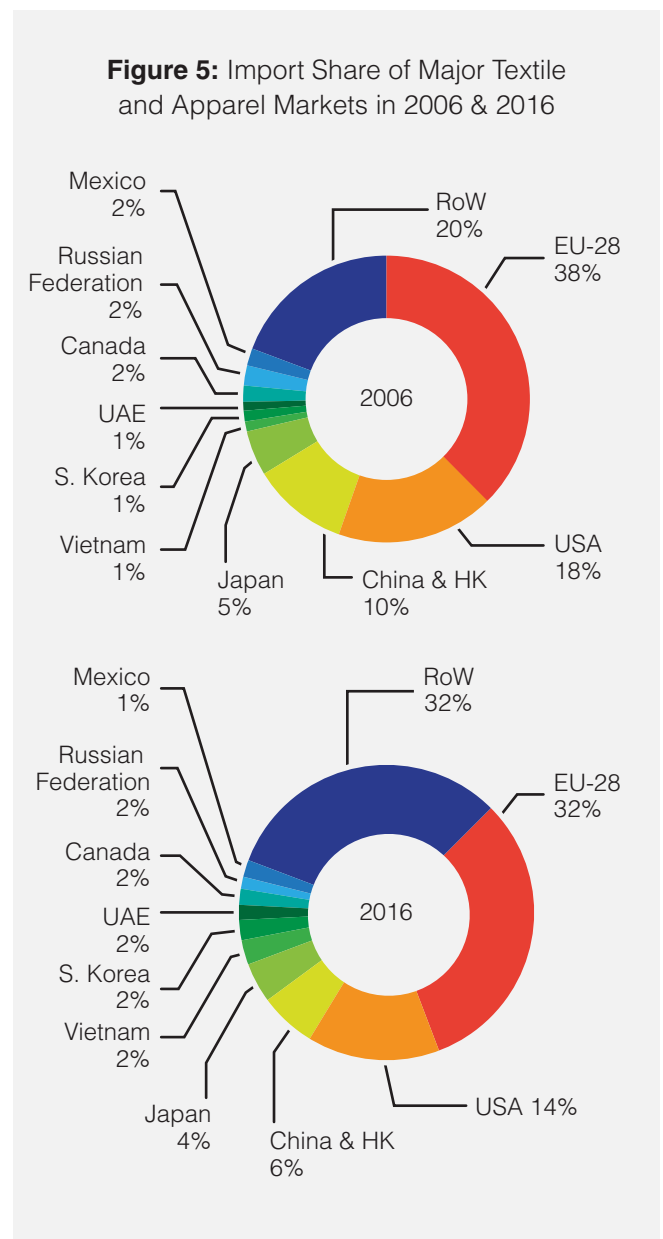
It is worthwhile to note that the share of the top 10 global markets has reduced from 80% in 2006 to 69% in 2016, which indicates faster growth of imports of new markets.



Data Source: UN Comtrade

Key Importers

EU-28 and the USA are the largest importing nations accounting for approx. 46% of global imports (approx. US\$352 bn). Vietnam and the UAE emerged as the fastest growing import markets from 2006 to 2016.



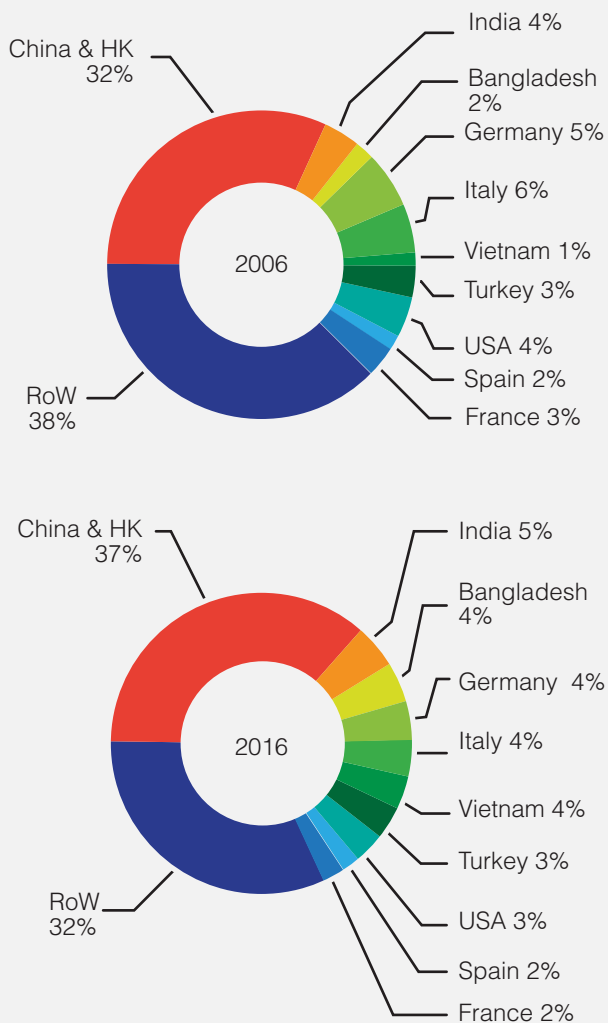
Data Source: UN Comtrade

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Key Exporters

China has remained the undisputed leader in the global textile and apparel exports. It accounted for around 37% share in global textile and apparel exports in 2016, which was substantially higher from the value of 32% in 2006. India maintained its second largest exporter position with 5% share, which has increased from 4% in 2006. India is followed by Bangladesh, Italy and Germany with 4% share each.

Figure 6: Export Share of Major Textile and Apparel Markets in 2006 & 2016



Data Source: UN Comtrade

Over the past decade, the share of the top 10 global textile and apparel exporters has increased from 62% in 2006 to 70% in 2016, which indicates that there has been a consolidation of global sourcing of textile and apparel products from these countries.



