From Geo/Bio-Politics to G2G Agreements and Public–Private Partnership: the Unique Role of the Israeli Eco-System in Ethiopia

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List of Abbreviations

AEC	African Economic Community
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
B2B	Business-to-Business
DB	Doing Business
ECA	Export Credit Agency
ECX	Ethiopian Commodity Exchange
EDC	Education Development Centre
EFI	Economic Freedom Index
FDI	Foreign Direct Investment
G2G	Government-to-Government
GDP	Gross Domestic Product
IEI	Israel Export Institute
KOICA	Korea International Cooperation Agency
MINT	Ministry of Innovation and Technology
NALA	NTD Advocacy, Learning, Action
NGO	Non-Governmental Organization
SDG	Sustainable Development Goal
SNC	Start-up Nation Central
UNCTAD	United Nations Conference on Trade and Development
UDDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNECE	United Nations Economic Commission for Europe
WB	World Bank Group
WHO	World Health Organization

Introduction

Israeli–Ethiopian relations were first established in 1956. Israel has traditionally regarded Ethiopia as an important country, both politically and geo-strategically. The relationship has been characterized by the dominance of the state. The first instance of this dominance was the involvement of both governments in the massive waves of immigration of Ethiopian Jewry to Israel. Second, since the early 1990s, the role of the state was manifested in Israel's geopolitical strategic interest in the region and in the regimes surrounding Ethiopia, and in Ethiopia's interest in Israel in the framework of its own accelerated development track.
The state-led initiatives resulted in political alliance and institutionalized economic collaboration, mainly in the fields of technology and agriculture. However, real progress in the relationship has been made outside the formal governmental framework, through private-sector players on both sides that have been establishing intensified links and exchanges in mid-tech fields such as agriculture, infrastructure, healthcare, water tech, heavy industry, and communication. Furthermore, since both states share similar political–economic features—strong ties between the state and the market, with the wide control of the former and the ascent of the latter—this relationship is designed, to a large extent, by tight Private–Public Partnership (PPP).

Today, Ethiopia is a key country in the Israeli relationship with the continent, both politically and economically. A government decision during 2014–16 emphasized the need to strengthen the relationship between Israel and Africa by reinforcing diplomatic ties, expanding commercial partnerships, and diversifying market collaboration. Nevertheless, the relationship between Israel and Ethiopia, specifically the linkages between the public and the private sectors, though increasingly covered in the media and in government and business reviews, is yet to be covered in the academic arena; nor have these linkages been analyzed through a comprehensive, in-depth, and versatile political–economic prism. As a result, key issues that will determine the nature of this relationship in the future, such as the Ethiopian central developmental channels concerning Israeli competence, internal economic conflicts on both sides that could affect trade relations, and political–economic challenges that shape power structures, are dealt with in a rather contingent and random fashion or remain unaddressed. Since this relationship has proved fruitful and is strategically important to both parties, in the public as well as the private spheres, the research aims to analyze it and provide tools for long-standing and sustainable national policy.

In the past decade, we witnessed a key variety of PPP strategies: there was a global emergence of impact investments, aimed to promote measurable positive social and environmental externalities along with financial returns. Indeed, the African continent, and Ethiopia in particular, seems to offer among the most exciting and largely untapped impact investment opportunities. Impact investments across the region can potentially deliver a "change for Good," which could help to overcome regional conflicts, create positive economic and social spillovers for the people, and generate financial returns for private actors. In the context of the Israeli entrepreneurship and innovation ecosystem, as well as the heightened debate on the critical importance of impact investment in current times, the region offers optimal grounds for such collaboration. Nonetheless, the Israeli impact ecosystem is reluctant to penetrate Ethiopia and collaborate with local companies there, and the potential is far from being fulfilled. One of the key reasons is the fear of the unknown, combined with a lack of success stories to draw inspiration. The impact field in general and the Israeli role in it, in particular, have not been investigated sufficiently in academic scholarship. We find important business reports of international organizations, global agencies, and governmental offices, but there is no "one source of truth" to provide a more concrete review that can be translated into operational terms.

The purpose of this study is to create an initial knowledge platform on that subject, delineating the main collaboration channels, identifying the key players, mapping the opportunities as well as the hurdles, and suggesting prospective routes of collaboration in the impact trajectory between the Israeli impact ecosystem and the Ethiopian arena. We hope that this would enhance Israeli presence in Africa, develop business channels between the states and the designated sectors, and result in tighter political–economic ties.

Thus, the contribution of the study is three-fold. First, the study aims to advance and deepen the activity of the Israeli impact ecosystem in developing states. Second, it offers a broad suggestion for a national policy, to be aligned with existing efforts of the Israeli government and expanding those efforts to include the active key players and effectively elevate their business endeavors. The research is thus designed to advance and deepen the institutionalized economic links that serve the strategic geopolitical and economic interests of both states, and to map the modalities through which private players could leverage the states' interests and be supported by them, thereby positioning Israel as a significant player in the impact global arena. Third, the research sheds light on the Israeli–Ethiopian community, which is a substantial anchor in broadening and enforcing the objectives of the Israeli impact ecosystem, thus strengthening social cohesion in Israel. This research forms part of a global effort—academic, political, and economic—to acknowledge the critical dimension of impact in business activities, envisaging routes of collaboration between established markets and developing states. Thus, it is aimed to strengthen the transition from "do no harm" to do good and be able to measure, evaluate, scale, and trickle down the effects of such activities. The Israeli impact innovative sphere is a qualified leader to progress this shift of paradigm.

The research is built of four chapters, combining four methodologies. The first chapter, titled *The Political Economy of Impact Investments: The Case of Africa and Ethiopia* is a literature review, investigating the nature of impact investments and their enablers, from an International Political Economy (IPE) perspective. It places the emphasis on New Institutional Economics (NIE) to analyze impact investments, specifically in Africa and Ethiopia. The second chapter, titled *Comparative Outlook of the Ethiopian Impact Arena*, uses a quantitative approach designed to provide a comparative picture of the Ethiopian economy with designated risks and opportunities for the Israeli impact ecosystem. Three main tools are used in this method:

- An analysis of integrated indices, built to investigate a uniform quantitative expression for a variety of influencing factors
- An analysis of statistical data, mainly macro-level assessment of data and reports issued by international and Israeli organizations
- A micro-level analysis of a selection of Israeli companies operating in Ethiopia and Africa in order to derive a concrete outlook

The third chapter, titled *Fieldwork: Main Findings*, involved extensive fieldwork, conducted in Israel, Ethiopia, and Switzerland, designed to delineate the main impact routes, industries and sectors, governmental support in collaborations, processes executed, and key players. For this purpose, 79 interviews were conducted with stakeholders from a plethora of impact domains, including NGOs, government, state institutions, international organizations, impact funds, impact companies, academies, and commercial, consulting, and entrepreneurship bodies.[1] The key questions posed were along the following lines of the activities in the African market: the key networks, communication channels, and position holders most relevant to the Israeli impact ecosystem; the main advantages and business benefits that the African market has to offer for the Israeli impact ecosystem; modes for evaluating profitability and sustainability for players active in Africa; sources employed to come up with these conclusions; the core needs and opportunities; the salient impediments; the current and prospective plans for governmental funding and assistance programs (national and international); and a comparative outlook with other developing economies.

The fourth chapter, titled The *Startup Eco-System in Ethiopia*, reviews the Ethiopian startup ecosystem to derive a data-driven optimization model. It draws on three key industries or sectors of analytics: health and medical, agriculture, and fin-tech. Using the data collected, built, and applying data processing methodologies, the chapter offers an optimization model for future collaboration between the Israeli ecosystem and the Ethiopian industry.

[1] We would like to express our immense gratitude for the people who took part in the research, for their substantial contribution, instructive insights, and generous collaboration and exchange. They have a key role in shaping the direction of this work.

Chapter One: The Political Economy of Impact Investments: The Case of Africa and Ethiopia

1.1 Introduction

In the last few years, the majority of countries in the world registered devastating economic losses, suggesting that old fashion capitalism, based on high-level consumerism and profit-seeking investments per se, might not be the ultimate solution. It is no longer sustainable, and it does not provide sufficient outcomes in terms of economic returns that justify the negative externalities created in terms of social impact and local development. The need for socially and environmentally impactful investments, alongside economic gains, has become evident if long-lasting growth is to be achieved.

In 2015, the UN's Sustainable Development Goals (SDGs) set the bar high for future global economic development. The Sustainable Development Goals comprise 17 urgent calls for actions defined by the 2030 UN Agenda for Sustainable Development and adopted by all United Nations (UN) Member States in a global partnership, to improve human conditions at 360° degrees, from health to climate change, from equality to socio-economic conditions.[2] Yet, the Covid-19 pandemic and the Ukrainian conflict, in conjunction with the consequent energy crisis, are having negative ramifications on the global economy, making it even more challenging to end poverty, address climate change and create a better, fairer world by 2030 as demanded by the UN.

As reported by the International Monetary Fund's (IMF) statistics, the world's Gross Domestic Product (GDP) collapsed by 3.3% in 2020, with only China growing by 2.2%. In line with other emerging markets and developing economies, Africa lost around 2%. To date, global growth is projected to slow, even more, passing from 6.1% registered in 2021 to an estimated 3.6% in 2022 and 2023.[3] While GDP in Africa grew by 6.9 % in 2021, in Ethiopia, the civil war, together with the Covid-19 pandemic, resulted in the economic growth

2 United Nations, 2015, Transforming our world: the 2030 Agenda for Sustainable Development, https://sdgs.un.org/2030agenda
[3] IMF Statistics about world GDP can be found here: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD.

decelerating to 5.6% in 2021 from 6.1% in 2020 and it is projected to fall to 4.8% in 2022.[4] In addition to the Covid-19 pandemic, the Russia-Ukrainian conflict is set to decelerate African economic growth to 4.1% in 2022, pushing 1.8 million people across the African continent into extreme poverty.[5]

Against this backdrop, this chapter aims to investigate the nature of impact investments and their potential role in boosting new forms of economic development, with a specific focus on Africa and Ethiopia. Impact investing is primarily undertaken for financial return. However, it also aims to create tangible social impact rather than minimize negative externalities, as social investments do.[6] This type of investment appears to be particularly relevant to the African continent, and specifically to Ethiopia, which offers among the most exciting and largely untapped economic opportunities according to the Global Impact Investments Index.[7]

Impact investment is considered one of the most innovative and promising approaches in the field of economic responsibility and sustainable development. In general, impact investments are characterized by a combination of transformative changes in terms of positive social and environmental externalities and sound financial returns.[8] However, it is very difficult to find comprehensive literature on the nature of impact investments and their enablers. Authors such as Nicholls or Hehenberger underscore the mission of impact investments, while Höchstädter and Scheck as well as Brest and Born pay attention to the investments mechanisms. [9] However, limited research studies have attempted to assess the nature of

[4] African Development Bank, Ethiopia Economic Outlook, Available at https://www.afdb.org/en/countries/east-africa/ethiopia/ethiopia-economic-outlook
5 African Development Bank Group (2022), African Economic Outlook 2022, available at https://www.afdb.org/en/documents/african-economic-outlook-2022-highlights
[6] O'Donohoe, N., C. Leijonhufvud and Y. Saltuk (2010) 'Impact Investments: An Emerging Asset Class'. In *Global Research*, New York: J.P. Morgan; Clarkin, J. E. and Carole L. Cangioni (2015), *Impact Investing: A Primer and Review of the Literature*, Berlin: De Gruyter.
[7] Global Impact Investment Index (2020) 'Annual impact investments index', https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf.
[8] International Finance Corporation (2020) 'Creating impact—the promise of impact investing', https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/promise-of-impact-investing.; Clarkin, J. E. and L. Cangioni, C. (2015) 'Impact investing: a primer and review of the literature', *Entrepreneurship Research Journal*, 6(2): 135–173; Oleksiak, A., Nicholls, A. and Oleksiak, A., Nicholls, A. and Emerson, J (2015), "Impact investing: a market in evolution", In Nicholls, A., Paton, R. and Emerson, J. (Eds.) Social Finance, Oxford: Oxford University Press, pp. 207–249
[9] Nicholls, A (2010), The institutionalization of social investment: The interplay of investment logics and investor rationalities, Journal of Social Entrepreneurship 1, 70-100. 35
Hehenberger, L., Mair, J. and Metz, A (2019), The assembly of a field ideology: An idea-centric perspective on systemic power in impact investing, Academy of Management Journal 62, 1672-1704.

impact investments from a theoretical point of view, to then contextualize and identify key enablers for their success.

In this regard, the aim of this chapter is twofold. Through an international political-economic theoretical approach (IPE), it intends to define impact investments. First, IPE seems particularly well suited to delineate impact investments: by mixing political and economic elements, it assesses the reasons behind specific individual economic behaviors, going beyond the simple rational-choice assumption of neoclassical economics. Secondly, an IPE theoretical background will be then used as a loophole to filter the empirical findings in Africa and Ethiopia in particular. With a population in excess of 118 million, Ethiopia represents one of the largest single markets by population and seems to be the country where impact investments could be the most successful in terms of sustainable development and financial returns. Yet, Africa and Ethiopia are still far from achieving their full potential in terms of impact investments.

1.2 Impact Investments

Over the past few years, there have been several unprecedented calls to change the face of capitalism. The 17 Sustainable Development Goals (SDGs), adopted by the United Nations (UN) General Assembly meeting in 2015, are just the most recent example of the will to frame a global agenda for prioritizing areas of interventions and actions to promote sustainability across the globe in the next 15 years. According to the UN Sustainable Development Solutions Network (SDSN), to implement the SDGs, developing countries will require additional public and private investments, for a value of around 1.3 trillion USD. More specifically, countries in the African continent will need around 130-160 billion USD of external funding each year, as they will be unable to implement the investments needed with their domestic resources. While Official Development Assistance (ODA) flows are not expected to grow in the upcoming years, because of the war in Ukraine, traditional Foreign Direct Investments (FDIs) might not be enough in promoting more inclusive, equitable, sustainable, and resilient growth in Africa. All this makes a compelling case for boosting

Höchstädter, A. K., and Scheck B (2015), What's in a name: An analysis of impact investing understandings by academics and practitioners, Journal of Business Ethics 132, 449- 475
Brest, P., and Born, K (2013), When can impact investing create real impact?, Stanford Social Innovation Review 11, 22-31

impact investment mechanisms and solutions in Africa where investors can directly contribute to transformational development goals.

