



Partnership Ready Ethiopia: Construction

Current situation

The construction sector in Ethiopia can be categorized into four segments. These are: Transport Infrastructure – Road Construction, Railway and Aviation, Sewage and Energy Projects, Real Estate and Industrial Parks. These segments of the construction sector form one of the fastest growing sectors of the Ethiopian economy.

In Ethiopia, the construction sector has registered remarkable growth in the last decade. Over the last 11 years there has been increased investment on the development and expansion of various infrastructure projects. The government of Ethiopia is immensely investing in mega social and economic infrastructure projects including power generation projects, industrial zones and parks, housing construction, water system and irrigation projects, roads and railways, airports and dry ports, telecommunication infrastructure, and sugar and fertilizer factories. 61% of the 2017/2018

country's budget was allocated to the expansion of economic infrastructure (railways, roads, telecom, power, irrigation) being critical towards achieving the country's Growth and Transformation Plan (GTP) II as it has set a vision of becoming a middle-income economy by 2025. An example of this development is the largest government housing projects in Africa since 2006. More than 32,000 housing units per year are being built, especially for the poorer population. The demand for housing is enormous, in Addis Ababa alone more than 750,000 inhabitants have registered for social housing – nationwide there are about 1.8 million people. This offers considerable opportunities for specialized German construction companies in residential construction. Especially in mechanical engineering, as well as in the areas of sanitary, wood and metal processing and implementation, insulation and lighting systems. Same goes for the Addis Ababa's master plan (and other Ethiopian cities) for restructuring and expanding – taking into account that expansion of the capital is an extremely political issue. Mid of February the allocation of the condominiums (social housing) led to demonstrations in several cities in Oromia.





In addition, up to 30 industrial parks – among those seven private – are operational, under construction or in the planning phase. The Bole International Airport is under expansion and a new airport will be built with annual capacity of 80 million passengers as well as an accompanying hotel in Bishoftu (48km southeast of the capital Addis Ababa). Further infrastructure measures embrace energy plants (hydro, wind, solar and geothermal), road construction and the expansion of the railway-network. According to the GTP II, the road projects were expected to reach 220,000 km in network across the country by 2020 but reached only 121,196 km by 2017. In this context, the Ethiopian Roads Authority awarded five local and five foreign firms with 10 road projects (724 km for 16.3 billion Birr) in December 2018.

More than 80% of the construction projects in Ethiopia run over budget and experience delays according to an article published by the International Research Journal of Engineering & Technology in March 2017. Lack of proper cost planning and monitoring during pre- and post-construction stages, improvements to standard drawings during the construction stage and design changes, inaccurate quantity take-off, fluctuations in the cost of building materials and lack of planning and coordination are the significant causes for project delays. This provides opportunities for qualified consultancies and project management companies for offering experienced and efficient services.

The wastewater sector offers another chance, both in consulting services and in the supply function, as the Ethiopian government is investing in improving and developing the country's sewage disposal system. Almost two thirds of the more than 100 million inhabitants have access to clean drinking water, but only 6% have access to a sewage system (10% in Addis Ababa). Another area of opportunity is the export of construction materials to Ethiopia. Presently, Ethiopia has no significant local manufacturing industry, therefore most materials and products are imported from countries such as China, Turkey and United Arab Emirates (UAE).

Legal Framework

All local and international construction companies active in Ethiopia have to be registered with the Ministry of Urban Development and Construction before undertaking any construction work in the country. International companies are also required to obtain investment permits from the Ethiopian Investment Commission. The Ethiopian construction sector is governed by several policies. The most important are the Ethiopian Building Proclamation 624/2009, Registration and Control of Construction Machinery, Building Regulation no. 243/2011 and the fourteen Ethiopian Building Code Standards, which detail construction standards regarding requirements for operation, system design, installation and implementation, inspection, handover as well as maintenance of corresponding construction facilities. Furthermore, they spell out in detail the quality and strength of materials to be used in construction.