Relocation of Textile and Apparel Manufacturing

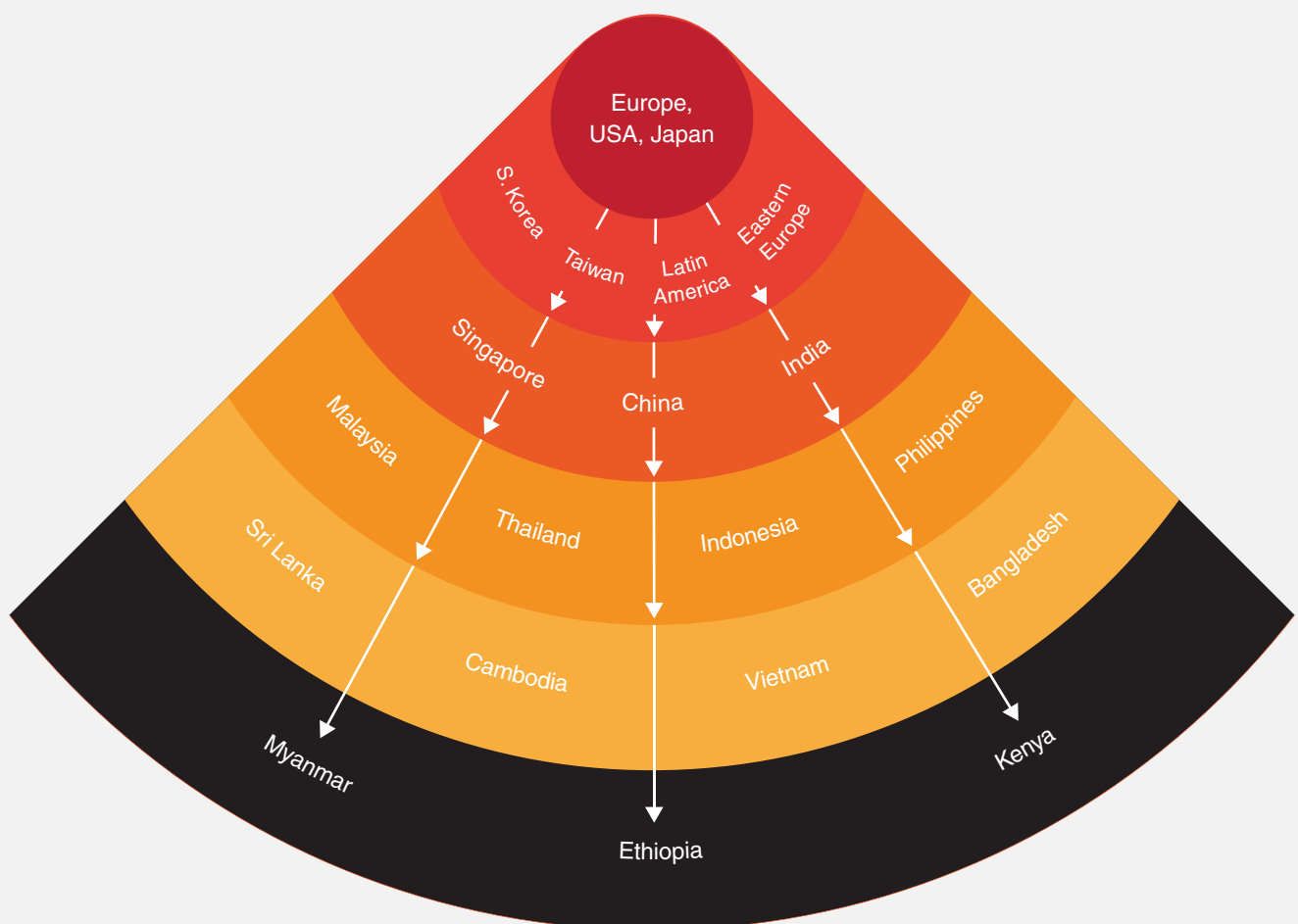
The global textile and apparel industry has seen a structural shift in terms of manufacturing locations. Earlier, the production was concentrated in major western countries but it has now shifted majorly to developing economies. In the past few decades, most of the manufacturing shifted to Asian countries such as China, India, Bangladesh, Vietnam, etc.

However, with increasing labour wages, high import duties and other concerns in a few Asian countries, the manufacturing base is expected

to shift towards other low-cost destinations, and Africa fits the bill as of now. African nations are strong contenders as they have the additional benefit of duty-free export to major markets, including the USA and EU.

Out of the key African countries involved in textile and apparel manufacturing, Ethiopia has garnered significant attention from global investors and buyers. The biggest competitive factors that Ethiopia holds in the region are its political stability and rapidly developing world-class infrastructure.

Figure 7: Migration of Textile and Apparel Manufacturing Industry over the Years



Ethiopia: An Emerging Challenger

Overview

The Federal Democratic Republic of Ethiopia, Africa's second most populated country, is one of the world's top 10 fastest growing economies. Since the fall of military regime in 1991, Ethiopia's economy has undergone an extensive transformation that has included market-opening economic reforms, privatization and development of trade & investment friendly environment. The World Bank's Global Economic Prospects Report (2017) forecasts Ethiopia to be the fastest growing among the sub-Saharan African countries. Addis Ababa, the capital and largest city in Ethiopia, is the seat of the African Union (AU), and the United Nations Economic Commission for Africa (ECA) and has more than 90 embassies and consulates.



Economy and Demographics

The Ethiopian economy is primarily based on agriculture, which contributed 36% to the GDP. Industry and service sector's contribution to Ethiopian GDP were 17 and 7%, respectively, in 2016. Major industries in Ethiopia are textiles, leather products, processed foods, construction, cement and hydroelectric power generation. Although Ethiopia's GDP is relatively smaller, the country has shown significant increase in the GDP in the past few years. The country's GDP at current prices increased at 17% CAGR from 2011 to 2016, owing to growth in the manufacturing and service sectors. It is further projected to reach US\$98.2 bn by 2020 at a CAGR of 9%.