The term 'impact investing' was coined in 2007 by the Rockefeller Foundation.[10] Although impact investments increased in the 1960s, they have ancient roots. For example, Judaism, Christianity, and Islam all support the ethical conception of investing money for the good of societies at large. The first examples of investors adopting ethical parameters are provided by religious institutions with large endowments.[11] Yet, it was in the late 1960s that impact investments developed as a direct consequence of the numerous civil and peace movements that took place across the globe. At the time, a portion of business investments, the so-called Socially Responsible Investments began to limit the financial support to those industries or countries that were considered to be producing negative social and environmental externalities. In the 1990s, increasing awareness of the environment and social and governance risks, following the Chernobyl incident, raised investors' interests in proactively generating positive social and environmental outcomes.[12] Then, aside from the ethical reasons, crises such as the 2008 credit crunch intensified public and regulatory pressure on corporations and financial institutions to increase accountability on how their capital flows were managed. A recent example of such a trend can be found in the pressure put on multinational companies to close their instalments in Russia, after the country invaded Ukraine in February 2022. For the first time in the history of capitalism, an unprecedented number of companies decided to close or reduce their business in a specific geographical area not because it was not profitable, but because of social and political pressure to act according to a specific ethical path.

Thus, it can be inferred that moral and practical reasons have been facilitating the development of impact investments. Generally, impact investments are becoming quite popular as they overcome the moral dissatisfaction related to simple financial investments as well as the ineffectiveness of charitable models and the inefficiency of some public spending, at a time when economic, financial, and environmental crises are worsening social conditions

[10] Bugg-Levine, A. and Goldstein L (2009) 'Impact investing: harnessing capital markets to solve problems at scale', *Community Development Investment Review*, 5(2): 30–42.
[11] Sparkes, R. (2001) 'Ethical investment: whose ethics, which investment?', *Business Ethics: A European Review*, 10(3): 194–205; Camilleri, M. A. (2020) 'The market for socially responsible investing: a review of the developments', *Social Responsibility Journal*
[12] O'Donohoe and Saltuk, 2010.

all around the globe. Alongside financial return, impact investing now aims to become one of the fastest-growing and promising areas of innovative development finance, thus contributing to the achievement of social and environmental goals.[13] For this reason, impact investments are not only practiced in developing countries, but also in emerging and developed economies. Generally, impact investments are directed at social enterprises, which are companies that are for-profit, but have created a good or a service that provides significant social impact. Yet, these investments can also deal with microfinance projects, where the investor lends a small amount of money to an individual to finance and start his/her own business. [14] In the latter case, the gain of the investor is within the interest rate applied to its grant, which will be paid back by the business owner, Impact investments call for financial return as well as higher effectiveness in capital allocation for the provision of social services.[15]

However, as a market niche, impact investments have long lacked analytical tools. It was only in the mid-2000s that specific metrics and standards for impact investments were created. For instance, the Impact Reporting and Investment Standards (IRIS) initiative aims at enabling social entrepreneurs to quantify the success of their investments through clear, credible, and comparable data. [16] Since its creation in 2008, IRIS' goal has been to allow investors access to clear information through a panoply of standardized metrics and to measure the impact of their investments and navigate the economic systems. IRIS is free of charge as it is a publicly available resource managed by the Global Impact Investing Network (GIIN). Apart from IRIS, the Global Impact Investing Ratings System (GIIRS) was also designed to provide standards and a rating methodology for investors. GIIRS uses a specific impact assessment to deliver a comprehensive accounting of investments' portfolio's impact on workers, customers, communities, and the environment. It does so through interconnected analytics platforms to provide investors with a holistic picture of their funds. GIIRS builds a

[13] International Finance Corporation, 'Creating Impact'; Thornley, B., D. Wood, K. Grace, S. Sullivant (2011) Impact Investing: A Framework for Policy Design and Analysis Insight at Pacific Community Ventures & The Initiative for Responsible Investment, Harvard University.
[14] Calderini, M., V/ Chiodo, and F. V. Michelucci (2018) 'The social impact investment race: toward an interpretative framework', *European Business Review*
[15] Clarkin and Cangioni, *Impact Investing*.
[16] Achleitner, A. -K., W. Spiess-Knafl, A. Heinecke, M. Schoning and A. Noble (2011) *Social Investment Manual: An Introduction for Social Entrepreneurs*, Munich: Technische Universitat Munchen; Cahill, G. (2010) 'Primer on social innovation: a compendium of definitions developed by organizations around the world', *The Philanthropist*, 23(3): 259–272.

track record to define whether investments were successful or not in terms of impact, which allows investors to acquire more credibility within the international market. Moreover, it provides a benchmark and reports to compare investors' performances across 13,000 companies and 90 funds and amplifies investors' impacts by identifying the less effective investments and providing suggestions and recommendations on how to improve performances.

Certainly, the two systems for analytics can help private actors to amplify their reach and better achieve their goals. Yet, impact investments need to grow to achieve fundamental changes. According to the GIIN, 69% of the impact investors believe that the impact investing market is 'growing steadily', with 21% describing the market as 'about to take off'.[17] Against this backdrop, to boost impact investments around the globe and make more investors fully recognize their potential, there is a need for a structured and comprehensive understanding of the nature of impact investments and their enablers.

1.3 The Political Economy of Impact Investments

Any form of impact investment challenges traditional economic studies as it goes beyond a monistic understanding of value. The nature of economic value has been deeply analyzed by IPE studies. By focusing on the interplay of economics and politics in the world arena, this discipline aims to investigate human decision-making processes and their economic effects.[18] For several years, IPE has been shaped by three schools of thought, namely realism, liberalism, and Marxism.[19] Despite the differences in their theoretical routes, what is common between those traditional approaches is that they prioritize the nature of the material incentives beyond any economic decisions: power, wealth, and the fight against inequalities among social groups and classes.[20] However, traditional realist approaches have limited ability to analyze the nature of impact investments, as value is interpreted and understood only in terms of national prosperity, developed around the concepts of power and supremacy. Similarly, for liberal political economic thinking, the nature of value is about exchanges,

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[17] Global Impact Investment Index (2020) 'Annual impact investments index', https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf.
[18] Frieden, J. A. and D. A. Lake (2000) *International Political Economy: Perspectives on Global Power and Wealth*, Routledge: London.
[19] Abdelal, R. (2009) 'Constructivism as an approach to International Political Economy'. In Mark Blyth (ed.) *Routledge Handbook of International Political Economy*, London: Routledge, pp. 62–75.
[20] Abdelal, 'Constructivism as an approach to International Political Economy'.

market trends, and economic incentives.[21] Marxist and neo-Gramscian scholars in particular could offer a relatively coherent framework for the analysis of impact investments in the global political economy as they consider the role of ideologies as a determining factor in constructing economic transactions inside a social arena.[22] However, like many classical ones, the limit of this approach, rests on its tendency to construct a rigid and comprehensive general framework for understanding the global economy without engaging with individual actions, which are central for impact investments. Indeed, a key feature of impact investments is that they are defined by their understanding of value as opposed to their membership in an asset class with common risk and return characteristics beyond financial returns, the reasons behind those investments are related to their impact. According to a survey conducted by the Global Investments Index, 87% of impact investors consider both 'impact being central to their mission' and 'their commitment as responsible investors' as 'very important' motivations. Moreover, two out of three investors consider impact investments as the best way to achieve transformational changes both at the social and environmental levels. Simultaneously, impact investments represent a means of achieving profit, as 70% of investors find the financial attractiveness of impact investing an important element, with 88% of respondents exceeding their financial expectations.[23]

1.4 NIE and Impact Investments

In wake of the above, this chapter explicates the nature of impact investments by adopting a less traditional branch of IPE, the New Institutional Economics (NIE).[24] NIE focuses on the ways transactions are developed by economic actors, commencing from the assumption that such actors cannot act according to a Paretian understanding of efficiency because they lack

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[21] Gale, F. P. (2018) *The Political Economy of Sustainability*, Cheltenham: Edward Elgar Publishing, p. 4; Hettne, B. (2009) *Thinking about Development*, London: Zed Books; Oatley, T. (2010) *International Political Economy: Interests and Institutions in the Global Economy*, 4th ed., London: Longman, p. 8; Cohn, T. H. (2005) *Global Political Economy: Theory and Practice*, 3rd ed. London: Longman, p. 89; Smith, R., I. El-Ans, C. Farrands (2011) *International Political Economy in the 21st Century: Contemporary Issues and Analyses*, Harlow: Pearson Education, p. 13; Smith, El Anis and Farrandas, *International Political Economy*, p. 11; Gilplin, R. (2011) *Global Political Economy: Understanding the International Economic Order*, Princeton: Princeton University Press, pp. 65–66.
[22] Overbeek, H. (2000) 'Transnational historical materialism: 'Neo-Gramscian' theories of class formation and world order'. In Ronen Palan (ed.) *Global Political Economy: Contemporary Theories*, London: Routledge, pp. 180–194, 186.
[23] Global Impact Investment Index (2020) 'Annual impact investments index', https://thegiin.org/assets/GIIN%20Annual%20Impact%20Investor%20Survey%202020.pdf.
[24] Hodgson, G. M. (1996) 'Varieties of capitalism and varieties of economic theory', *Review of International Political Economy*, 3: 380–433.

complete market information.[25] Because of their endemic incertitude, investors cannot maximize their interests and need institutions to make the market, and so the return of their investments, more predictable. According to North, institutions can be both formal ones, such as laws, contracts, or regulations, and informal ones, such as ideas, culture, beliefs, and habits.[26] Both formal and informal institutions play a central role in influencing economic decisions behind investments: all economic actors invest money in their self-interest and to achieve added value. Yet the legislative and the cultural environment, namely the institutional framework of reference, is fundamental in defining individual perceptions of self-interest and value.[27]In other words, while laws and regulations delineate the limits of any legal economic actions, ideas and culture are the glasses through which economic actors understand their realm, identifying those interests that are pursuable and efficient.

To the liberal political economic thinkers, the nature of value is about exchange; a Marxist values labor; an economic realist values national interests; and an NIE viewpoint values cultural background. In this vein, the value produced by impact investments cannot be deciphered as a mere necessity to increase capital returns for power, labor or wealth. Here, value imbues a more complex and pluralistic nature. It entails the four above-mentioned economic returns, together with several concepts related to 'progress', 'growth', and 'improvement' but also 'welfare', 'well-being', and even 'happiness', which are related to the belief and cultural background of economic actors and their willingness to produce development at large.[28] Indeed, the concept of development, or, as Chambers puts it, the 'good change', is the process whereby informed by principles of equity and sustainability, people employ their capabilities (especially knowledge) to generate livelihood security to achieve 'responsible well-being'.[29] From an NIE's point of view, the political economy of

[25] Williamson, O. E. (2000) 'The institutions and governance of economic development and reform', *Journal of Economic Literature*, XXXVIII: 595–613, 600; Klein, P. G. (2000) 'New Institutional Economics', *Encyclopaedia of Law and Economics*, 456–489.
[26] North, D. C (1994) 'Economic performances through time', *The American Economic Review*, 84(3): 359–368, 360; North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, p. 3.
[27] North, *Institutions, Institutional Change and Economic Performance*, p. 104; Blyth, M. (2002) *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*, Cambridge: Cambridge University Press; Goldstein, J. and R. Keohane (eds) (1993) *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, Ithaca, NY: Cornell University Press.
[28] Gale, *The Political Economy of Sustainability*, p. 4; Hettne, *Thinking about Development*; Emerson, J. and M. Cabaj (2000) 'Social return on investment', *Making Waves*, 11(2): 10–14.
[29] Chambers, R (1997) *Whose Reality Counts*, vol. 25. London: Intermediate Technology Publications; Chambers, R,(2013) *Ideas for Development*, London: Routledge.

impact investments is about responsible well-being. It stands in the middle ground between investing for reaching the maximum profit and donating for positive change. Independent of its scope and sophistication, impact investment aims at generating maximum outcomes in terms of social well-being and sustainable or green development, while creating financial returns.[30] As a case in point, in Africa, impact investments deal with highly remunerative but also socially important sectors, such as agriculture, healthcare, and technological innovation, where the government fails to deliver adequate social services.[31]

Put succinctly, impact investing is a revolutionary tool within political economy studies. It does not contradict the traditional assumption that economic actors act rationally to achieve the maximum profit, but it brings a new dimension to it. Going beyond traditional risk and returns paradigms, it demonstrates that successful investment can be measured by other factors too, defined by the general belief in the need for developing positive change within societies and the planet.[32]

However, such a belief needs to be based on effective institutional enablers, which allow for the offer to meet the demand. According to Davidsson, enablers are external factors that facilitate a variety of new entrepreneurial endeavors. [33] In the case of impact investments, enablers are based on the presence of credible networks, which can allow entrepreneurs to exchange information and provide reliable data. Moreover, through policies, regulations, and programs, governments and national institutions, can certainly boost investments, by providing a stable and safe investment environment. So, the institutional environment plays a role as well as local regulation. At the same time, the entrepreneurial community can also play a role. [34] In other words, as an impact business consultant interviewed for this project put

[30] Busch, T. et al (2021) 'Impact investments: a call for (re) orientation', *SN Business & Economics*, 1.2: 1–13.
[31] UNDP (nd) 'Impact investment in Africa', *Impact Africa*, https://impactatafrica.org/sites/default/files/publications/undp-impact-investing-in-africa.pdf.
[32] The Global Impact Investing Network, 'What is Impact Investing?', https://thegiin.org/case-studies/
[33] Davidsson, P (2015). Entrepreneurial opportunities and the entrepreneurship nexus: A re-conceptualization. *Journal of business venturing*, *30*(5), 674-695.
von Briel, F., Davidsson, P. and Recker, J (2018). Digital technologies as external enablers of new venture creation in the IT hardware sector. *Entrepreneurship Theory and Practice*, *42*(1), 47-69.
[34] Antarciuc, E., Zhu, Q., Almarri, J., Zhao, S., Feng, Y. and Agyemang, M (2018), Sustainable venture capital investments: An enabler investigation. *Sustainability*, *10*(4), 1204.
Lehner, O. M., Theresia, M. and Quast. M (2019), "Building institutional legitimacy in impact investing: Strategies and gaps in financial communication and discourse", Journal of Applied Accounting Research (2019), Vol. 20/3, https://doi.org/10.1108/JAAR-01-2018-0001

it, "the presence of reliable companies that can provide credible data about their performance is a positive factor". [35]

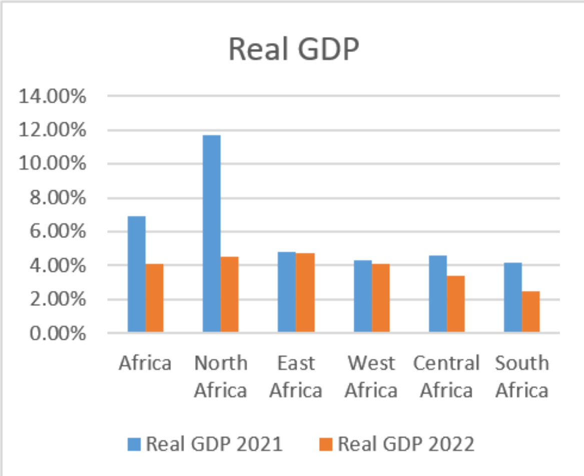
In brief, from a theoretical standpoint, the New International Political Economy explains the mindset of business actors by revolutionizing the traditional understanding of value. Yet, while impact investors are moved by both the potential to make a high revenue as well as contribute to overcoming global negative externalities, the presence of specific enablers can facilitate their mission. Against this backdrop, the next section of this chapter aims at analyzing the development of impact investments in Africa and Ethiopia in particular and highlights what are the needed enablers to be implemented to make investments in the region really impactful.