The fourteen Ethiopian Building Code standards cover all aspects of single, two and multi-family construction, including structural and electrical elements, plumbing, heating, ventilation and air conditioning systems, energy conservation requirements and all components of the sector. A construction council, which manages the implementation of the code, oversees the construction sector and binds sector players to the uniform standards provided by the code. Unfortunately, however, buildings in Ethiopia continue to show significant deficits in materials and implementation, e.g. in fire bombardment systems, earthquake protection, etc. Corruption, health and safety issues also remain a concern.

To work as a contractor and participate in construction within Ethiopia, one needs to have a construction license from the Ministry of Urban Development and Construction. There are 10 grades which are categorized accordingly based on the construction cost of the project that the contractor is seeking to undertake. Foreign companies are only allowed to register in the 1st class category (Grade 1) of General, Building, Road and Special contractors. General contractors (GC 1–10) work any civil construction except water ones. Building contractors (BC 1–10) work in construction of buildings. Road contractors (RC 1–10) participate in road construction. Special contractors (SC 1–4) specialize in single areas of construction like foundation drilling. A company only registers as Grade 1 if the construction costs of their projects will be above 20 million Birr.



Large-scale, infrastructure and special projects are open to foreign contractors due to know-how and technological requirements for machinery and equipment. In contrast, Ethiopian law investment proclamation No. 849/2014 stipulates that foreign companies are not allowed to participate in investment areas exclusively reserved for the government and domestic investors. Therefore, complex construction projects, both public and private, are usually carried out by foreign construction companies or supported as local sub-contractors.

All investment relevant specification regarding investment in all sectors including the construction sector are outlined in Proclamation No. 270/2012 and No.849/2014. Investment in construction contracting (including water well and mineral exploration drilling), real estate development, architectural and engineering works, technical testing and analysis is not subject of any tax exemptions. Nevertheless, the import of construction materials is free of import tax in several investment areas if they are necessary for the establishment of a new enterprise or the expansion or upgrading of an existing enterprise. In addition, investments in the sectors (among others) cement, metals and engineering, renewable energy receive tax and duty incentives (as established in Investment Proclamation 769/2012). The proclamation No. 769/2012 on investment explains all relevant processes and requirements for investments in Ethiopia. Additionally, all minimum capital to be allocated depending on the investment are outlined. Any foreign investor is required to allocate a minimum capital of USD 200,000 for a single investment project, for a foreign investor investing jointly with a domestic investor the minimum capital of USD 150,000 is needed. The minimum capital required of a foreign investor investing in architectural or engineering works or related technical consultancy services, technical testing and analysis is USD 100,000 if the investment is made wholly on its own and USD 50,000 if the investment is made jointly with a domestic investor. A foreign investor re-investing his profits or dividends generated from his existing enterprise is not required to allocate a minimum capital.

Some of the common business operations for foreigners to establish are:

- **Private Limited Liability Company:** Is the preferred legal entity used by entrepreneurs up setting a business in Ethiopia. Requires at least one director and two shareholders who can either be individuals or legal entities. The director and shareholder can be of any nationality and must not be resident of Ethiopia.
- **Share Company:** Requires a minimum of five shareholders and three directors who can either be individuals or corporate bodies to be incorporated. The directors and shareholders can be of any nationality and must not be resident in Ethiopia.
- **The Ethiopian commercial law** allows foreign companies looking to establish business in Ethiopia to open branch offices in the country. The branch must seek approval from the Ethiopian Investment Commission before commencing operations in Ethiopia. At least one director of any nationality must be appointed to be the legal representative of the branch office in Ethiopia.