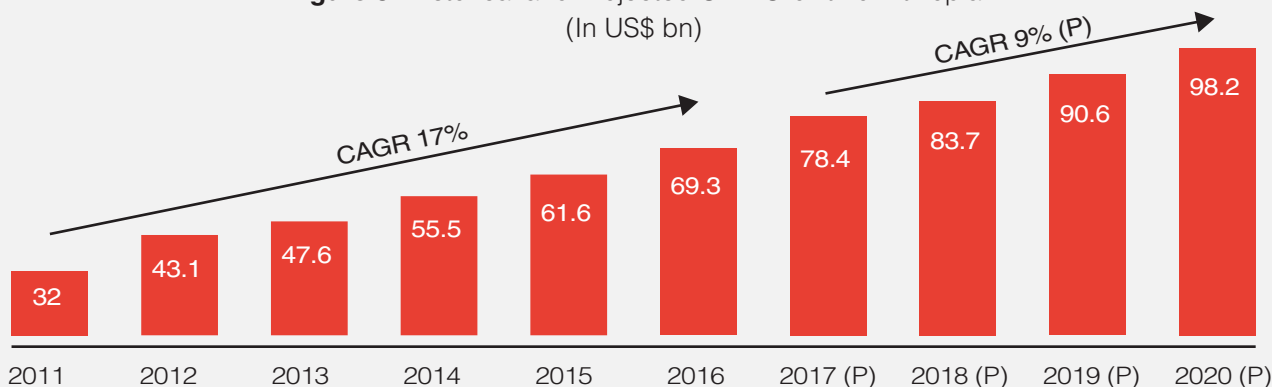
Table 3: Key Statistics of Ethiopia

S. No.	Parameter	Value
1.	Total area	1.14 mn. Km ²
2.	Inflation rate	7.7 %
3.	Population	102 mn.
4.	Median age	17.8 years
5.	Life expectancy at birth	62.2 years
6.	Urbanization	19.5 %
7.	Unemployment rate	17.5 %

Data Source: worldpopulationreview.com

Figure 8: Historical and Projected GDP Growth of Ethiopia

(In US\$ bn)



Data Source: World Economic Outlook, April 2017, IMF (GDP at current prices)

Ethiopia's population has grown from 33.5 million in 1983 to 102 million in 2016. The country has 55 million people in the working age. It has over 80 different ethnic groups whereas religion-wise Christians make up 63% of the country's population, Muslims 34% and the rest 3%. There are 90 individual languages spoken in Ethiopia but English is widely spoken and understood. Amharic is recognized as the official working language of the Federal Government, however, various regions of Ethiopia are free to determine their own working languages. Ethiopia has a large number of educational institutions and has educated working class with proficiency in English language.

Ethiopia's Attractiveness for Textiles and Apparel Manufacturing

Ethiopia is emerging as a major hub for textile and apparel manufacturing banking on the following factors:

Why to Invest in Ethiopia

Market Access

Improving Infrastructure

Manufacturing Cost Competitiveness

Govt. Support

Abundant Manpower

Political Stability

Growing Buyer And Investor Interest



- **Market Access**

Ethiopia has the advantage of duty-free access to major textile and apparel markets such as the USA and Europe because of special country status & different trade agreements as listed in Table 4.

US\$4 billion by two Chinese state-owned enterprises, the China Railway Group (CREC) and the China Civil Engineering Construction Corporation. These two companies have also formed a consortium to operate the railway for the first few years.

Table 4: Ethiopia Global and Regional Market Access

Market access under	Market	Remarks
African Growth and Opportunity Act (AGOA)	USA	Duty-free access to the US market with a third country fabric clause. As on date, AGOA is extended till 2025
Generalized System of Preferences (GSP) status	GSP: Everything-But-Arms (EBA) by the EU providing Ethiopia Duty Free Quota Free (DFQF) access to the EU member nations. GSP status by Australia, Belarus, Canada, Iceland, Japan, Kazakhstan, New Zealand, Norway, Russia, Switzerland and Turkey	Zero Duty Access
Common Market for Eastern and Southern Africa (COMESA)	Burundi, Kenya, The Union of the Comoros, The Democratic Republic of the Congo, Egypt, Djibouti, Eritrea, Libya, Sudan, Madagascar, Malawi, Mauritius, Rwanda, Swaziland, Uganda, Zambia, Seychelles and Zimbabwe	Zero Duty Access
Tripartite Free Trade Area (TFTA) (proposed)	Regional markets comprising of 26 countries, including The Republic of South Africa, a major regional market	A proposed African free trade agreement between the Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC) and East African Community (EAC)

Data Source: Published Resources and Wazir's Body of Knowledge

- **Improving Infrastructure**

The Ethiopian Government is heavily investing in developing infrastructure such as industrial parks, rail network, hydropower plants, etc. Ethiopia currently has a paved road network of 14,354 km with on-going construction of Super Express Highways to connect to Djibouti Port for faster and efficient movement. Djibouti Port has been recently extended to a new multipurpose port at Doraleh, which was inaugurated in May 2017.

Recently, 750-km Addis Ababa–Djibouti Railway line was started that links Addis Ababa with Djibouti port. The new line was built from 2011 to 2016 at a cost of

The railway has reduced cargo transit times from 3 days by road to 12 hours by train, from Addis to Djibouti.

Ethiopia has the second largest hydropower potential in Africa, and the country's installed electricity generating capacity is around 10,000 MW. The 1,870-megawatt capacity Gibe III is the latest of four large-scale Ethiopian dams built by the Government to supply electricity for domestic and industrial consumption and to produce surplus electricity to sell to neighbouring countries.

In addition to that, the Government is also investing in a massive telecom-infrastructure development project worth \$1.6 bn with Ethio Telecom. The project will

incorporate core networks, power supply and network backhaul, increase in transmission and fibre-optics capacity and will employ the latest technology to provide greater mobile service access in the region.

• **Manufacturing Cost Competitiveness**

Factor costs such as labour wages, power and water costs are much lower in Ethiopia than in Asian and other regional countries.

taxes levied on imports is granted to all capital goods and construction material and their spare parts (up to 15% of the value of the capital goods).

- Investors entitled to a duty-free privilege buying capital goods or construction materials from local manufacturing industries shall be refunded the customs duty paid for raw materials or components used

Table 5: Factory Costs in Ethiopia & Other Competing Nations

Cost element	Unit	Ethiopia	India	China	Bangladesh	Vietnam	Myanmar	Kenya
Labour cost	US\$ / month	60-80	160-180	550-600	100-110	170-190	130-180	125-150
Power cost	US\$ / kwh	0.02-0.03	0.10-0.12	0.15-0.16	0.09-0.12	0.08	0.09	0.09
Lending rate	%	9-9.5	11-12	5-6	13	6-7	13	16-18
Water cost	US Cents / m ³	30-40	18	57	20.5	50-80	13-16	150-180

Data source: Wazir Analysis, Industry Feedback

The labour cost in Ethiopia is approximately half of that in Bangladesh as seen in Table 5. In addition, the power cost in Ethiopia is one fifth of that in Bangladesh. These factors can help Ethiopia in replacing Bangladesh as a competitive apparel-manufacturing hub in the upcoming years.