1.5 Investing in Africa

The need for transformative changes proposed by impact investments and theorized above from a new International Political Economy approach is more critical now than ever in Africa when the social-economic indicators are not positive.[36] In 2021, the real gross domestic product (GDP) grew by 6.9%, thanks to a recovery of global demand, higher oil prices, and an initial easing of COVID-19 restrictions in most countries, which led to increased private spending. Yet, in 2022, Africa's real GDP has been fraught with several uncertainties generated by both the persistence of the COVID-19 pandemic as well as the economic impact of the Russia–Ukraine conflict, including the negative externalities originated by the sanctions against Russia and low production of wheat. As the table below highlights, even when GDP has been growing, the rate was uneven across African regions. [37]

[35] Interview number 1, Geneva on October 23th, 2022
[36] Oguntuase, O. (2022). Partnerships for the Goals in Africa: Impact Investors and Social Entrepreneurs Through the Lens of the United Nations Sustainable Development Goals. In *WORLD SCIENTIFIC ENCYCLOPEDIA OF BUSINESS SUSTAINABILITY, ETHICS AND ENTREPRENEURSHIP* (pp. 263-291).
[37] African Development Bank Group (2022), African Economic Outlook 2022, available at https://www.afdb.org/en/documents/african-economic-outlook-2022-highlights

	Real GDP 2021	Real GDP 2022
Africa	6.9%	4.1%
North Africa	11.7%	4.5%
East Africa	4.8%	4.7%
West Africa	4.3%	4.1%
Central Africa	4.6%	3.4%
South Africa	4.2%	2.5%
Source: African Development Bank Group		

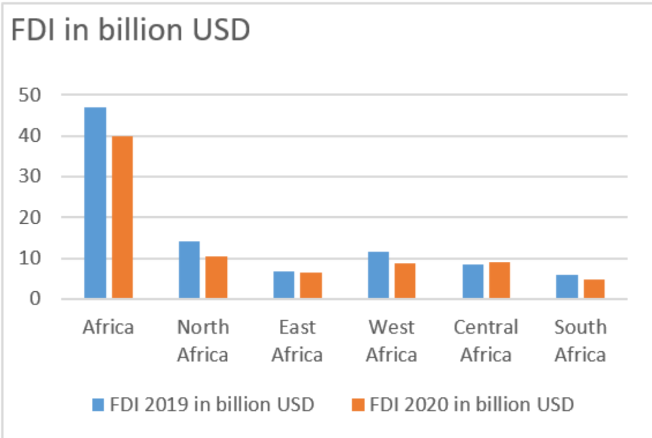


At the one and the same time, rising commodity prices triggered by the Russia–Ukraine conflict are poised to negatively impact fiscal trends in the medium term, especially in those countries importing energy and food commodities. Inflation is also likely to grow, from an average of 13% in 2021 to 13.5% in 2022, while national debts remain higher than the pre-pandemic levels and will probably increase to 71.4% in 2022 from 70% registered in 2021, with 23 African countries having found themselves either in or at risk of debt distress by February 2022. To this, economic trends are also negatively impacted by the rise in the number of unemployed people, mainly women, and youngsters, who were pushed into extreme poverty in 2021 (30 million) due to the loss of 22 million jobs. [38] To date, around 600 million Africans still do not have access to electricity, more than two hundred million suffer from malnutrition, and four out of 10 people are in a condition of extreme poverty.[39] These trends unfortunately are likely to continue in 2022 and 2023. Hence, Africa needs to accelerate its structural transformation to achieve social and economic progress and it will need an additional 256 billion dollars in funding every year until 2030 to meet the Sustainable Development Goals.[40] Nonetheless, since the 2008 financial crisis, reductions in public spending and of the general inflows of official development assistance (ODA) from

[38] African Development Bank Group (2022), African Economic Outlook 2022, available at https://www.afdb.org/en/documents/african-economic-outlook-2022-highlights
[39] Laurent Capolaghi, Aïssata Coulibaly (2022), What's next for Impact Investing in Africa?, EY. https://www.ey.com/en_lu/private-equity/what-s-next-for-impact-investing-in-africa-
[40] Belay Begashaw (2019) Africa and the Sustainable Development Goals: A long way to go., Brookings Institute. https://www.brookings.edu/blog/africa-in-focus/2019/07/29/africa-and-the-sustainable-development-goals-a-long-way-to-go/

developed and other emerging markets are undeniably adversely affecting the African development path. Although the African Economic Outlook highlights that ODA in 2021 should have increased, in 2022, humanitarian assistance in Ukraine would surely result in fewer commitments towards Africa.[41] At the same time, data on FDIs show a fall of 15.6 percent in 2020, with FDI passing from $47.1 billion in 2019 to $39.8 billion in 2020.[42]

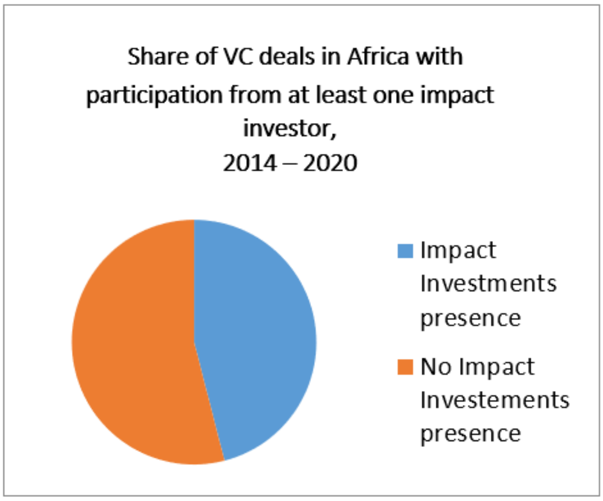
	FDI 2019 in billion USD	FDI 2020 in billion USD
Africa	47.1	39.8
North Africa	14.3	10.5
East Africa	6.7	6.5
West Africa	11.56	8.8
Central Africa	8.5	9
South Africa	6	4.9
Source: African Development Bank Group		

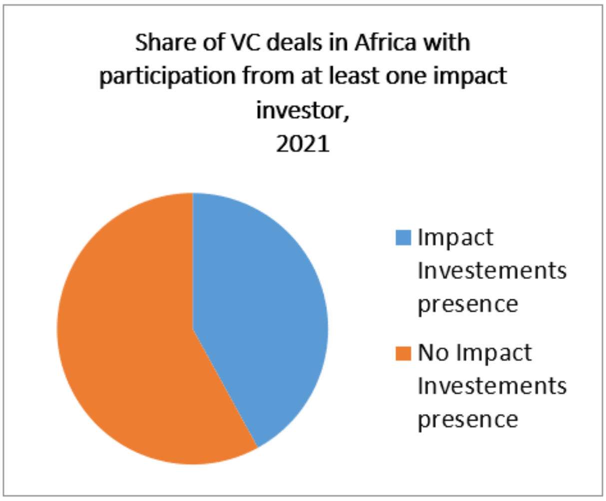


Within this framework, impact investment has certainly the potential to generate additional momentum towards achieving the 2030 agenda for SDGs, but also to boost new forms of income for local people and investors.[43] The percentage of investments impacting key sectors for regional development such as health, digital tech, and agriculture has increased from 63% of total external resources in 2002-06 to over 70% in 2010-2014.[44] Notwithstanding the Covid-19 pandemic and its impact on the world's economy, in 2020 the volume of investments registered by the Global Impact Investments Index was 404 billion USD, with a median of 89 billion USD per investor. 59% of capital has been allocated to emerging markets, with sub-Saharan Africa and Ethiopia attracting 21% of the assets. Moreover, 43% of impact investors have funds allocated to Africa, with 52% of investors interviewed by the Global Impact Investing Network planning to increase their Africa exposure in the next five

[41] African Development Bank Group, African Economic Outlook, 2022
Akanle, O., Kayode, D., & Abolade, I. (2022). Sustainable development goals (SDGs) and remittances in Africa. Cogent Social Sciences, 8(1), 2037811.
42 African Development Bank Group, African Economic Outlook, 2022
[43] International Finance Corporation, 'Creating impact'.
[44] UNDP, 'Impact investment in Africa'.

years.[45] According to the 2021 Venture Capital in Africa Report, in 2021, 42% of the Venture Capital investments saw the participation of at least one impact investor.[46]





Source: Venture Capital in Africa Report.

Moreover, impact investments in specific sectors such as healthcare, food production, energy, and education continued to grow in 2020 and 2021. [47]Investments in the healthcare sector, which could account for a high rate of return as well as societal impact, increased by 20% in 2021. [48] Impact investments in the fin-tech can play a major role in boosting financial inclusion and ensuring economic progress in the region and across sectors have also doubled their volume and value. [49] Moreover, infrastructure and renewable energy are among the fastest-growing segments in many African countries in terms of impact investments. Indeed, in a continent where 600 million people lack access to electricity, providing energy solutions, especially through renewable sources such as solar energy, is one of the key drivers to meeting the UN's social development goals.[50] Indeed, the International Energy Agency

[45] Global Impact Investment Index, 'Annual impact investments index'.
[46] 2021 Venture Capital in Africa Report (2021), https://www.avca-africa.org/media/2967/62644-avca-avca-venture-capital-in-africa-report-v13.pdf
[47] Laurent Capolaghi, Aïssata Coulibaly (2022), What's next for Impact Investing in Africa?, EY. https://www.ey.com/en_lu/private-equity/what-s-next-for-impact-investing-in-africa-
[48] Barry, K., and Adoh, O. (2021) Private equity in Africa: Trends and opportunities in 2021, White & Case.
[49] Ibid
[50] Ibid

(IEA) estimates that to bridge Africa's energy gap by 2040, current investments would have to be multiplied by four.[51]

Generally, data related to the chances of impactful investments in Africa show a good trend, with nearly half of global impact investment capital going to the continent, according to the Global Impact Investor Network's 2020 survey. Yet, the lack of effective enablers is limiting the full potential of impact investments. On the one hand, the practice in the continent is still recent and once someone has entered the market, it is generally difficult to exit investments since most African capital markets are at an early stage of development. On the other hand, as a representative of Merck outlined during an interview, the limited amount of financial and economic figures, together with a small number of social enterprises capable of demonstrating a sufficient track record and capacities, in consonance with financial return, can certainly affect the propensity of impact investors. [52]

Certainly, enablers that affect investors' inclination to finance projects in Africa include the presence of stable and well-engaged governments and institutions that could facilitate the process, of connecting demand and offers. For instance, new impact investments could be attracted by 'labels' or legal categorizations developed by international networks and facilitated by national governments, which could provide legitimacy to sustainable investments and investors. The adherence to global networks would indeed allow African countries to share knowledge and expertise to a broader platform and boost investment in the continent. Yet, the use of such networks is still limited. In the entire African continent, only Ghana, South Africa, and Zambia are part of a network such as the Global Steering Group for Impact Investment.[53] The gap between African potential and an institutional and cultural setting capable of welcoming new impact investors is still wide and needs to be properly addressed by national governments. The African Continental Free Trade Area (AfCFTA) is certainly a positive step towards the development of local enabling institutions. This treaty, which came into effect on 1 January 2021, will transform the continent into the largest free

[51] IEA (2022), Africa Energy Outlook 2022, World Energy Outlook Special Report, https://www.iea.org/reports/africa-energy-outlook-2022
[52] Interview number 2 with Merck representative, October 22, 2022, Geneva
[53] Impact Africa, (2016) Impact Investment in Africa: An Action Plan https://www.impactatafrica.org/sites/default/files/publications/impact_investment_in_africa_action_plan_2016_english.pdf

trade area in the world, with 53 member countries and it has the potential to provide an income of 450 billion US dollars by 2035.[54]

1.6 Impact Investments in Ethiopia

When it comes to Ethiopia, the current geopolitical situation and internal conflict make impact investments extremely difficult, but most needed as well. Ethiopia is the largest single market within sub-Saharan Africa and Eastern Africa in particular, the 12th-most populous country in the world and the 2nd-most populous in Africa. Situated in the horn of Africa, the country shared a long history. Having obtained its independence in the 18th century, it was the first independent African nation to sign the Charter of the United Nations, while providing neighbor countries with moral and material support to speed up their decolonization process and establish a more structured Pan-African cooperation. These efforts culminated in the development of the African Union (AU) and the United Nations Economic Commission for Africa, both of which have their headquarters in Addis Ababa. In this respect, Ethiopia has not only the potential for becoming a fruitful impact investments hub, but it has also the capacity to build an international network and attract international actors to enable investments. Moreover, thanks to its long tradition of centralized bureaucratic administration, Ethiopia started to develop the idea of economic and institutional modernization long before many African countries.[55] The model of capitalism adopted by the country since the early 2000s, was a developmental state model inspired by the East Asian countries, specifically South Korea and Taiwan, to provide the central state institutions with adequate power to push forward developmental policies to eradicate poverty, which was considered the major national threat.[56] Strategies such as the 'Agriculture Development Led-

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[54] Laurent Capolaghi, Aïssata Coulibaly (2022), What's next for Impact Investing in Africa?, EY. https://www.ey.com/en_lu/private-equity/what-s-next-for-impact-investing-in-africa-

[55] The country became a federation from 1952 until 1974 under Haile Selassie's rule. However, political instability resulted in a civil war, which was overcome by the establishment of a Transitional Government in 1991 followed by the first multiparty election in 1995.

[56] Zenawi, M. (2006). "Africa's Development: Dead Ends and New Beginnings. Extracts from unpublished MA Thesis, posted on IPD website in the section on the Africa Task force, available at http://cgt.columbia.edu/files/conferences/. 333
Zenawi, M. (2012). State and Market: Neo-liberal Limitations and the Case for a Developmental State. In Noman, A. et al. (eds) (pp.140-174). Good Growth and Governance in Africa: Rethinking Development Strategies. Oxford University Press, UK.
Desta, A. (2019). Transforming Ethiopia's Developmental State Model for the Future. Review of Socio-Economic Perspectives, Vol. 4, Issue 1, pp. 39-55.
Tesfaye, A. (2017). State and Economic Development in Africa: The Case of Ethiopia. Palgrave Macmillan, Switzerland.