The Ethiopia Ministry of Trade recently introduced mandatory testing and verification according to 124 Compulsory Ethiopian Standards (CES). This list of 124 compulsory standards and regulated products embrace measurement equipment and construction materials (such as steel, concrete, cement). Exporters who ship to Ethiopia, require a certificate of conformity, which should be acquired pre-shipment and importers will be required to present the original document to Ethiopian customs for clearance. An electronic copy will be held by the authority for authentication if and when needed. While in the past the role of the private sector was limited to contractor, the Ethiopian government is in the process of opening the economy. This now allows participation of the private sector in PPP-models for infrastructure projects. As of July 2017, a PPP-law was enacted and last year a PPP-unit was established for approving and managing PPP-projects from government-side. The energy sector will be the first sector where PPP-models will be considered.

→ REGULATORY AUTHORITIES

PPP-unit (Ministry of Finance and Economic Cooperation): The Private Partnership proclamation No. 1076/2018 sets out the new PPP legislative framework with a view to promoting and implementing privately financed infrastructure projects by enhancing transparency, fairness, value for money and efficiency through the establishment of specific procedures. PPP-projects may be for either new or existing facilities and include design, financing, construction, rehabilitation, expansion, modernization, operation, maintenance, administration and/or management. The PPP-unit and the Board of the PPP-unit are responsible for approving the PPP-projects.



Ethiopian Investment Commission (EIC) is the primary government organ that serves as a nucleus for investment matters and is given the power and duty to promote, coordinate and enhance investment activities. It is one of the first stops for an investor wishing to apply for an Ethiopian business and investment license. As a national requirement, all business entities operating in Ethiopia must first be registered with the Ministry of Trade and obtain a tax identification number (TIN) from the Ethiopian Revenue and Customs Authority (ERCA). The institution also issues Custom Duty-Free permission letter. www.investethiopia.gov.et

Addis Ababa Construction Bureau has taken over the responsibility of managing all construction projects in the capital at the beginning of 2019. It is responsible for preparing bidding documents, announcing tenders, selecting contractors and consultants, clearing land and fulfilling infrastructure for any project that takes place within the city. Previously, the projects used to be managed by different offices under the City Administration using the supervision, consultancy and regulatory manpower of the Bureau. Currently, 200 projects are delayed for which 2 Billion Birr are allocated in this fiscal year under the responsibility of the Construction Bureau. In general, the construction sector consumes 75%–80% of the city's aggregate budget. The new procedure compels all the contractors and consultants in the city to register at the Bureau to participate in any kind of projects in the city.

Ethiopian Standards Agency has three core business areas which mainly focus on standard formulation, training and technical support and organizing and disseminating standards, conformity assessment procedures and technical regulation. www.ethiostandards.org

The Ministry of Works and Urban Development (MoWUD) is the lead agency entrusted with the responsibility of providing housing. The ministry is responsible for preparing the country's building code, issuing standards for design and construction works. It also ensures that buildings comply with the minimum requirements for design, safety, construction and quality of materials set down by the 14 Ethiopian Building Code Standards which detail the minimum requirements for design, constructions and quality of materials. In addition, the Ministry is responsible for the classification (grades 1 to 10, depending on size, expertise and financial means) for contractors. www.mudc.gov.et/web/guest

→ PARTICIPATION IN GOVERNMENT TENDERS OR BIDS

There are two types of government tenders, national and international. National tenders are restricted to local companies' while international tenders are open to all including foreign companies. Foreign companies that do not have a local office in the country should have a local agent to successfully bid on international tenders. It is advisable for foreign companies to carefully select their local partners based on a thorough due diligence investigation.

Due to lack of capacity within Ethiopia, State Owned Enterprises (SOE's) may seek bids from foreign companies to accomplish their procurement requirements subject to these thresholds; for works above 50 million Birr, for goods above 10 million Birr, for consultancy services above 2.5 million Birr and for other services above 7 million Birr.





International companies should be prepared to submit the following evidence to be considered eligible in a tender invitation bid:

- Business organization registration certificate or trade license issued by the country of establishment
- Professional and technical qualifications and competence to undertake the work/supply/service for which they are bidding
- Registration in the Public Procurement and Property Administration Agency supplier list
- Satisfactory financial capability and resources.
- Plus all other relevant documents as per the specific requirement on the bid documents.