• **Government Support**

The stated vision of the Ethiopian Government is to be a leading country in light manufacturing in Africa and lay foundation for heavy and high tech industries by 2025. As part of this vision, the Ethiopian Government is aggressively promoting investment in the industry by providing support in the following ways:

1. *Investment and Tax Incentives*

a) Custom Duties

- Hundred per cent exemption from the payment of customs duties and other

as inputs for the production of such goods.

b) Income Tax

- Tax holiday privileges between 6 to 8 years for 100% export-oriented units
- An income tax deduction of 30% for 3 consecutive years
- Exemption from the payment of income tax for additional 2 years for investors exporting more than 60% of the products

c) Others

- Allowed to import machinery and equipment necessary for investment projects through supplier’s credit
- Business enterprises that suffer losses during the income tax exemption period can carry forward such losses, following the expiry of the income tax exemption period, for half of the tax exemption period.

2. Export Incentives

- Duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods are drawn back 100% at the time of the export of the finished goods.
- Voucher scheme ensures that a voucher is utilized instead of taxes and duties payable on raw material imports.
- Exporters are allowed to retain and deposit in a bank account up to 20% of their foreign exchange earnings for future use in the operation of their enterprises and no export price control is imposed.
- Bonded factory and manufacturing warehouse schemes in which licensed producers are entitled to import raw materials duty free.
- Export credit guarantee scheme ensures that an exporter receives payment for goods shipped overseas in the event the customer defaults.

3. Remittance of Capital

Foreign investors are entitled to make the following remittance out of Ethiopia in convertible foreign currency:

- Profit and dividends
- Principals and interest payments on external loans
- Payments related to technology transfer agreements
- Proceeds from the sale or liquidation of an enterprise
- Compensation paid to an investor
- Proceeds from the sale or transfer of shares or partial ownership of an enterprise to a domestic investor

4. Industrial Parks

The Government of Ethiopia is developing industrial parks in different locations of Ethiopia to expand investment in textile and apparel sector. Ready to move-in sheds are available in these parks equipped with all-encompassing utilities and infrastructural facilities that fit international standards with safe and secure environment for workers.

Figure 9: Location of Industrial Parks in Ethiopia

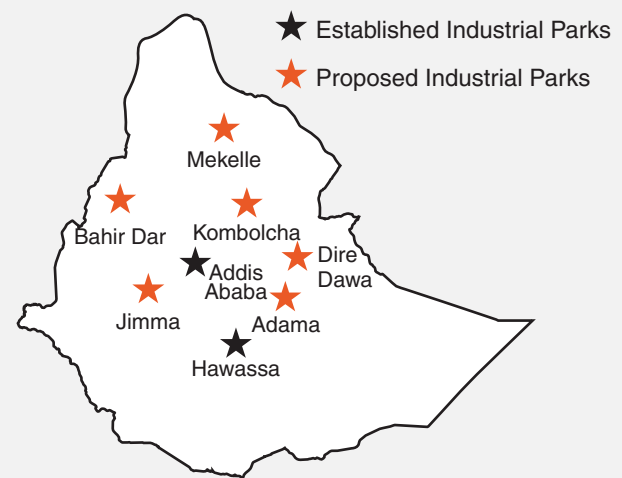


Table 6: Industrial Parks in Ethiopia

Park/location	Distance from Djibouti Port	Total Land (million m ²)	Focus industries
Addis Industrial Village (operational)	863 km	0.08	Apparel
Bole Lemi Industrial Park (phase I and II)	863 km	3.5	Apparel
Hawassa	998 km	1.4	Textile and apparel
Kilinto	863 km	2.8	Mixed
Dire Dawa	380 km	10	Textile and apparel, vehicles assembly and food processing
Kombolcha	480 km	10	Textile and apparel, food processing
Mekelle	750 km	10	Textile and apparel, food processing
Adama	678 km	10	Textile and apparel, vehicles assembly and food processing
Bahir Dar	985 km	10	Textile and apparel, food processing
Jimma	1,098 km	5	Textile and apparel, food processing

Data source: Industrial Parks Development Corporation, Ethiopia

5. *Abundant Human Resource*

Ethiopia has abundant supply of working population at more than 45 million, which includes the well-educated and skilled groups. There are over 33 government universities and a number of private universities and colleges. In addition to that, over 600 technical vocational centres provide industry-related skills. The educational establishments are further increasing as the Government is investing in capacity building through institutes such as Ethiopia Textile Industry Development Institute (ETIDI).

6. *Political Stability*

Political stability is a major consideration from an international investor's perspective and this is an area where Ethiopia scores far ahead in the region. The political environment in the country has been stable for a long time, which was also reflected in the 2012 peaceful transition of power to a new Prime Minister. Ethiopia ranks much better than most African countries with its low crime rate and corruption. According to the Global Peace Index Report, 2016 by

Institute of Economics and Peace, Ethiopia ranked 119th out of 162 countries worldwide. In comparison, other Sub-Saharan Africa countries were ranked much lower such as South Africa (126th), Kenya (131st), and Nigeria (149th).

7. *Growing Buyer and Investor Interest*

Ethiopia is becoming a major textile and apparel investment destination in the African region. Many international investors and buyers have shown their interest in investing in Ethiopia. PVH has already commenced production and exported its first shipment from its manufacturing facility located in Hawassa Industrial Park in May 2017. H&M has established office in the country and few other large buyers such as Inditex, VF, M&S, etc. have shown interest to start operations. Other major buyers sourcing from Ethiopia include Superior Uniform Group and Champro Group. Global investors such as Ayka Textiles from Turkey, Jiangsu Lianfa textile Co from China, DBL Group from Bangladesh & Arvind Ltd from India have invested in Ethiopia because of this growing buyer interest.

Ethiopian Textile and Apparel Sector: *Visible Green Shoots*

Overview

The cotton production in Ethiopia in 2016/17 stood at 45,000 MT with an area under cultivation of 82,000 hectares. According to government studies, Ethiopia reportedly has about 3.0 million hectares of land suitable for cotton farming. This is almost equal to that under cotton cultivation in Pakistan, the fourth largest global producer of cotton. However, only 3% of that is under actual cotton cultivation.

Cotton is produced in six regions in Ethiopia, with most production concentrated in the Rift Valley and western Amhara. Approx. 65% of the country's cotton comes from medium and large-scale commercial farms, which use both rain-fed and irrigated production systems.