Industrialization (ADLI) to modernize the agricultural sector and improve productivity and other medium-term development plans such as the 'Growth and Transformation Plan (GTP)' for the manufacturing sector allowed for massive use of the public fund to stimulate economic growth and industrialization. [57] Thanks to state investments and internal demand, Ethiopia witnessed unprecedented economic growth. Between 2000 and 2020, the country's GDP grew on average by 8.8%.[58] While public investment resulted in the development of education, and health infrastructure, as well as road and rail construction and hydroelectric power generation, poverty, remained a persistent issue. State-led strategies for agriculture and manufacturing improved the living conditions of the rural population but they failed in stimulating an effective use of resources. Moreover, a high level of state interference in the economy, strict foreign exchange controls, and weak institutions minimized the space for private initiatives, which then led to an ultimate reduction of investment inflows of 24%, from 3.3 billion USD in 2018 to 2.5 billion USD in 2019.[59] In the mid-2000s, the country was still one of the least urbanized in the world, with only 20% of the entire population living in urban areas and with Addis Ababa, the capital city, contributing alone to 50% of the national GDP.[60]

It was only in 2018 when Abiy Ahmed was elected Prime Minister, that the country set the basis for economic reforms to transform a state-led model of capitalism into one embracing a more free-market approach. Abiy Ahmed attempted to rapidly modernize the country's political, economic, and financial institutions and facilitate some business privatization. His

Weis, T. (2016). Vanguard Capitalism: Party, State, and Market in the EPRDF's Ethiopia. PhD Thesis, University of Oxford.
Clapham, C. (2017). The Ethiopian developmental state. Third World Quarterly, DOI: 10.1080/01436597.2017.1328982.http://dx.doi.org/10.1080/01436597.2017.1328982
[57] Regassa, B. T. (2022). The political economy of industrialization and structural transformation in Ethiopia: a developmental state perspective. Phd Thesis, University of Parma.
[58] OECD (2020) 'Rural development strategy review of Ethiopia: reaping the benefits of urbanisation, https://www.oecd-ilibrary.org/sites/12dd129b-en/index.html?itemId=/content/component/12dd129b-en.
[59] Seid, Y., Seyoum, A., and Nuru, S. (2016). Ethiopia: An Agrarian Economy in Transition. In Bhorat, H., Tarp, F. (eds.) (37-76). Africa's Lions: Growth Traps and Opportunities for Six African Economies. Brookings Institution Press, USA.
UNCTAD (2020) World Investment Report, https://unctad.org/system/files/official-document/wir2020_en.pdf.
UNCTAD (2020) 'Investment flows in Africa set to drop 25% to 40% in 2020', 16 June, https://unctad.org/news/investment-flows-africa-set-drop-25-40-2020; UNCTAD (2020) 'Global foreign direct investment falls 49% in first half of 2020' October, https://unctad.org/news/global-foreign-direct-investment-falls-49-first-half-2020;
NordeaTrade (2020) 'Country profile Ethiopia', https://www.nordeatrade.com/en/explore-new-market/ethiopia/investment.
[60] The Global Impact Investment Network (2015), The Landscape for Impact Investing in East Africa. https://thegiin.org/assets/documents/pub/East%20Africa%20Landscape%20Study/09Ethiopia_GIIN_eastafrica_DIGITAL.pdf

reform agenda, coupled with a high level of FDI flows, would have guaranteed the country what seemed to be sound economic growth.[61] Yet, in 2020, constant instability in the Tigray region resulted in the outbreak of a civil war between the Ethiopian government forces and the rebels from the Tigray region. Because of the war, the Ethiopian economy has been left battered, with the destruction of infrastructure, schools, and hospitals and even higher poverty rates. In early 2022, more than 7 million people were reported to need humanitarian aid, and 5 million citizens (90% of the local population) lacked food, while 400.000 people lived in a condition of famine in the Tigray region. At the same time, even in northern Ethiopia, 9.4 million people suffered from food insecurity.[62] Because of the civil war, despite its enormous economic potential, the country's living standards are now below the regional level, while financial support by many donors was stopped because of sanctions.

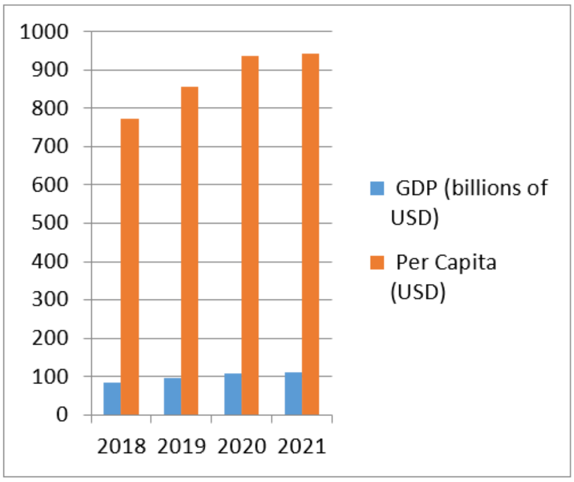
Even in the outbreak of the war Ethiopian GDP has continued to grow. Yet, it has registered its lowest rate in nearly two decades, with high inflation, increasing external debt, and constrained investment inflows.[63] Indeed, since the country's economic model is still essentially based on domestic demand and more particularly on public investment (23% of GDP) in infrastructure and industrial sites, the current war is impeding any chances of economic recovery as well as the effectiveness of any national reform to promote private and impact investments.[64] For instance, the Ethiopian Home-grown Economic Reform Plan is sluggish. The Plan aimed at addressing vulnerabilities and tackling structural red tape to boost private investments and transform Ethiopia from a largely agrarian low-income country to an industrialized lower-middle-income country by 2030.[65] Insecurity, the lack of a stable

[61] Deloitte (2019) 'Invest in Ethiopia: structural reforms set to unlock East Africa's largest economy', June, https://www2.deloitte.com/content/dam/Deloitte/za/Documents/Consumer_Industrial_Products/za_Invest_In_Ethiopia_2019_report.pdf.
[62] Addis Getachew, Andrew Wasike (2020), Cost of war in Ethiopia runs into billions of dollars, AA, World Africa. https://www.aa.com.tr/en/africa/cost-of-war-in-ethiopia-runs-into-billions-of-dollars/2464851
[63] Schipani, A., and Pilling, D.,(2022) After the war ends, can Ethiopia's economic 'miracle' get back on track?, Financial Times
Available at: https://www.ft.com/content/a74b5486-d2fa-4cdd-98d0-20a7eaf4ede2
[64] UNCTAD (2020) World Investment Report, https://unctad.org/system/files/official-document/wir2020_en.pdf. UNCTAD (2020) 'Investment flows in Africa set to drop 25% to 40% in 2020', 16 June,
https://unctad.org/news/investment-flows-africa-set-drop-25-40-2020; UNCTAD (2020) 'Global foreign direct investment falls 49% in first half of 2020' October, https://unctad.org/news/global-foreign-direct-investment-falls-49-first-half-2020; NordeaTrade (2020) 'Country profile Ethiopia', https://www.nordeatrade.com/en/explore-new-market/ethiopia/investment.
[65] Oxford Analytica. (2019). Ethiopia's homegrown economic reforms face challenges. Emerald Expert Briefings, (oxan-db).

regulatory and policy environment, and a slow reforms path are all factors, which have been hampering private investments, making them particularly risky. Uncompleted reforms, to push a state-led model of capitalism into a modern liberal economy, have resulted in the country, which has the potential to become one the fastest growing in Africa, being still one of the biggest foreign aid receivers.[66] In 2020, the country still ranked only 159th worldwide for ease of doing business.[67]

Certainly, the ceasefire reached in November 2022 is a fundamental step to rebuild social and economic welfare. However, to rebuild its economy, the government needs to boost an economic liberalization path, ultimately abandoning its state-led model of capitalism. Such a process, which was started by the government before the war, needs now to be revitalized with the selling of state assets to acquire needed capital for overcoming a humanitarian crisis. Market liberalization is indeed needed, especially considering the global negative economic contingencies. The war in Ukraine, and food and energy shortage would certainly worsen the crisis in Ethiopia and limit foreign aid.

Ethiopia Economic Growth 2018-2021		
	GDP (billions of USD)	**Per Capita (USD)**
2018	84.26934833	771.5249
2019	95.91259063	855.7609
2020	107.6577344	936.4508
2021	111.2711123	943.9657



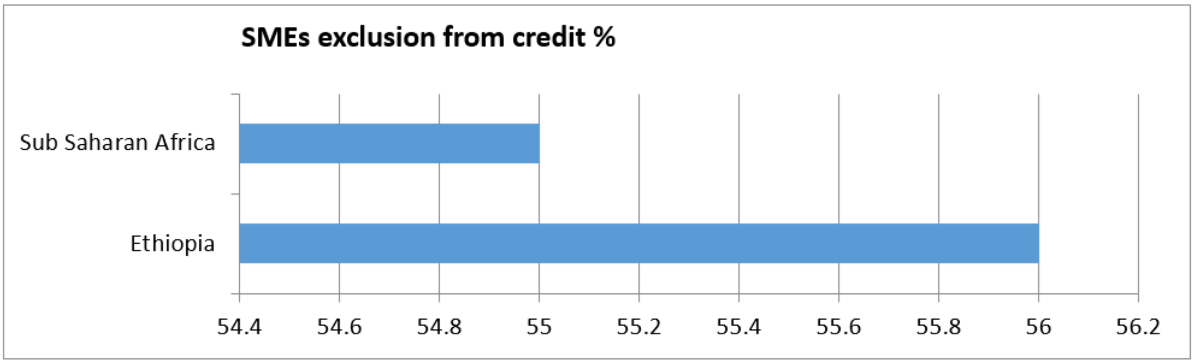
Source: World Bank

[66] Human Rights Watch (2020) 'World Report 2020, Ethiopia'. https://www.hrw.org/world-report/2020/country-chapters/ethiopia#
[67] World Bank Group (2020) 'Doing business 2020: comparing business regulation in 190 economies', https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf;
World Bank Group (2020) Ethiopia: Doing Business https://www.doingbusiness.org/content/dam/doingBusiness/country/e/ethiopia/ETH.pdf

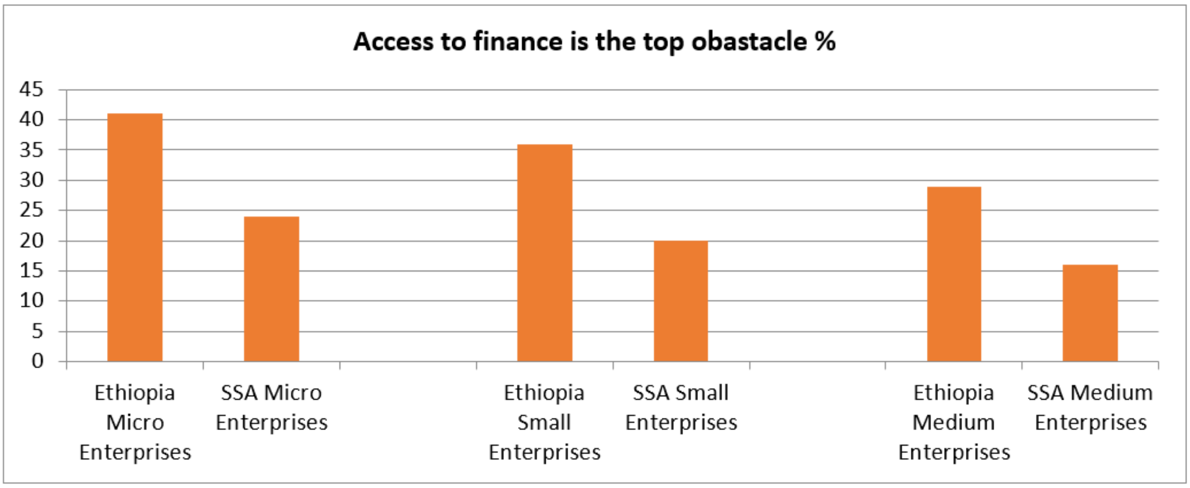
In other words, while Ethiopia's economy has been lagging behind because of the violent internal war, the consequent lack of reforms to transform its state-led model of capitalism into a liberal one is undermining investment flows and economic growth. Both institutional and security factors are contributing to the closure of foreign investors, stymieing the advancement of private impact enterprises. The end of the conflict, and internal stability, together with a set of laws, policies, and procedures for opening up the market, and facilitating private investments are all necessary tools for success. Within this framework, impact investments seem to be particularly needed, especially since access to finance for companies, in particular for Small and Medium Enterprises (SME), is very limited. According to the World Bank Group, SMEs in Ethiopia are the most excluded from credit in Africa, accounting for only 7% of total lending, which is by far below the level in other developing countries, with 68% of small businesses being financed by private owners' savings**.** [68] Still, even in such a difficult time, there are success stories when it comes to impact investments. For instance, RENEW and the Impact Angel Network (IAN), two impact investment funds have supported the launch of an Ethiopian startup company that now exports to international markets, having received awards and certifications on account of the quality of its products. The two impact investment funds have recently exited their investments, with gross internal rates of return (IRR) of 26.70% and 17.58%, respectively.[69] On the other hand, the company is not only growing but it is employing hundreds of Ethiopians in permanent and temporary positions. The latter is indeed an example of the 'good change' described by Chambers, which can stimulate both high revenues for investors and positive impacts for local populations.

[68] World Bank Group (2011) "SME Finance in Ethiopia: Addressing the Missing Middle Challenge".
[69] Business Wire (2019) RENEW's Impact Angel Network Exits Two Investments that Financed Ethiopian SME

https://picante.today/blog/2019/05/23/renews-impact-angel-network-exits-two-investments-that-financed-ethiopian-sme/



Source: World Bank



Source: World Bank

1.7 Conclusion

The African continent in general, and Ethiopia in particular, is a fertile ground for impact investors, who, going beyond traditional investing paradigms, can measure the success of their investments through multiple factors, combining financial gains with the development of positive changes within societies and the planet. In this respect, the lack of full industrial development and the high population is in theory positive factors for developing impact investments in terms of revenue and in terms of the scalability of social-economic development. In Africa, more than in other regions of the world, impact investments could bring a real change for good. While 16% of impact investors in Africa have been making impact investments for more than 20 years, interest in the region has started to surge only recently for more than half of investors. While impact investments in Africa keep growing, with 52% of the respondent to the Global Impact Investor Network survey claiming that they intend to increase their operation, especially in key sectors such as health, fin-tech, and infrastructures, there is still a growing potential for impact investments in the region from global investors. Especially since the African Continental Free Trade Area (AfCFTA) entered into force, Africa represents one of the biggest untapped markets that could allow investors for unprecedented profits. Conversely, extreme poverty conditions, high unemployment, low access to credit as well as lack of infrastructure are among the main impediments for the locals to reach better living conditions and improve more homogenous economic growth in their countries. Within this frame, impact investments could allow for economic and social growth, making Africa closer to reaching Sustainable Development Goals.