Tenders are published in newspapers with a wide circulation (e.g. Ethiopian Herald, Capital Ethiopia, The Reporter) and are also published on the PPA's website (www.ppa.gov.et).

→ PROJECT FINANCING

Access to finance is a challenge for the Ethiopian local market. According to the National Bank of Ethiopia, there are currently 19 local banks and local private banks often require a large percentage as collateral, which must usually consist of cash, real estate or durable capital physically located in Ethiopia. Foreign banking institutions with representative offices in Addis Ababa include the European Investment Bank and Germany's Commerzbank.

Many State-Owned Enterprises lack the capital to build infrastructure, and therefore prefer contractors that come with financial packages. As Chinese enterprises come with the support of policy-bank loans, they have a considerable advantage in winning international projects in Ethiopia that are in need of large-volume capital for infrastructure. For example, in 2006, the Chinese Development Bank (CDB) offered a USD 15 billion loan to Chinese telecommunication company ZTE to build a mobile network in Ethiopia. The bank's financial package allowed ZTE to acquire this contract and build the first mobile network in Ethiopia.

Capital for development finance comes from multiple sources, from multilateral financial institutions, such as the World Bank, the Asian Development Bank, the European Investment Bank, to name a few, or public financial agencies of particular countries, such as the China Development Bank and the KfW Development Bank.

The booming construction activities in Ethiopia have also led to the growth of the cement industry in the country. The Derba Midroc Cement project, a USD 350 million project, consists of a cement plant to develop the Derba-Muger limestone deposit. The plant was built by MIDROC Construction Ethiopia PLC, co-financing was provided by the European Investment Bank, the International Finance Corporation and the African Development Bank.

The European Investment Bank has also financed projects in crucial sectors such as water and sanitation, supported by the Water Resources Development Fund as well as three European partners that agreed to provide more than EUR 81 million for the project. This includes EUR 40 million from the European Investment Bank, EUR 20 million from the African Development Bank Group and EUR 15 million from Italian development cooperation. A further EUR 6.4 million in grant funding from the three partners complemented the loans.

The African Development Bank Group has also invested a loan of USD 42.89 million and a grant of USD 54.79 million to develop the Djibouti-Ethiopia Power Interconnection, co-financed with the Ethiopian Electric Power Corporation and the Ministry of Economy, Finance and Planning Electricité de Djibouti.

German business engagement in Ethiopia

ROCKSTONE is a real estate development and investment firm headquartered in Germany with offices in Berlin, Hamburg, Munich, Lisbon and Addis Ababa. The business segments include commercial as well as residential value-add and opportunistic real estate, projects generally have a total investment of EUR 20 – 60 million and ROCKSTONE currently has EUR 350 million under management. In 2018 ROCKSTONE entered Ethiopia with its first office in Africa and its first project there is a EUR 25 million condominium development in Addis Ababa.

MC-Bauchemie Müller GmbH und Co. KG with its Ethiopian subsidiary is one of the leading international construction chemical producers which locally produces in Ethiopia. For the last decade the well-trained staff has provided products and service for individuals and mega projects. The product range includes but is not limited to concrete admixtures, decorative plasters, tile adhesives, repair and flooring solutions.