The installed capacity and actual production of the textile and apparel sector in Ethiopia is shown in Table 7.



Table 7: Ethiopia's T&A Installed Capacities & Production

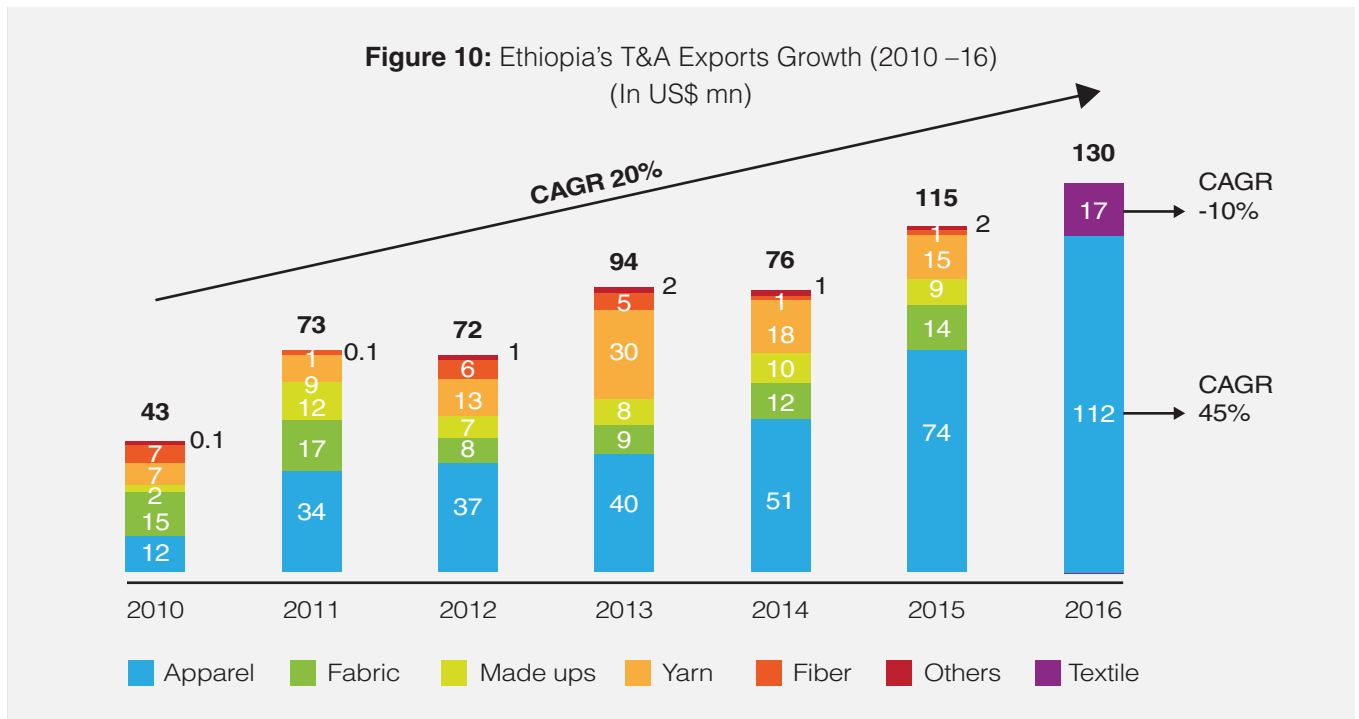
Commodity	Yarn	Woven fabrics	Knitted fabrics	Woven apparel	Knitted apparel
Unit	Mn kg	Mn m	Mn kg	Mn pcs	Mn pcs
Installed annual capacity	75	170	50	20	65
Production	53	85	23	12	40
Capacity utilization	70%	50%	45%	60%	60%

Data source: Ethiopian Investment Commission Presentation

Exports Scenario

Ethiopia's textile and apparel exports have shown a phenomenal increase from US\$43 million in 2010 to US\$130 million in 2016 increasing at a CAGR of 20%. Within that,

apparel exports have increased at a CAGR of 45% while exports of textiles have decreased at a CAGR of 10%.

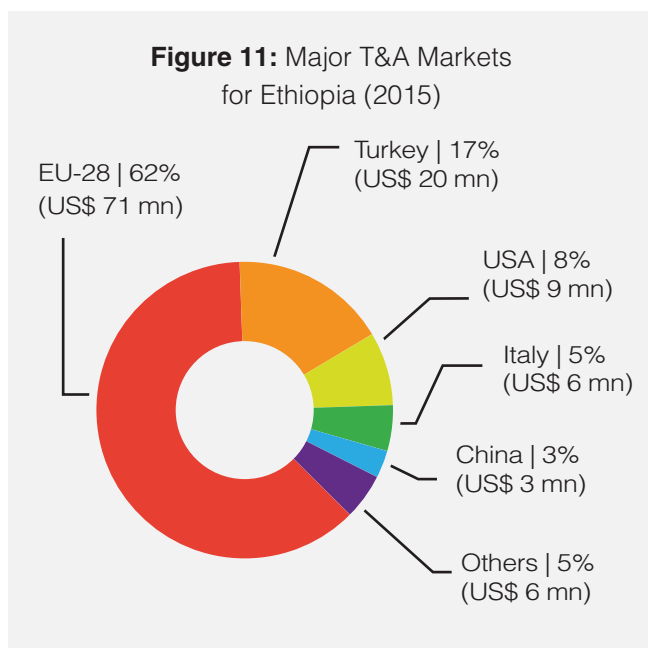


Data source: UN Comtrade

Major Markets

In 2015, EU-28 and Turkey were the top markets for Ethiopian goods with 62 and 17% share, respectively, followed by the USA with 8% share. In the past 5 years, the textile and apparel exports from Ethiopia to these markets

have increased significantly. EU-28 was the fastest growing market for Ethiopian textile and apparel products with a CAGR of 41% followed by the USA and China registering growth at a CAGR of 23 and 17%, respectively.