Yet, enabling institutions would allow for a more fruitful and effective experience for both investors and the local population. In other words, African countries and Ethiopia in particular need to provide private actors with a set of key institutional settings that would allow them to more easily enter their market, invest, gain and create positive impact at the same time to reach their full potential and navigate out of the current global economic crisis. This means governments push the impact investing sector to the top of their political agendas, developing sound financial institutions, opening their markets, and providing information, for example by adhering to global networks. Indeed, as the New Institutional Economic theories highlighted above, impactful economic actions can only grow when private actors find adequate conditions to optimize a well-defined ‘good change’ but also their financial return.

Chapter Two: Comparative Outlook of the Ethiopian Impact Arena

2.1 Introduction

The purpose of the chapter is to provide a comparative picture of the Ethiopian economy with the designated risks and opportunities for the Israeli impact ecosystem, using a quantitative approach. The chapter includes two parts. The first part presents data on the economic and political climate in Ethiopia, using three main tools:

- Analysis of integrated indices, which were structured to investigate a uniform quantitative expression for a variety of influencing factors
- Analysis of statistical data derived from international organizations' datasets
- Review of various reports issued by international and Israeli organizations

A specific emphasis is given to the health sector, as it is illustrative, pioneering, and accommodating domain of Israeli innovation and collaboration in Ethiopia, evolving from the development policy.

The second part provides a deeper look into the trade relations Israel-Ethiopia. It unpacks the core existing databases to get a better outlook on the current state of affairs and the potential of developing these relations concerning the economic ties and the different channels of collaboration. This part consists of two main sections:

- Macro-level statistical analysis targeting the scope of the business relationships and leading industries
- Micro-level analysis – on data on the activities of Israeli companies operating in Ethiopia.

The study of companies operating in Africa and in Ethiopia, as well as the identification of their key characteristics makes it possible to conclude the main sectors and the trajectory most common and natural in the penetration to this market so far. The analysis is complemented by a fairly unique and fascinating case study, NALA, an Israeli health company. The chapter closes with preliminary conclusions about the industries most suitable for investment by the Israeli impact ecosystem.

2.2 Economic and Political Climate in Ethiopia

Ethiopia in the light of international indices

A combined index is a weighted evaluation of several indicators from different fields into one figure that allows comparison between countries. Various global bodies and research groups in the world are working on preparing integrated indexes that provide a snapshot of the functioning of the participating countries. Each index represents a unique concept and consists of several indicators weighted together according to pre-selected criteria. A combined index presents a special point of view on a specific topic such as innovation, economy, the state of the environment, human well-being, and more. Using combined indices is a compelling method, as it allows us to unite multiple parameters related to the subject examined, and present them in a comprehensible numerical system.

Global Innovation Index

The Global Innovation Index (GII) project was launched in 2007 to identify indicators and approaches that better reflect the contribution of innovation to society beyond the traditional indicators such as R&D expenditures and R&D outputs (e.g. papers and registered patents). In 2022 GII assessed 132 economies. The index is based on two groups of indicators - innovation inputs and innovation outputs. Indicators of innovation inputs are divided into five pillars that reflect elements of the national economy that enable innovative activities: (1) institutions (2) human capital and research (3) infrastructure (4) market sophistication (5) business sophistication. Innovation output indicators are divided into two pillars: (6) science and technology outputs and (7) creativity outputs. (A total of 80 indicators).
Ethiopia's innovation index is consistently at the bottom of the list.

Figure 1

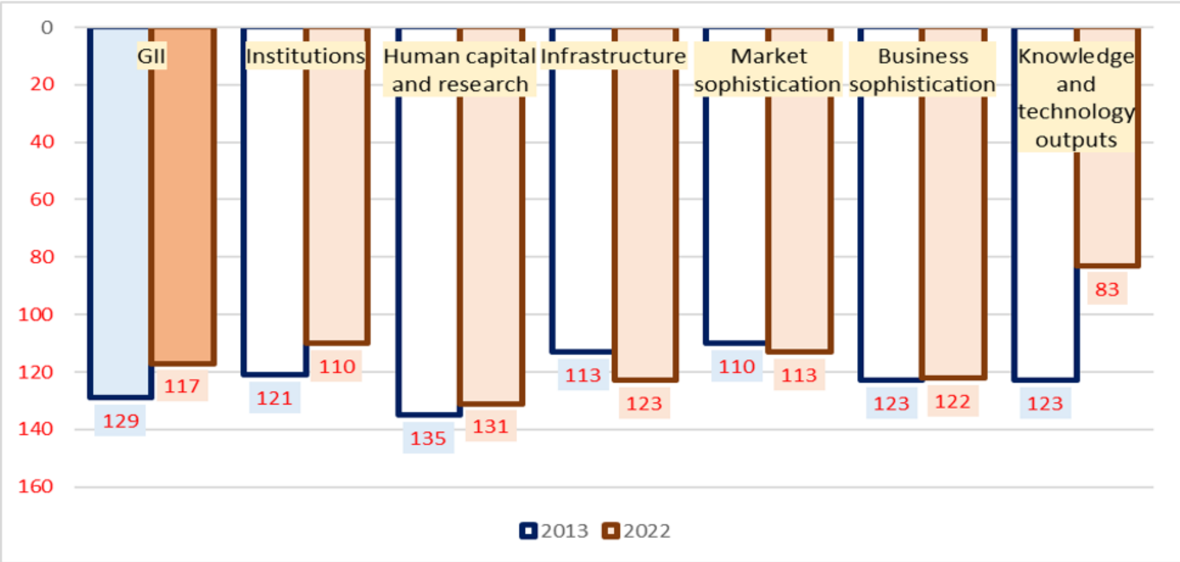
Ethiopia's ranking in GII (2013-2022)

Source: Samuel Neaman Institute processing for GII data

Over the past decade, Ethiopia has improved the institutions that support innovation, in terms of a more embracing political environment, policies that encourage innovation and reduced regulation. Its scientific integrated outputs (patents, publications, etc.) scaled from123rd rank in 2013 to the 83rd rank in 2022. The biggest drop was in the infrastructure sector - from 113 to 123.

Figure 2

Ethiopia's ranking by GII pillars (2013 vs 2022)



Source: Samuel Neaman Institute processing for GII data

Except for indicators related to technological infrastructure, Ethiopia's pain point is the quality of human capital (131st in the world in 2022), including the proportion of professional workers (129th in the world).

Ethiopia's strong categories are as follows:

37	High-tech imports, % total trade
22	ICT services imports, % total trade
20	Gross capital formation, % GDP
19	Utility models by origin/bn PPP$ GDP
18	Printing and other media, % manufacturing
6	Labor productivity growth, %

Doing Business (DB) Index

The integrated index of Doing Business (DB) is one of the projects of the World Bank.[70] It was first published in 2004. The purpose of the index is to examine the laws and regulations at the country level, which may assist the economic efforts of the private sector.

Owing to the index's periodic nature, it is possible to track specific sub-indices within the combined index over the years in each country and make comparisons between countries both at the level of the index and at the level of sub-indices. The indices included in the integrated Doing Business index can be divided into two categories:
- Complexity and costs of regulatory processes for private businesses: Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Trading across Borders
- Strengths of regulatory institutions: Getting Credit, Protecting Minority Investors, Enforcing Contracts, Resolving Insolvency

The combined index is based on hard data for all indices (not based on surveys, evaluations, and opinions). Usually, three parameters are measured - the number of procedures required to succeed in each category (registering property, paying taxes, etc.), the time required for this, and the cost of the process. For each measurement, not only the figure itself is shown, but also the normalized score calculated as the distance from the best upper limit (frontier) observed in this index (similar to a normalized score in the ICT index). The country's position is determined by the ranking score. This method allows horizontal comparison (between different countries), analysis over the years, and even comparison of the country's achievements in different fields.

In the index for 2020, Ethiopia was ranked 159 (out of 213 participating countries and economic regions). Below is the rating and score:

[70] See https://www.worldbank.org/en/programs/business-enabling-environment/doing-business-legacy

Table 1

Ethiopia ranking in DB index, 2020

Change in Score (% points)	DB 2019 Score	DB 2020 Score	DB 2020 Rank	Topics
0.9	**47.1**	**48.0**	**159**	**Overall**
0.9	70.8	71.7	168	Starting a Business
6.9	52.8	59.7	142	Dealing with Construction Permits
0.4	59.7	60.1	137	Getting Electricity
1.2	49.7	50.9	142	Registering Property
0.0	15.0	15.0	176	Getting Credit
0.0	10.0	10.0	189	Protecting Minority Investors
0.0	63.3	63.3	132	Paying Taxes
0.0	56.0	56.0	156	Trading across Borders
0.0	62.8	62.8	67	Enforcing Contracts
-0.2	30.5	30.3	149	Resolving Insolvency

Source: Samuel Neaman Institute processing for DB data

As illustrated in the above table, the financial system in Ethiopia is very weak and the two most problematic indicators are related to this system - protection of small investors and access to credit lines. The majority of other indicators also point to a complicated and unfriendly bureaucratic system for business. Notably, the Ethiopian government has been undertaking measures over the past few years to improve the country's business climate. Here are some of them, as they were assessed in the Doing Business reports:

DB2020

Dealing with Construction Permits: Ethiopia improved building quality control by mandating a final inspection once construction is completed and enforced qualification requirements for construction professionals.

Registering Property: Ethiopia improved the quality of its land administration system by publishing the official list of documents required for property registration as well as statistics on the number of transactions for the previous calendar year and the service standard for delivering a legally binding document.

DB2019

Starting a Business: Ethiopia made it easier to start a business by obviating the need to obtain a certificate of competence for certain types of businesses.

Dealing with Construction Permits: Ethiopia expedited the process of obtaining construction permits by reducing the time to obtain planning consent.

Enforcing Contracts: Ethiopia made enforcing contracts easier by establishing specialized benches to resolve commercial cases.

DB2018

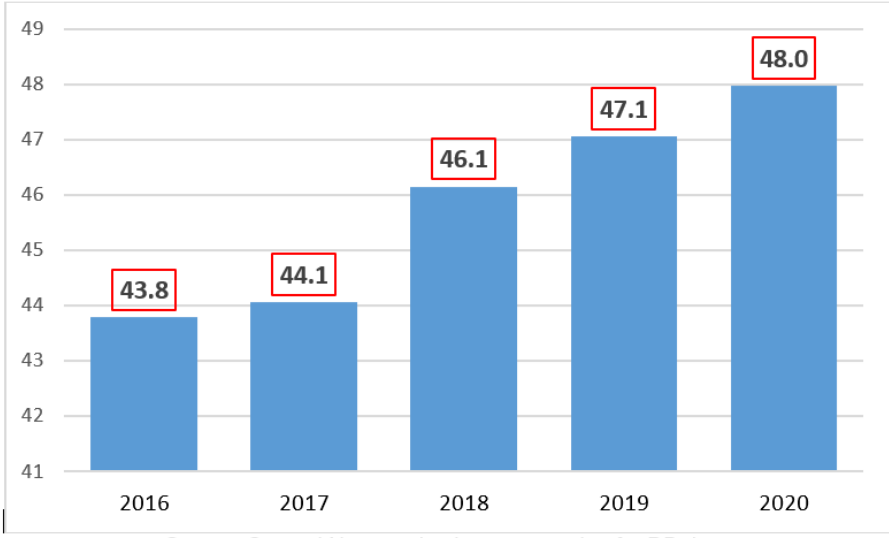
Starting a Business: Ethiopia made the process of starting a business easier by removing the requirement to open a bank account for company registration and eliminating the paid-in minimum capital requirement.

Trading across Borders: Ethiopia made it easier to trade across borders through a series of initiatives including the implementation of a risk-based inspection system, the streamlining of documents for importers, and the strengthening of the customs authority.

These measures form part of the Ethiopian government's efforts to improve the country's business climate. This is the reason that Ethiopia's score is consistently rising, even though its values are still very low.

Figure 3

The range of Ethiopia in DB index, 2016-2020



Source: Samuel Neaman Institute processing for DB data

Economic Freedom Index (EFI)[71]

The Economic Freedom Index (EFI) is responsible for assessing the aspects of the activity of institutional bodies in terms of their contribution to economic freedom. The EFI is the integrated index published by the Fraser Institute - one of the largest institutes in the world that examines the readiness of the institutions in various countries to promote the values of democracy, mainly individual freedom and economic freedom. The overall score weighs scores in five main categories:

- Size of Government
    - Legal System & Property Rights
    - Sound Money
    - Freedom to Trade Internationally
    - Regulation

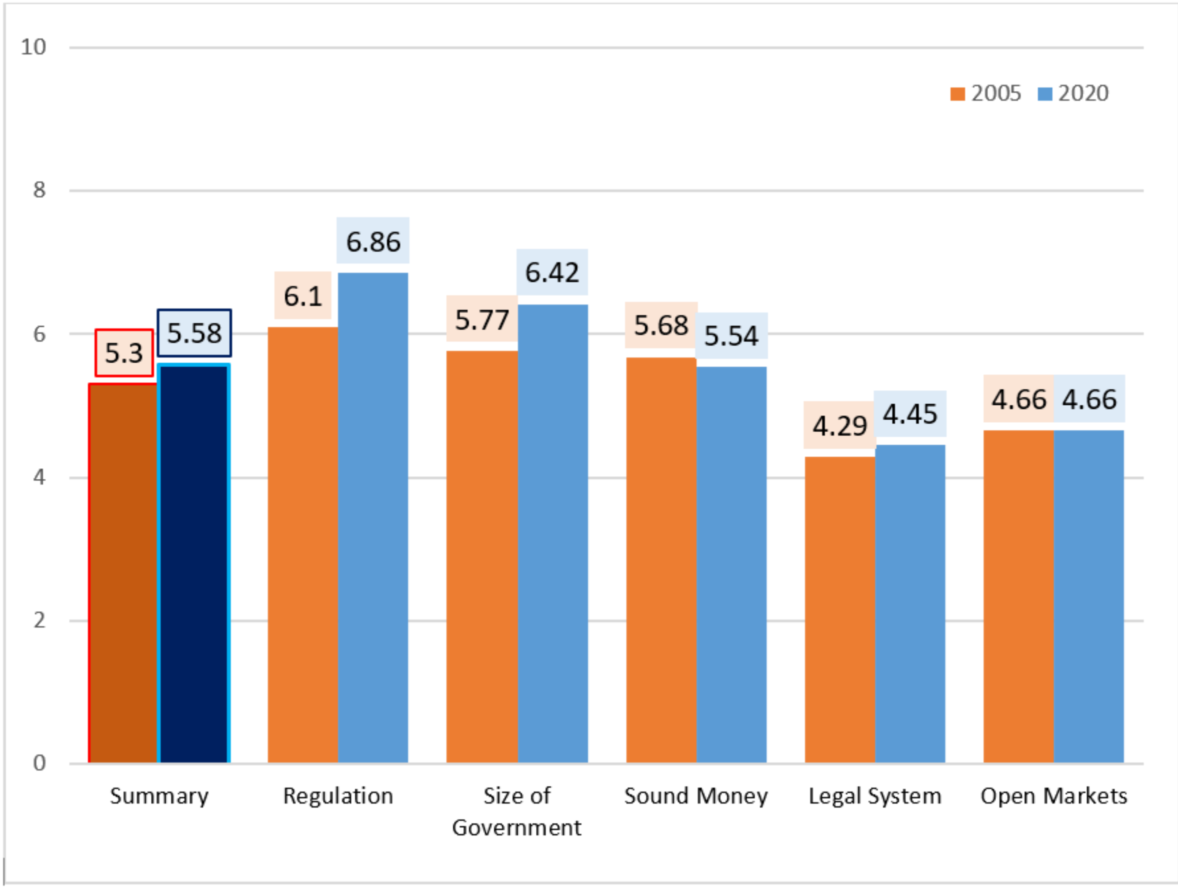
Each category comprises numerous indicators. The score in each index is normalized according to values from 0 (the worst) to 10 (the best) and is an average of the scores of the variables that constitute it. The outstanding advantage of the EFI is that it enables the comparison of data over a long period (starting in 1970). Until the year 2000, the report was published every five years and from 2000 it became an annual report.