**Ethiopian Building Code of Standards (EBCS)**

CODE	TITLE	DESCRIPTION
1	Basis of Designs and Actions on Structures	<ul style="list-style-type: none">• This Code establishes principles and requirements for safety and serviceability, describes the basis for design and verification and gives guidelines for related aspects of structural reliability.
2	Structural Use of Concrete	<ul style="list-style-type: none">• This Code applies to the design of buildings and civil engineering works in plain, reinforced and pre-stressed concrete made with normal weight aggregates.• It is only concerned with requirements for resistance, serviceability and durability (not covered: thermal or sound insulation).• Construction is covered to the extent that is necessary to indicate the quality of construction materials and products as well as the standard of workmanship.
3	Design of Steel Structures	<ul style="list-style-type: none">• This Code applies to the design of buildings and civil engineering works in steel.• It is only concerned with requirements for resistance, serviceability and durability (not covered: thermal or sound insulation).• Construction is covered to the extent that is necessary to indicate the quality of construction materials and products as well as the standard of workmanship.
4	Design of Composite Steel and Concrete Structures	<ul style="list-style-type: none">• This Code applies to the design of composite structures and members, made from structural steel and reinforced or pre-stressed concrete connected together to resist loads, for buildings and civil engineering works.• It is only concerned with requirements for resistance, serviceability and durability (not covered: thermal or sound insulation).• Execution is covered (reference to EBCS 2 – Structural Use of Concrete and EBCS 3 – Design of Steel Structures) indicating quality of construction materials and products and standard of workmanship.
5	Utilization of Timber	<ul style="list-style-type: none">• This Code includes specifications concerning the utilization of timber about the following aspects: Milled Products and Sawn Boards; Wood Testing Methods; Stress-, Visual- and Mechanical Grading of Hard- and Softwoods; Wood Frames; Timber Floor Framing and Flooring; Timber Wall Framing; Timber Roof Framing; Timber Doors and Windows including Frames and Linings; Plywood Construction and Structural Timbers and Glue-laminated Members; Wood Flooring Blocks; Scaffold Planks; Timber Fastener and Connectors.
6	Masonry	<ul style="list-style-type: none">• This Code includes specifications concerning masonry about the following aspects: Materials for Masonry Construction; Masonry Construction; General Design Principles of Masonry Wall; General Requirements for Structural Design; Design of Unreinforced Masonry; Design of Reinforced Masonry; Design for Fire Resistance; Workmanship and Site Control.
7	Foundations	<ul style="list-style-type: none">• This Code applies to geotechnical aspects of the design of buildings and civil engineering works.• It covers requirements for strength, stability, serviceability and durability of structures.• It gives rules to calculate actions originating from the ground, such as earth pressures.• Rules related to execution are covered, indicating the quality of construction materials and standard of workmanship• This Code shall be used in conjunction with EBCS 1 – Basis of Designs and Actions on Structures
8	Design of Structures for Earthquake Resistance	<ul style="list-style-type: none">• This Code provides rules for seismic design, completing or adapting the rules of the previous Code (EBCS 7 - Foundations).
9	Plumbing Services of Buildings	<ul style="list-style-type: none">• This Standard lays down requirements for and gives recommendations on the design, installation, testing, and maintenance of plumbing fixtures, water supply for domestic and fire-fighting systems, drainage and venting of disposal systems for water born domestic waste, and storm-water drainage on the premises.
10	Electrical Installation of Buildings	<ul style="list-style-type: none">• This Code applies to the design, selection, erection, inspection and testing of electrical installations for residential, commercial, public and industrial premises, including prefabricated buildings, construction sites, exhibitions, fairs and other temporary installations up to and including 1000.0V a.c. or 1500.0V d.c.• This Code does not apply to: electric traction equipment; electrical equipment of automobiles, -on board ships, -in aircrafts; public street-lighting installations; installations in mines, radio interference suppression equipment (except s it affects safety of the installation); fixed wiring for telecommunication and signaling and control and the like; internal wiring of apparatus; systems for distribution of energy to the public or power generation and transmission for such systems.