Data source: UN Comtrade

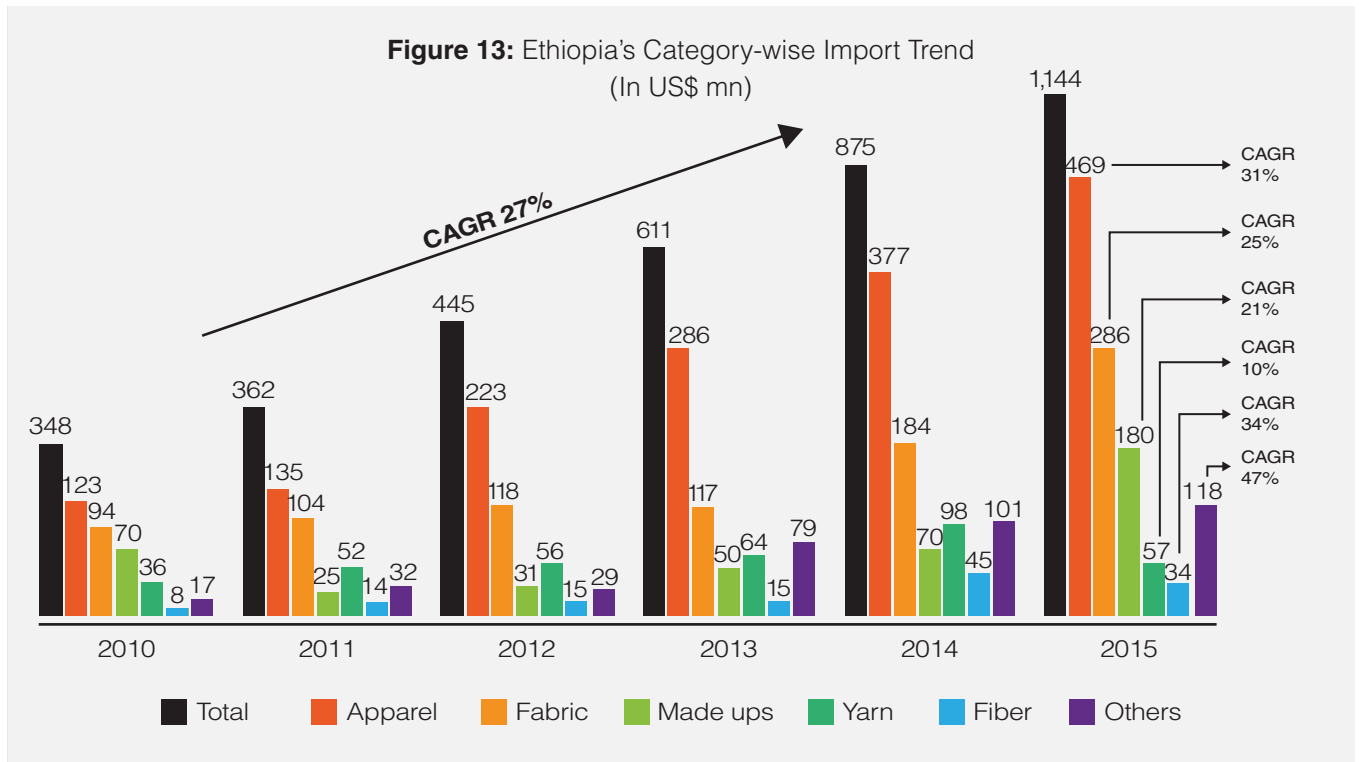


Data source: UN Comtrade

Imports Scenario

The total textile and apparel imports for the country in 2015 were US\$1,144 mn growing at a CAGR of 27% from its value of US\$349 mn in 2010. Imports have been significantly higher than exports because of the demand–supply gap. However, with increasing existing capacity and new investment in the industry, the margins between exports and imports are expected to decrease in the next few years.

Imports of apparel, fabric, fibre and yarn have shown a gradual increase over the years. Since 2010, apparel imports have increased at a CAGR of 31% while imports of fabrics, made-ups and yarn have increased at CAGR of 25, 21 and 10%, respectively.



Data source: UN Comtrade

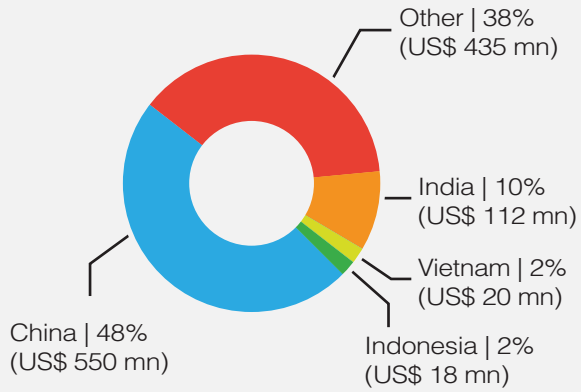


Major Suppliers

China was the biggest supplier of products to Ethiopia in 2015 with 48% share. Other important suppliers were India, Indonesia and Vietnam. India has turned out to be the fastest

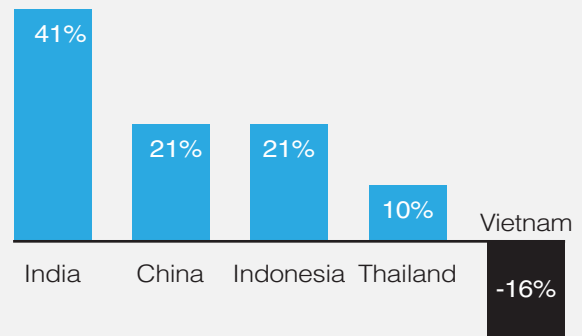
growing textile and apparel products supplier for Ethiopia. Since 2010, India's textile and apparel export to Ethiopia has increased at a CAGR of 41%, followed by China and Indonesia growing at 21% CAGR each.