[71] See https://www.fraserinstitute.org/studies/economic-freedom

As illustrated in the figure below, the Ethiopian economy does not receive a high score (ranked 143 out of 165 countries examined in the index). However, the government's activities, especially dealing with the regulatory burden, pull the economy forward - both the absolute value of the grades and progress over the years in these sections are particularly high.

Figure 4

Economic freedom in Ethiopia, 2005 vs. 2020 (total and by category)



Source: Samuel Neaman Institute processing for EFI data

Nonetheless, it is not accurate to contend that the government's role is only positive. The analysis according to the indicators shows that Ethiopia's major weaknesses are ascribed to myriad categories, but the source of all of them is the lack of democracy and freedom in the country.

Table 2

Ethiopia scores in the EFI index in 2022, by indicators

Category	Rating	Indicator
Size of Government	8.75	Transfers and subsidies
Size of Government	8.37	Government consumption
Sound Money	8.23	Standard deviation of inflation
Sound Money	8.02	Money growth
Freedom to Trade Internationally	7.08	Regulatory trade barriers
Legal System & Property Rights	7.04	Regulatory restrictions on sale of real property
Regulation	6.99	Credit Market regulations
Regulation	6.93	Labor Market regulations
Regulation	6.65	Business regulations
Freedom to Trade Internationally	6.15	Tariffs
Size of Government	5.96	Government investment
Sound Money	5.92	Inflation: most recent year
Legal System & Property Rights	5.72	Integrity of the legal system
	5.58	**Summary Ratings Data**
Legal System & Property Rights	5.55	Legal enforcement of contracts
Size of Government	5.00	Top marginal tax rate
Freedom to Trade Internationally	4.84	Black-market exchange rates
Legal System & Property Rights	4.20	Impartial courts
Legal System & Property Rights	4.05	Protection of property rights
Size of Government	4.00	State Ownership of Assets
Legal System & Property Rights	3.99	Judicial independence
Legal System & Property Rights	3.94	Reliability of police
Legal System & Property Rights	3.33	Military interference in rule of law and politics
Freedom to Trade Internationally	0.55	Controls of the movement of capital and people
Sound Money	0.00	Freedom to own foreign currency bank accounts

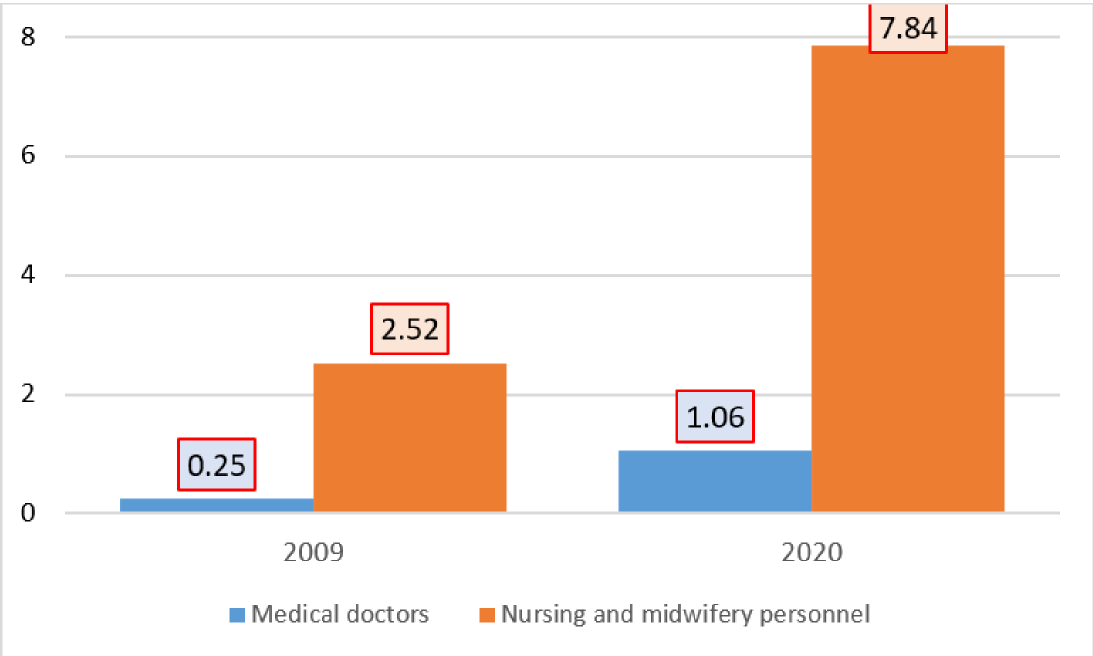
Source: Samuel Neaman Institute processing for EFI data

World Health Organization (WHO) Data

The World Health Organization (WHO) conducts a wide-scale monitoring of the changes in many areas related to public health - from investments in medical equipment to the number of doctors and nurses. Most of the world's countries provide data to the organization, but not all in full. Data concerning equipping hospitals in Ethiopia with medical equipment and the investments in this area is very partial and even when it exists, it ends in 2013 at the latest. Regarding detailed medical personnel information, figure 5 below shows the rate of doctors and nurses per 100,000 people. From 2003 - 2009, no significant changes were made in this index. In fact, a slight decrease was observed, but it has increased significantly in recent years.

Figure *5*

Medicine doctors, nursing and midwifery personnel per 100,000 (2009 vs 2020)



Source: Samuel Neaman Institute processing for WHO data

The International Organizations Reports about the Ethiopian Economics

2021 Investment Climate Statements: Ethiopia (by US Department of State)[72]

In the last year, the Ethiopian government initiated steps to sell two telecom spectrum licenses to foreign operators, revised its sixty-year-old commercial code, enacted a new investment regulation, and developed a financial sector liberalization roadmap. This is an evolution of the plan conducted in September 2019, where the Government of Ethiopia unveiled its "Homegrown Economic Reform Plan" as a codified roadmap to implement sweeping macro,

[72] Refer to https://www.state.gov/reports/2021-investment-climate-statements/ethiopia/

structural, and sectoral reforms, with a focus on enhancing the role of the private sector in the economy and attracting more FDI.

Policies Towards Foreign Direct Investment

The largest volume of FDI in Ethiopia comes from China, followed by Saudi Arabia and Turkey. The Ethiopian Investment Commission (EIC) has the mandate to promote and facilitate foreign investments in Ethiopia. To accomplish this task, the EIC is charged with 1) promulgating 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; and 6) registering technology transfer agreements. Nonetheless, political instability associated with various ethnic conflicts—most notably the conflict in the Tigray region—could negatively impact the investment climate and lower future FDI inflow. The following reports focus on the structural steps taken by the government to illustrate the potential change and ensuing rising levels of investment attractiveness.

Deloitte Report, 2019: Invest in Ethiopia - Structural reforms set to Unlock East Africa's largest economy[73]

Ethiopia has emerged as one of the fastest-growing economies in the world. During 2008-2018, Ethiopia recorded an average real growth rate of 9.9%. This high growth rate is supported by structural reforms through the open industrial sector. The focal points of the report indicated that the industrial sector is set to become the country's largest GDP contributor by 2025. Ethiopia's population structure is expected to change towards a working-age-dominated structure – a boon for disposable income and economic growth. Ethiopia has maintained strong investor interest as one of the top investor destinations in Africa, becoming the second largest FDI recipient in Africa. The recent launch of the African Continental Free Trade Area (AfCFTA) is expected to fuel investments. Finally, Ethiopia's Investment Code provides incentives for development-related investments, reduces capital entry requirements for joint ventures, permits the duty-free import of capital goods (except computers and vehicles), opens the real estate sector to foreign investors, extends the relief

[73] See https://www2.deloitte.com/za/en/pages/deloitte-africa/articles/invest-in-ethiopia.html

for losses carried forward, and prioritizes investors for the lease of land.

Key sectors to watch include:

- *Automotive* - The automotive industry presents a long-term opportunity for first movers
- *Power Infrastructure* - The Grand Ethiopian Renaissance Dam is projected to be Africa's largest hydropower plant
- *Agriculture* - Agro-economic zones are expected to support agricultural growth through investments
- *Construction* – Construction activities account for 71.4% of the industries sector

Israeli Chamber of Commerce Report, 2016: Ethiopia: The Rising Giant of East Africa[74]

Ethiopia, the largest economic market in East Africa and one of the largest in all of Africa, is characterized by a skilled and inexpensive labor force.

Infrastructure & Transportation: about 25% of the government's budget is dedicated to the development of transport infrastructure (especially roads), and additional budgets are provided by international aid funds. Accordingly, there is a need for consulting, conducting programming surveys, engineering planning, and project management.

Agriculture: more than 80% of Ethiopia's total exports are agricultural produce (sesame, coffee, legumes, teff) and most of the population is engaged in the agricultural sector, with the work mostly done traditionally. Technology use is witnessing a growing demand in the field of seeds, fertilizers, irrigation, post-harvest care, and more.

Construction industry: the urbanization process, as part of the fruits of growth over the past decade, reflects the need to develop residential complexes, offices, and hotels. Accordingly, consulting, supervision, control, and project management are necessary.

[74] See https://www.chamber.org.il/foreigntrade/1094/1100/72161/

Food and beverage production: Ethiopia wants to derive more value from its large agricultural produce by processing and exporting food products. Accordingly, there is a need for advice in the field of post-harvest care, processing of agricultural produce, and project management. There is also interest in the cooperative model.

Electricity generation (hydroelectric and solar energy): Ethiopia needs the development of energy sources to ensure its continued growth. Domestic electricity production only accounts for 10% of the country's total demand. Most households in the country are disconnected from electricity, and even those connected (about 12%), suffer initiated power outages, due to the inability to meet demand. As a result, there are budget allocations, development programs, and international aid budgets aimed at improving Ethiopia's energy independence. Ethiopia has enormous and untapped potential for hydroelectric energy development. In fact, it ranks second after the Congo. The vast distances and a large number of villages far from the power lines create a need for off-grid solar energy solutions.
The core challenges mapped by the report indicate that, despite the evident potential, this is one of the poorest economies in Africa as well as in the world. The business culture constitutes a real obstacle for Israeli businessmen seeking to do business in the country. Another difficulty is in finding funding for projects in the above areas since the government and local authorities are often unable to obtain the necessary funding. In addition, despite the political stability of the past decade, Ethiopia is not a democratic country.

The Digital Health Market in Ethiopia Report (2021)[75]

Ethiopia is defined as a "warm" location with business opportunities but one that features significant barriers to business growth. The health-tech market in Ethiopia faces important obstacles to adoption and scale of technologies and innovations, essentially due to the country's social, economic, and humanitarian context. However, Ethiopia is starting to invest in health innovation, especially digital health, and has been incorporating technology into health systems. In 2020, the Ministry of Health opened the Digital Health Innovation and Learning Centre (DHILC) in Addis Ababa to serve as a hub for health professionals to design and validate digital health tools and scale-up innovations. Additionally, Ethiopia benefits from the presence of humanitarian and development players who over the recent years,

[75] See https://api.preciseethiopia.com/uploads/Digital_Health_in_Ethiopia_2021_274d240d17.pdf

increased their support of innovation, including in the health sector. As Ethiopia's innovation ecosystem has been developing in latest years, it could attract global innovation actors interested in accompanying the efforts of the government and other national stakeholders to boost the innovation ecosystem.

Below is a SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis of the current Digital Health (DH) ecosystem in Ethiopia, summarizing the key opportunities and barriers mitigation.

Strengths	Weaknesses
• Human Dividend: High, young and growing population. • The country has significant leadership for Digital Transformation – National Digital Strategy. • Ethiopia is at the heart of regionalization agenda and AU. • Focus with committed resources (funds and infrastructure) on Industrialization and job creation for youth – IT park, Pharma park. • Rapidly reforming business and banking environment – although has some way to go as compared to others. • The healthcare sector status of the country has been improving especially for Access (primary care) although areas such as quality, financing, and workforce need improvement but are the focus today. • Mobile and Data IT infrastructure expanded significantly.	• The national Digital Transformation does not put health at the core although manufacturing. • Small Private sector Innovation / limited engagement. • Fragmented systems – Public (within), private. • Donor supported government (not private). • Existing digital strategies are fragmented (see policy review). • Lack of skilled personnel, brain drain, low literacy. • Financial Commitment is limited especially domestically for health and IT although growing. • Data/Digital security not yet patient-centric – Very government heavy. • Lack of standards, IT procedures but improving for Supply Chain Management. • Bureaucracy heavy: Customs clearance and regulatory hurdles and bureaucracy for logistics and supply chain.
Opportunities	**Threats**
• Regionalization opportunity from its geographic position -AU and AfCFTA. • Travel hub with strong logistics infrastructure (Ethiopian airlines). • Industrialization vision and human dividend. • Health outcomes/access are still poor and NCD increasing that lend for digital tools/solutions to make a bigger impact – leapfrog. • Covid-19 accelerated the PSE governance and PPD platform.	• Health Data complexity: most medical information is textual and not well-structured as in other industries. • Cultural complexity: a wide variety of actors, regionals, languages, religion. • IT complexity and vendor lock-in. • Very rural population. • Lack of trust: private sector amongst themselves as well as lack of trust with gov entities.