11 Ventilation and Air Conditioning of Buildings	<ul style="list-style-type: none"> This Code specifies requirements for and gives recommendations on the design, installation, testing and maintenance of ventilation and air conditioning systems.
12 Fire Precautions during Building Construction Design, Works and Use	<ul style="list-style-type: none"> This Code covers Fire precautions bases during building design services, works and uses; Fire safety and means of escape; Fire safety and construction details; Fire related ancillary engineering services; Fire, smoke and heat transmission, detection and control system; Firefighting system and Fire safety and firefighting management.
13 Health and Safety	<ul style="list-style-type: none"> This Code applies, to Building Construction, Maintenance, Renovation, Demolishing and other associated activities to all Classes of Buildings stated in Ethiopian Building Proclamation. This Code covers the Health and Safety precautions for the most common construction activities. If a building construction involves special method/s of construction, the builder needs to come up with the associated Health and Safety precautionary measures for such method/s. The occupational health and safety requirements specified in this document are only the minimum requirements. Other equivalent or better approaches are also acceptable if proven.

Development cooperation in the construction sector

The Federal Ministry of Economy Cooperation and Development (BMZ) has commissioned Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to implement the Sustainable Training and Education Programme (STEP) which focuses on providing special training in the construction sector:

- **Vocational:** A cooperative training model is in development, focusing on hotel maintenance, i.e. electrical, plumbing and furniture installations, with the main cooperation partner being Bahir Dar Polytechnic College.
- **Short-term:** The Graduates Anchoring Program (GAP) aims at bridging the skills gap of TVET and higher-education graduates in the field of electrical installations, plumbing, finishing and soft skills. The program will train 380 trainees in four 3-month cohorts and consists of on-the-job training in host companies and theory inputs to improve their employability on construction sites. GAP is implemented in cooperation with the Construction Contractors Association of Ethiopia (CCA) and the Addis Ababa Construction Bureau. Another short-term training focuses on increasing institutional capacity to support micro, small and medium enterprises by providing know-how in financial, organizational and project management as well as in sector-specific areas.
- **Industry-wide:** In order to complement the existing cooperative training and to enhance workers' qualifications in the construction sector, tailored and job-specific courses are offered in cooperation with CCA.



Sources and useful links:

- Ethiopian Building Proclamation 624/2009
www.fsc.gov.et/Negarits/GetPdf/123
- Registration and Control of Construction Machinery
www.fsc.gov.et
- Building Regulation no. 243/2011
www.ethioconstruction.net
- Investment proclamation no. 849/2014
www.addischamber.com/investment-proclamation-and-regulation
- Investment Proclamation 769/2012
www.mot.gov.et
- The Ministry of Works and Urban Development (MoWUD)
www.mudc.gov.et/web/guest
- Invest Ethiopia
www.investethiopia.gov.et
- Ethiopian Standards Agency
www.ethiostandards.org



YOUR PARTNER FOR DEVELOPMENT COOPERATION

Economic growth creates jobs, improves people's incomes, and promotes innovation. That is why the United Nations 2030 Agenda provides for the active involvement of the private sector in the implementation of the Sustainable Development Goals (SDGs). The Global Business Network (GBN) Programme encourages local and German companies to get involved in sustainable economic development in selected countries in Africa and Asia. Via Business & Cooperation Desks the GBN-Coordination provide information, advice and guidance for businesses on existing support, financing and cooperation instruments of German development cooperation. The GBN-Coordination work closely with the German Chamber of Commerce Abroad (AHK) regional offices. The GBN is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

www.bmz.de/gbn



NEW MARKETS – NEW OPPORTUNITIES: ETHIOPIA

In order to support the sustainable engagement of German companies in emerging and developing countries, Germany Trade & Invest (GTAI), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the German Chambers of Commerce Abroad (AHKs) as well as other partners combined their expertise in the publication series “New Markets – New Opportunities”.

The booklet shows companies the economic potential of future markets as well as the funding and consulting opportunities offered by the German development cooperation. “New Markets – New Opportunities: A Guide for German Companies” is supported by the Federal Ministry for Economic Cooperation and Development (BMZ). All issues are published on the websites of GTAI and GIZ. You can find selected issues, for example on Ethiopia also at

www.bmz.de/ez-scouts



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