Figure 14: Major T&A Suppliers to Ethiopia (2015)



Data source: UN Comtrade

Figure 15: Growth of T&A Imports from Major Suppliers (2010–15)



Data source: UN Comtrade



Recent / Planned Investments

Some of the major textile and apparel investments announced in Ethiopia are mentioned below:

Table 8: Major Textile and Apparel Investment Announced in Ethiopia

Country	Name of company	Year	Segment
Bangladesh	DBL group	2014	Integrated
Belgium	Ontex Group NV	2017	Non-woven
China	C & H Garments PLC	2013	Apparel
	Indochine International	2016	Apparel
	Jiangsu Lianfa Textile Co. Ltd	2014	Textile
	Nitton Apparels Manufacturing	2015	Apparel
	Shaoxing Mina Textile	2015	Integrated
	Wuxi Jinmao Co. Ltd	2016	Integrated
Hong kong	Epic Group	2016	Apparel
	Tal Apparel	2016	Apparel
India	Arvind Ltd	2015	Apparel
	Ashton Apparel Manufacturing	2014	Apparel
	Best Corporation Pvt Ltd	2015	Integrated
	Jay Jay Textiles PLC	2013	Apparel
	Kanoria Chemicals & Industries	2013	Textile
	Karle International Pvt Ltd	2014	Apparel
	Raymond	2015	Apparel
	Shri Vallabh Pittie Industries	2014	Textile
	Vestis Garment Production PLC	2014	Apparel
Indonesia	Busana Apparel Group	2016	Apparel
Korea	Shin TS Com	2014	Apparel
Sri Lanka	Hirdaramani Garment	2016	Apparel
	Isabella & Sarasavi Export Pvt Ltd	2016	Apparel
Taiwan	Everest Textile	2017	Integrated
	New Wide Enterprise	2014	Apparel
Turkey	Akper	2013	Integrated
	Ayka Textile	2010	Integrated
	Etur Textile	2012	Textile
UAE	Atraco Industrial Enterprises	2015	Apparel
	Velocity Clothing Inc.	2015	Apparel
UK	Hela Clothing Group	2016	Apparel

Data source: Industry Sources

Key Challenges

- **Lack of Skilled Manpower:**

Abundant young work force is available in the country for entry-level jobs but they need to be trained extensively to operate at international productivity standards. In addition, there is a lack of trained middle management as well. Developing skilled workforce at a much rapid pace has to become a priority area for Government to achieve growth targets.

- **Procedural Delays:**

Procedural delays pose a major challenge for businesses in Ethiopia. Most of the delays are due to the low efficiency and lengthy procedures of the administration in handling issues such as customs, tax procedures, clearances, cargo inspections, etc. However, the Government is taking required actions for improving ease-of-doing business in the country such as providing facility of custom clearance and inspections at industrial parks, saving time and procedural barriers for exporters.

- **Low Foreign Exchange Reserves:**

Ethiopia is short on its foreign exchange reserves. The major reasons for this shortage are Ethiopia's mega projects (in hydroelectric generation and rail transport) consuming a major portion of foreign exchange and country's widening trade balance. The situation would improve, however, with increasing exports from the country.

Investing In Ethiopia: A Strategic Perspective

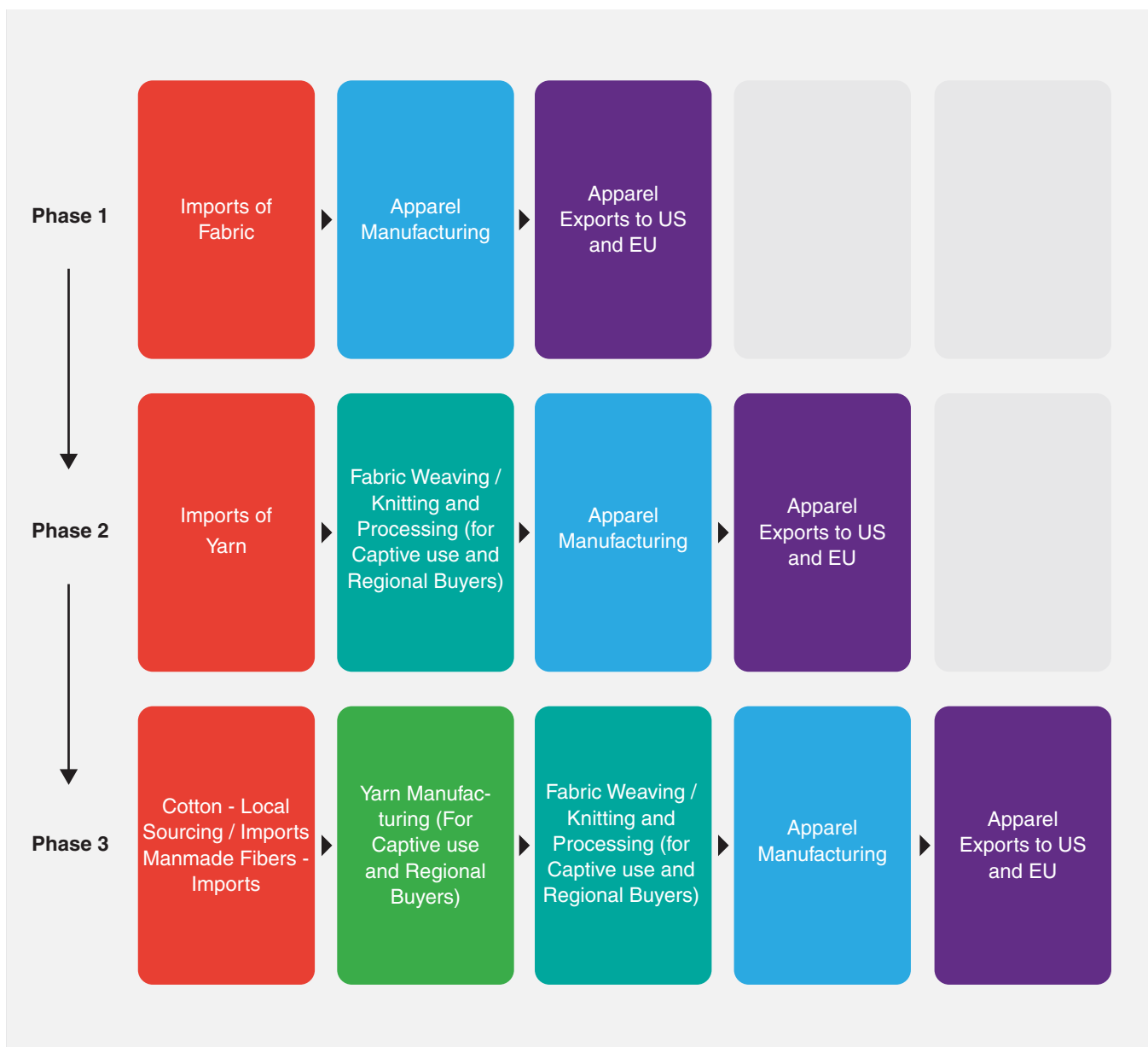
Ethiopian textile and apparel ecosystem throws up abundant opportunities, but not without its fair share of challenges. An international investor looking to establish and operate successful textile- and manufacturing operations in Ethiopia should contemplate the following key strategic elements:

A. Business Model

- The most attractive business opportunity in Ethiopia today is apparel manufacturing for markets of the USA and EU because of Ethiopia's duty-free access status to these

markets and low cost of manufacturing. For an investor from a country that does not have duty free access to USA and/or EU, Ethiopia provides a great platform to compensate and achieve global price competitiveness. The core investment strategy should be developed around this aspect.