Key Findings thus include limited private sector innovation, a fragmented system, donor-supported government DH ecosystem, and existing digital strategies that do not include the full landscape of key pillars for the DH ecosystem. From the analysis of integrated indices, WHO data, and international organizations, and through the reports, it can be concluded that the Ethiopian economy is neither strong nor improving, featuring a weak financial system. On the other hand, the Ethiopian government invests a lot of effort in improving the business climate and training professional staff. It can also be noted that there is business potential in several domains, such as agriculture and infrastructure

2.3 Israel-Ethiopia Trade Relations

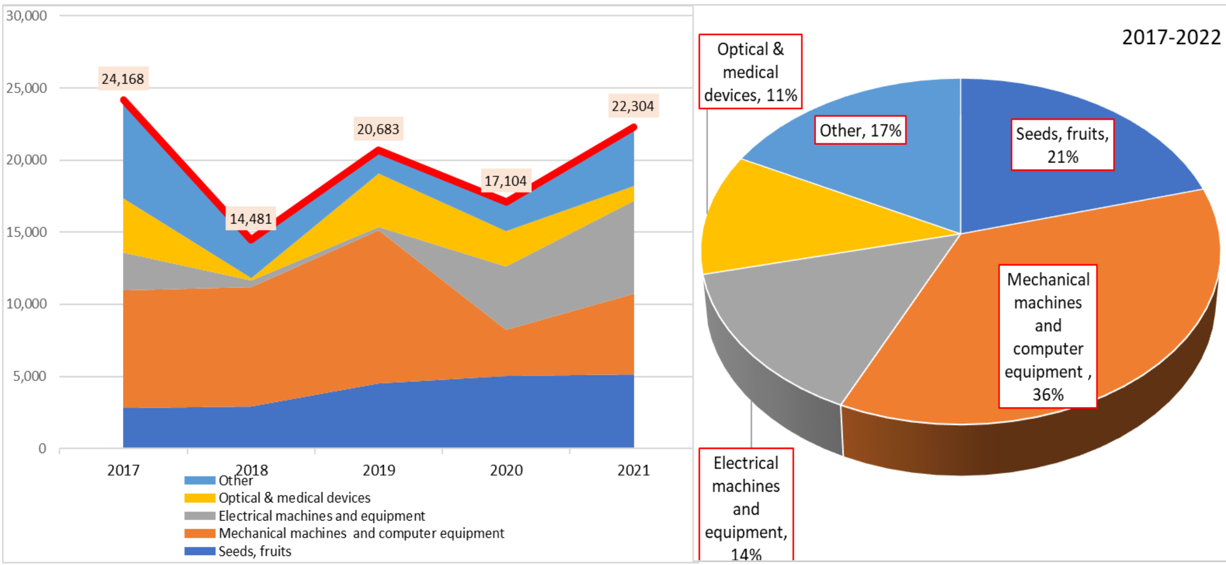
Export of goods from Israel to Ethiopia

As delineated above, the volume of exports of goods to Ethiopia is not large - it amounted to USDM 98.7, less than USDM 20 on average per annum between 2017 and 2021. This features great volatility and it seems complicated to identify a long-term trend. Furthermore, most exports are concentrated into four main kinds of goods:

- Seeds, fruits, industrial and medicinal plants, straw, and fodder;
- Mechanical machines and devices and computer equipment;
- Electrical machines and equipment;
- Optical, photographic, medical devices and tools and measuring tools.

Figure 6

Export of goods from Israel to Ethiopia, by industry, 2017-2021 (USDK)



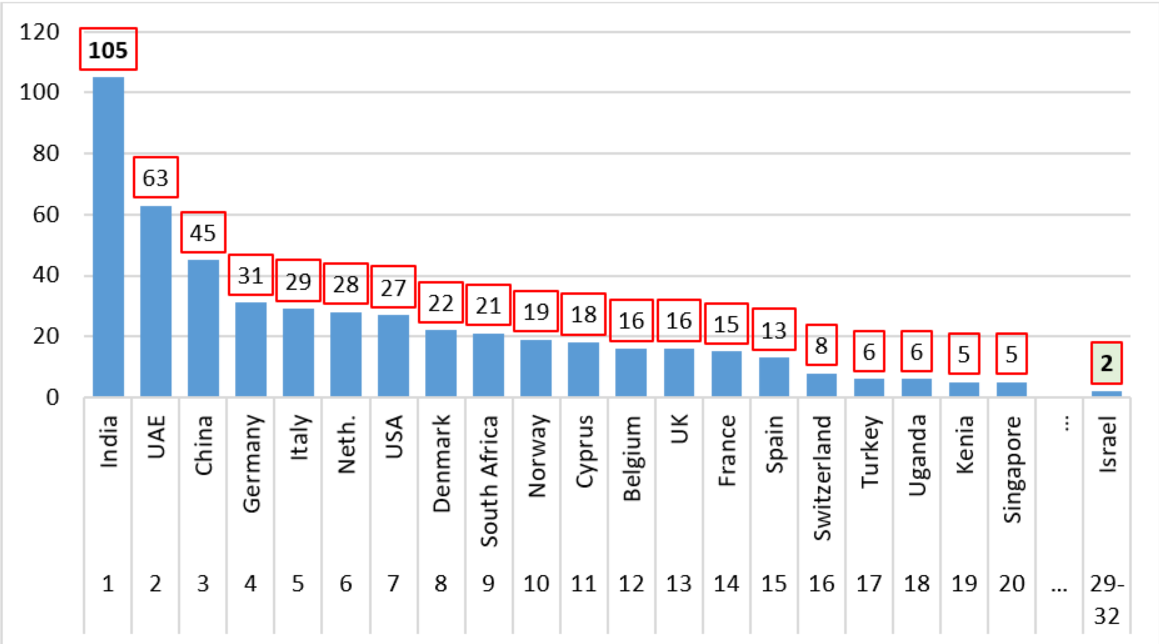
Source: Samuel Neaman Institute processing for CBS data

Israeli companies that won government tenders in Ethiopia[76]

Between 2018 and 2022, the Ethiopian government published about 3,600 tenders. 554 of them were won by foreign companies from 49 countries (by 10th June, 2022), including two Israeli companies.

Figure 7

The number of companies that won government tenders in Ethiopia, 2018-2022 (Israel vs 20 leaders)



Source: Samuel Neaman Institute processing for IEI data

The two companies that won the tenders are international Israeli companies that carry out projects in many countries. ROM TRANSPORTATION ENGINEERING LTD specializes in transportation planning and consulting projects and AGROTOP is a leading global company for livestock turnkey projects.

[76] The data was produced by the Israel Export Institute (IEI)

Table 3

Israel companies that won government tenders in Ethiopia

Contractor's Name	Date of Posting	Contract Completion Date	Sector
ROM TRANSPORTATIONENGINEERING LTD	17-Sep-18	04-Jun-19	Environment
AGROTOP	23-Jun-18	31-Dec-18	Agriculture

Source: Samuel Neaman Institute processing for IEI data

Israel High-Tech Companies Operating in Ethiopia

The general IVC Database includes 9522 active companies.[77] Under the life science sector -sectors: biotechnology; digital health, medical devices, and pharmaceutical) there are 1869 active companies.

Under the cleantech sector (which includes the following sub-sectors: agro-tech, energy, environment, materials, and water technologies) there are 944 active companies.
In the database, there is not even one company that is registered or that has an office or branch in Ethiopia. Conversely, the database lists about 44 Israeli companies that have an office or branch in Africa, mainly in countries such as South Africa, Ghana, Kenya, and Nigeria. Startup Nation Central (SNC) general database[78] includes 7211 active companies. -tech & Water sector, there are 678 active companies. There are 1674 active companies under the life science & HealthTech sector. The database lists only one company that has an office in Ethiopia. Most companies that operate in Africa, have business operations and/or an office in South Africa, Ghana, and Nigeria. Companies Operating in Ethiopia (without a branch) include the following:

Haama Group - Manufacturer of Textile and Insulation Products

Funded: 1964

Number of Employees: 11-50

Branches/Offices – 12 (including Israel)

[77] https://www.ivc-online.com/

[78] https://finder.startupnationcentral.org/company/search?&status=Active

Offices Abroad: 11 in different countries (including Mekele, Ethiopia)

Water Ways Technologies - Agriculture technology

Water Ways Technologies is an Agro-Tech company that specializes in providing water solutions to agricultural producers, as well as innovative technologies and facilities for the cultivation & production of Cannabis

Funded: 2007
In Israel: since 2019
Employees Worldwide: 1-500
Employees in Israel: 11-50
Branches/Offices – 3 (Headquarters in Canada), China, Israel
Project in Ethiopia: Desta Farm, Agricultural Irrigation System

Sivan Design, Enterprise, IT

Products: CAD and GIS-ERP Software Solutions
*Geographic markets: Africa (**Ethiopia**, Ghana, Tanzania, Uganda, Nigeria, Kenya)*
Client in Ethiopia –Ministry of Agriculture of Ethiopia
Funded: 1996
Number of Employees: 11-50
Branches/Offices – 4 (including the main office in Israel)
Offices Abroad: United States, Nigeria, Uganda

P2W (Pollution to Water), AgriFood-tech & Water

Chemical-free Method of Water Treatment for the Mining Industry

Geographic markets: Africa (**Ethiopia**, Ghana, South Africa)
Offices Abroad: Ghana, South-Africa
Funded: 2005
Number of Employees: 51-200
Branches/Offices – 2 (including the main office in Israel)
Offices Abroad: Ghana, South Africa

On the company website, there is no indication of any current project or business activity in Ethiopia.

Tahal Group, water, wastewater, agriculture, environment, and natural gas.
TAHAL has operations in various African countries, including Ethiopia: a water supply project in Addis Ababa.
Funded: 1952
Number of Employees: about 1,000
Branches/Offices – 2 (including the main office in Israel)
Offices Abroad: THE NETHERLANDS

ILEX Medical Diagnostics and medical equipment.

The company has operations in Africa – which includes contracting with local agents in various countries, including Ethiopia
Funded: 1977
Number of Employees: about 100
Branches/Offices – 2 (including the main office in Israel)
Offices Abroad: South Africa

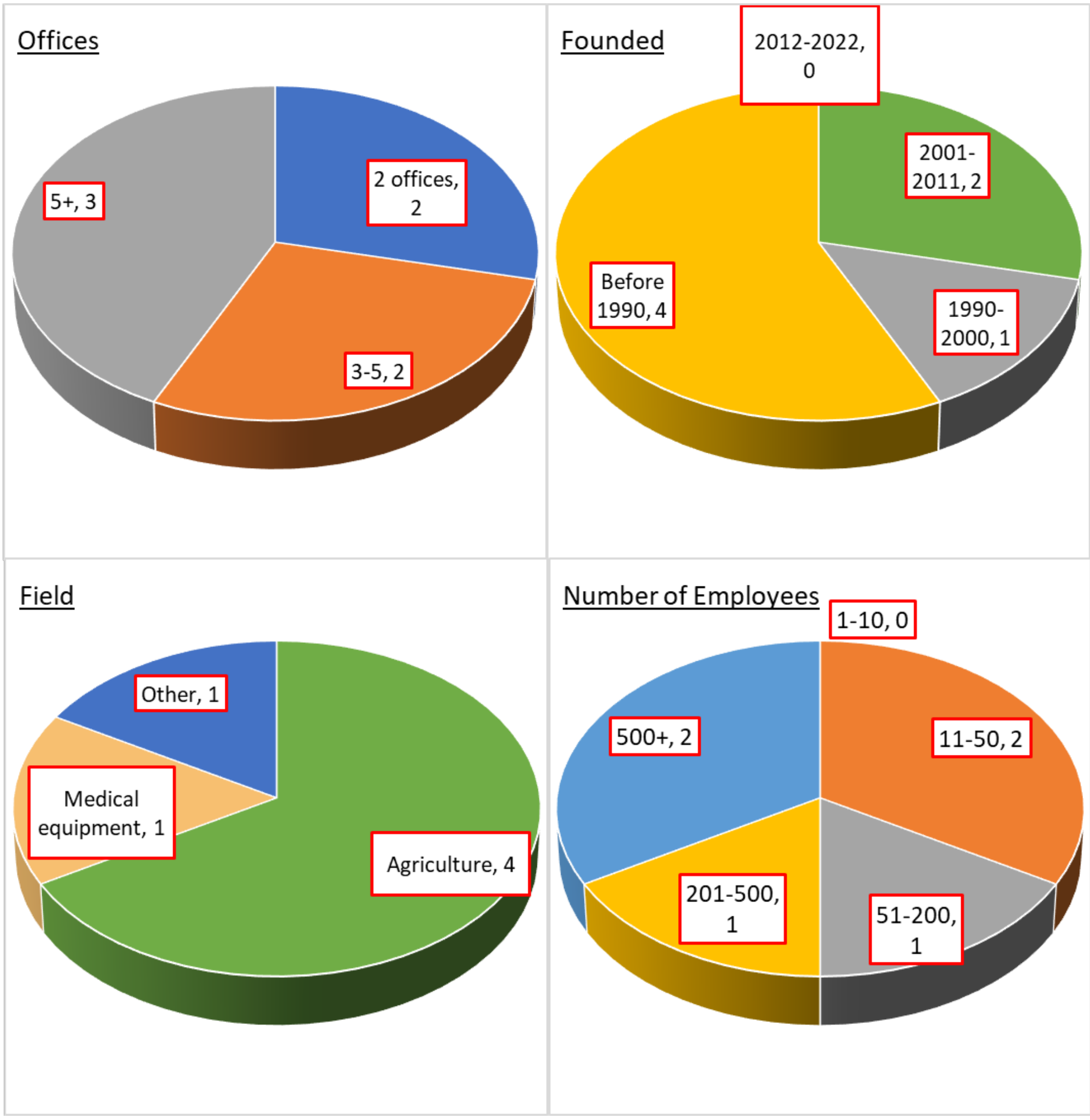
Netafim - Agricultural Irrigation Systems
Netafim, the Israeli company, has taken on a major $200 million irrigation project for the Ethiopian government's sugar company covering 7,000 hectares (17,500 acres). Financing is being led by the corporate division of Bank Hapoalim.
Funded: 1965
Was acquired by ORBIA - in 2017
Number of Employees: 5000+
Branches/Offices – Headquarters in Israel, USA
Global presence: in 110 countries
Revenue: 1.063 billion USD (2019)
Subsidiaries - 33

Key Characteristics of Companies Operating in Ethiopia

An examination of the characteristics of high-tech companies operating in Ethiopia reveals several facts: No company has been established in the last decade; there are no small companies (up to 10 employees); the majority of the firms operate in several countries (3 to 5 branches); most companies are engaged in various aspects of agriculture. In general, a lot of companies seemingly operate in Ethiopia without opening a branch or office - through local agents or through an office situated in another African country. From the data, it can be surmised that Ethiopia is not an attractive destination for young Israeli companies (see Figure 8 below).