- Considering the current landscape, an integrated yarn to apparel manufacturing set-up needs to be established in a phase-wise manner wherein the first phase investment should be apparel manufacturing and in subsequent phases, backward integration could be targeted.



- A new enterprise which does not have existing buyer linkages can target supplying to international buyers that are already sourcing from Ethiopia or contemplating the same such as H&M, Tesco, VF, Asda, M&S, etc. In the near future, brand presence is expected to increase in Ethiopia, which can enhance opportunities.

B. Location

- The best investment locations for apparel manufacturing in Ethiopia today are the Government industrial parks, which have been discussed earlier.
- These parks have superior logistical connectivity to the port and are going to be the hub for future growth. Ready to move in sheds in these industrial parks are available, which save construction time and cost. Since these sheds are currently available for lease at a reasonable cost, they are not only good value for money but also substantially reduce the business risks associated with owning property in foreign nations.

C. Pre-investment recce

- For an international investor, it is important to gain a comprehensive understanding of the country, its people, business climate, social, political and economic dynamics and assess its own fit. Beyond that, an investor can also expect the Government to provide support on a case-to-case basis depending on size of investment, employment generation and export. Investing in Ethiopia at this point of time will provide the early mover advantage to the companies, wherein they can coordinate with Government effectively. To that affect, businesses looking to invest in Ethiopia need to evaluate the opportunities in greater depth and assess their requirements carefully in the initial phase of their investment plans.

D. Success factors

- **Manpower training**

Companies will need to invest in training and skill development programs for the local workforce to effectively utilize the low-cost advantage. Employment of expatriate workforce should only be a stop-gap arrangement till the time local workforce is able to perform optimally.

- **Economies of Scale**

Variable factor costs such as labour wages in Ethiopia will increase over time. In next 5–10 years, the option left with companies to manage their per unit cost will be to keep the fixed cost per unit in control. This is possible by investing in large-scale, efficient facilities that can reap the benefits of economies of scale in future.

How can Wazir help?

Our direct presence in Ethiopia and vast experience of similar work in the textile and apparel manufacturing value chain across the globe can help the Client to invest in Ethiopia successfully.

Strategy Support

Choosing the right country and location for a particular sub-segment of textile and apparel manufacturing value chain needs careful assessment. We help potential investors do that assessment for Ethiopia and take decision by answering the following questions:

- *How to go about the investment?*

Entry strategy for a country which will cover the need for partnership; government support that may be taken for land, buildings and investments; success factors; business risks and mitigation strategy.

- *Where should the investment be done?*

Identification of location will depend on 3 Fs: Fact, Figures and Feelers. Prioritization of probable locations needs to be done based on a customized evaluation matrix, assigning weighted scores to each 'F' as per its importance.

- *How much investment is to be made?*

Assessment of the investment to be made along with the production capacities to be installed to provide maximum return for your investment.

- *What is the target product category?*

Investment attractiveness of location needs to be seen specific for the product(s) to be manufactured. For example, FTAs becomes important for some categories while cost of production for others.

Implementation Support

Wazir also provides assistance to Clients to implement its strategy. Wazir can provide complete implementation support to businesses looking to invest in Ethiopia for manufacturing textile, apparel or home textile including site analysis, architectural planning, machinery selection, negotiation & ordering, contractor finalization, construction monitoring and management, manpower planning, CXO level recruitment, machinery erection monitoring and management, establishing systems and operations, operator training and plant commissioning support.

About Wazir Advisors

We assist Clients in strategy formulation and implementation, forming alliances and joint ventures, investments, market understanding, sector analysis and due diligence, thereby providing end-to-end solutions spanning the complete business cycle in textile value chain.

Having worked with leading Indian and International companies, public sector organizations, Government departments, development agencies, trade bodies, etc., Wazir has a deep understanding of global textile sector dynamics and the right connect with the people who matter.

Wazir's team of textile experts possess experience across functions: projects, operations, sourcing and marketing in the sector. The team members have worked on strategy and implementation assignments in all major textile and apparel manufacturing and consumption bases across the globe.

Wazir leverages its body of knowledge, contacts and combined expertise of its team to deliver value to the Clients.

Our services span the entire breadth of textile manufacturing value chain: from fibre to finished goods.

We cover the following segments:

- Fibre and filaments
- Yarn
- Fabrics
- Apparels
- Made-ups
- Technical textiles
- Textile machinery and equipment
- Handlooms and handicrafts

1. STRATEGY

Wazir delivers practical, implementable strategies for clients to meet their objectives. We assist clients to conceptualize, evaluate and select business opportunities in the textile and apparel sector.

Be it corporate strategy intending to enhance profitability or new market opportunity identification or sector growth strategy to support MSMEs, we are geared to advise our clients efficiently and effectively.

- *Corporate Strategy*
- *Market Entry Strategy*
- *Location Analysis*
- *Benchmarking Study*
- *Business Performance Enhancement*
- *Sector Study*
- *Policy Formulation Support*
- *Government Scheme Evaluation*
- *Feasibility and Techno-Economic Viability (TEV) Study*
- *Corporate Social Responsibility (CSR)*

2. IMPLEMENTATION

Wazir provides implementation services to textile and apparel sector entities to convert the plans into reality. Wazir has the capability to execute every strategy that it recommends.

Whether it is to manage a Government scheme or to improve productivity in apparel factories or to identify the most suitable technology; we have in-house competence to cover all the critical elements of implementation.

- *Project Management and Monitoring*
- *Supply Chain Optimization*
- *Investment Promotion*
- *Build Operate Transfer (BOT)*
- *IT Services*

3. ALLIANCES

Partnerships and collaborations are ways to achieve accelerated growth, expand market reach and attain technical advancement. Realizing the importance and need of inter-organization alliances in textile and apparel sector, Wazir has developed broad range of services to support companies and organizations looking for inorganic growth globally.

- *Company Due-diligence*
- *Joint Venture*
- *Marketing Tie-up*
- *Technology Transfer*
- *M&A Execution*
- *Strategic and Financial Funding*



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