Figure 8

The characteristics of high-tech companies operating in Ethiopia



Israeli Companies Operating in Africa

TEVA Pharmaceuticals

The company operates in South Africa, and in November 2021 received a managerial decision to enter the sub-Saharan countries (Ghana, Kenya, Nigeria, Côte d'Ivoire, Malawi, Namibia, Botswana, Zimbabwe, and others).

Funded: 1901
Number of Employees Worldwide: 37,000
Employees in Israel: 6,200
Branches/Offices – 6 (Including Israel)
Offices abroad – 5 (USA, European countries)
Global presence: in 60 countries
Subsidiaries – 7
Quarterly Revenue: $3.595B (Sept.2022)
Annual Revenue: $15,878 (2021)

Cassit Orthopedics

Sector: Life Science, Medical devices

Geographic markets: Japan, Europe, Russia, South Korea, Africa, Israel, United States

Funded: 2016
Number of Employees: 1-10
Branches/Offices – 2 (including Israel)
Offices Abroad: South Africa

Bermad

Sector: AgriFood-tech & Water, Water Control Solutions

The company had projects in Africa, in the countries of Ghana, Nigeria, South Africa, and Senegal.

Funded: 1965

Number of Employees: 2001-500

Branches/Offices – 11 (including Israel)

Offices Abroad: 10 (China, India, Singapore, USA, Europe, Brazil, Australia, Mexico)

N-Drip

Sector: AgriFood-tech & Water

Geographic markets: Vietnam, Nigeria, India, Australia, Global, **Africa**, United States

Funded: 2015

Number of Employees: 51-200

Branches/Offices – 4 (including Israel)

Offices Abroad: 3 (USA, Australia, South Africa)

AgriFriend

Sector: AgriFood-tech & Water, Agricultural Education for Emerging Economies

Geographic markets in Africa (Kenya, Tanzania, Zambia)

Funded: 2019

Number of Employees: 1-10

Offices: 1 (in Israel)

Nova Lumos

Sector: Cleantech/energy, home power station in a box - on-demand solar distributed energy, Off-grid energy

Funded: 2012

Number of Employees: 1-10

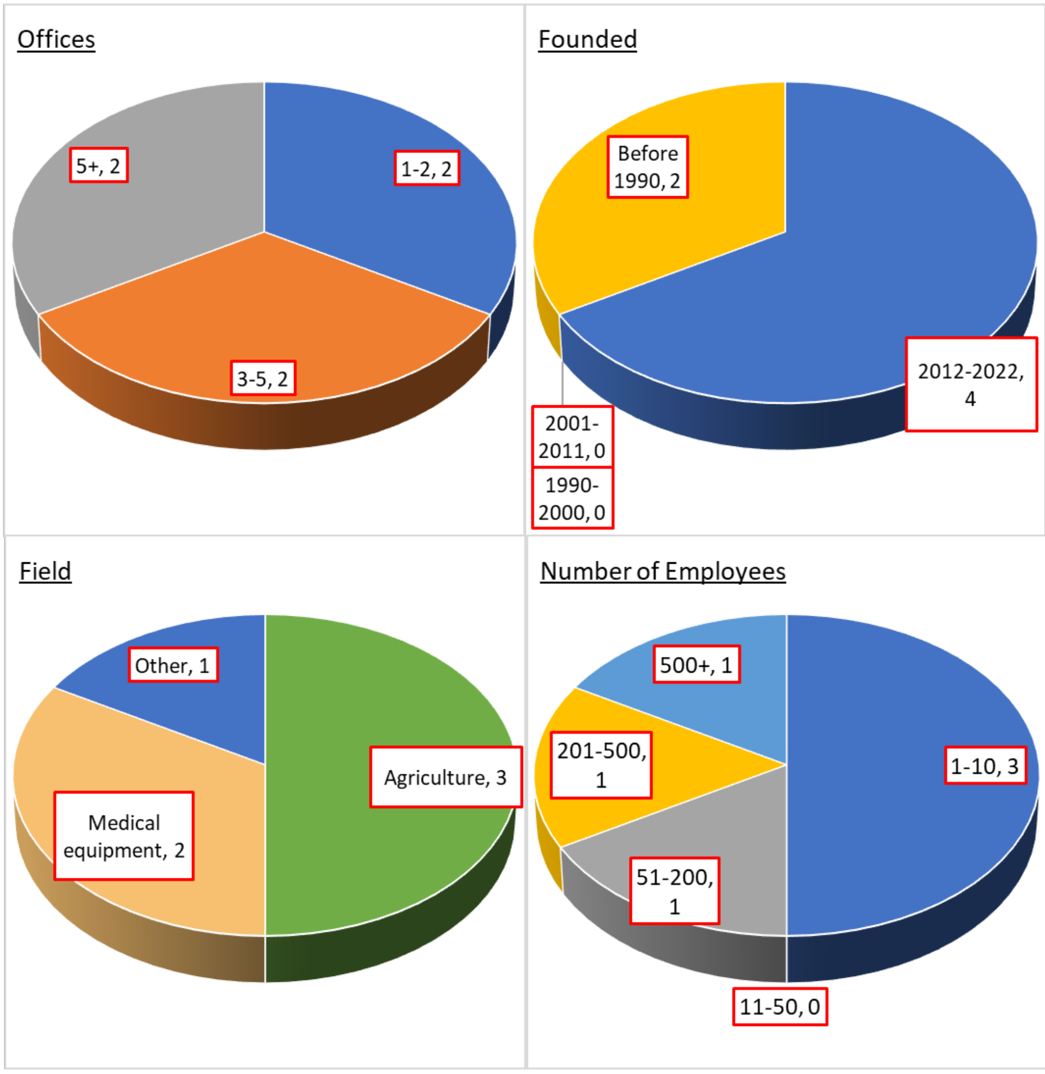
Offices abroad: 3 -Headquarters in Amsterdam (The Netherlands), Nigeria and Côte D'Ivoire.

Key Characteristics of Israeli Companies Operating in Africa

The picture that emerges from the analysis of the data of the companies listed above is significantly different. As seen below (Figure 9), most of the companies on the list are young companies (established between 2012 and 2022), and a significant portion of them is small (1-10 employees). Hence, it can be inferred that the small statistics, lack of success stories, and lack of guiding lines have shown a deterring status quo in Ethiopia, which stands opposite to actual potential. As only some of the Israeli companies operating in Africa are listed in this chapter, the analysis of the data below should be treated with due caution. However, we are not to ignore the indicated differences.

Figure 9

The characteristics of high-tech companies operating in Africa



Case Study – NALA

NALA is an independent non-profit organization, established in 2011. Its main purpose is to break the cycle of poverty by eliminating Neglected Tropical Diseases (NTDs) and other diseases of poverty. NTDs are highly endemic in Ethiopia, causing further marginalization, and economic and social challenges for the disadvantaged population. During the last decade, NALA has led intense community interventions for disease prevention in hundreds of locations around Ethiopia, leading to a 90% reduction on average in intestinal parasites. Operating via international collaborations, NALA provides an optimal response to the needs of the local population.

NALA has supported the Ethiopian Federal Ministry of Health in the design and implementation of a national framework for improved sector collaboration to eliminate NTDs. Ministries of Health from different African countries have begun to adopt the policy, with technical support from NALA guiding the intervention. NALA is assisting national and international actors in designing and implementing programs for controlling NTDs and other diseases of poverty using community engagement and health education to facilitate behavioral change. Together with community stakeholders & decision-makers, NALA explores the root causes of the diseases, and potential ways for mitigation and prevention. Among NALA supporters & operational partners are JDC; the Pears Foundation; the END Fund; Merck; Bill & Melinda gates foundation; Mashav; SID; WHO; the Ethiopian Federal Ministry of Health and others.

A flagship project of NALA with Merck - a premier research-intensive biopharmaceutical company,[79] and with the Ethiopian Federal Ministry of Health was a unique illustration of -sectorial collaboration, resulting in unprecedented success. The project, Elimination of Schistosomiasis and NTDs in the Bench Maji Zone in Ethiopia, was carried out between August 2017 and January 2020 and targeted districts in the Bench Maji zone, to eradicate schistosomiasis and other NTDs in the population (for more information, see the 2021 report). The Ethiopian government - the Ministry of Health requested intervention in the zone due to the high prevalence of NTDs. NALA operated side by side with Merck, in the format

[79] https://www.merck.com/company-overview/

of community-based interventions encouraging community-led behavior change.
NALA's 2019 Annual Narrative Report shows a monitoring and evaluation framework that follows predetermined indicators, such as a decrease in disease prevalence and changes in certain behaviors, to assess the success of the project. For evaluation purposes, NALA conducts biomedical surveys, KAP (knowledge, attitude, practice) surveys (of primary school students on issues regarding sanitary and hygienic behaviors), WASH assessments, and cohort studies to evaluate the training session. In the 2020 impact survey, NALA determined the effectiveness of the project using biomedical surveys, KAP surveys, and interviews with schools' staff, governmental officials, community members, and health system members. The project's achievements are divided into school-based interventions, community-based interventions, and WASH improvements.

The analysis concludes that the lack of awareness about important preventive hygiene behaviors is the main factor that aggravates the prevalence of various communicable diseases. It shows that the majority of students have low awareness about the route of transmission, symptoms, and preventive measures for different diseases. Similarly, their attitude and practice of WASH-related preventive behaviors were found to be unsatisfactory.

In the framework of the School-based intervention, in collaboration with the district education office, 66% of schools added hand washing stations with clean water and soap. Most of the schools constructed new latrines or maintained the existing latrines by mobilizing resources from the community. Teachers and health club students have been monitoring the personal hygiene of each student once a week on Mondays, and all schools conduct periodic sanitation campaigns which include cleaning the schools' compounds.

As for the Community-based intervention, following the training provided to the Health Extension Workers, a total of 14,790 people in the community received the NALA training and have been participating in different health promotion activities in the area. Furthermore, the Health Extension Workers have been conducting awareness-raising campaigns and health education sessions on NTDs at the community level in collaboration with the Health Development Army and school health club focal points. Also, NALA initiated joint work with the community steering committees. The committees visited different districts to observe activities performed concerning hygiene and sanitation. Based on the findings of the visits, the steering committees selected model women and rewarded them to encourage their efforts toward the improvement of hygiene and sanitation conditions in the community.

The data collected indicated a tremendous improvement in reducing the rate of disease among school children, apart from heightened awareness and improved practices in communities with respect to the prevention of NTDs. The success of phase I has encouraged continued project implementation, to ensure the autonomy of the community in maintaining the sustainability of this behavioral change, also after the end of this project. NALA further conducts a system of monitoring and evaluation of all steps of the funnel throughout the years, assuring first the increasing pace of the activities in a bootstrap mode, starting from the schools themselves, to communities and eventually districts, and assesses both the decrease of disease prevalence and the changes in relevant behaviors. The overall cost of the project, including administrative and research costs, transport and field expenses, community projects and events, and training/technical support summed at EUR 297,293. The ROI estimated by Merck, as elaborated in the next chapter, was immense, in private sector terms. The project, although not for profit in essence, is a great illustration of the dual effect of impact investment – do good but also do well.

NALA's collaboration with global organizations and corporations, such as Merck (more details in chapter 3 of this research) positions NALA as a genuine impact company, with a unique and hybrid model of development and substantial contribution to health tech. Nonetheless, it is not eligible to apply to key grants and funding opportunities, such as Israel Innovation Authority since it is not a tech company by essence. This instructs about the importance of separating innovation and impact from technology in some cases, and allows a more hybrid approach, adjusted to the environment Israeli companies operate in examining the actual impact.

Other channels of partnerships for Israeli companies such as NALA will have to do with existing Israeli players operating in the field. Accordingly, 42 Israeli start-ups were identified with products or processes potentially relevant for health innovation programs in LICs and MICs as part of a study that was ordered by JDC-GRID (JDC, 2021) to provide an analysis of global health needs and priorities and identify opportunities for innovation and technology in LICs and MICs, with a particular focus on Ethiopia and South Africa. The Israeli start-ups there are fertile grounds for networks, communication, and support.

2.4 Conclusions

The conclusions of the chapter present the statistical findings applicable to Israeli impact companies regarding a preferred penetration strategy to the Ethiopian market. These include the quantitative anchor of the unfriendly bureaucratic system for business and the weakness of the financial system in Ethiopia, while the two most problematic indicators are related to the latter - protection of small investors and access to credit lines. The steps that the Ethiopian government has been taking to improve the business climate in the country in recent years can be a game-changer. The chapter further confronts the results disclosed in global indices while illuminating core notions. For example, in the Economic Freedom Index (EFI), the Ethiopian economy does not receive a high score (ranked 143 out of 165 countries examined). However, integrated indices show that the government's activities pull the economy forward – as both the absolute value of the grades and the progress over the years in these sections are particularly high. Still, this progress is vastly counterbalanced by indicators attributed to the lack of democracy and freedom in the country. In addition, focusing on the Digital Health (DH) ecosystem in Ethiopia, the research proposes a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis that summarizes the key opportunities and the steps to mitigate barriers. Key findings include limited private sector innovation; a fragmented system; a donor-supported governmental DH ecosystem; and the exclusion of the full landscape of key pillars for the DH ecosystem.

Concerning Israel-Ethiopia trade relations, the conclusion that emerges from existing data is that Ethiopia is not an attractive destination for young Israeli companies, a prevailing impact profile. However, in terms of companies operating in Africa, the picture is significantly different. Most of them are young (established between 2012 and 2022), and a significant portion of them is small (1–10 employees). From this finding, it can be inferred that the availability of limited data, which reflects the small number of collaboration attempts, and the lack of success stories and guidelines have been deterring factors, in stark contrast to the actual potential. Thus, on the one hand, the Ethiopian economy is neither strong nor improving and has a weak financial system. On the other hand, the Ethiopian government makes considerable investments in improving the business climate and training professionals, resulting in evidently rising business potential in several domains, such as agriculture and infrastructure. Lastly, and as complemented in the subsequent chapter, the Israeli government should find a path to support and encourage impact companies from a variety of sectors and structures, to generate actual scale in mutual relations. NALA is a sheer example of a non-tech company that is indeed innovative, thus fundamental to the state impact efforts. A new state model of impact should consider the integration of such, encouraging impact aside from financial return.

Chapter Three: Fieldwork: Main Findings

3.1 Introduction

The purpose of this chapter is to capture the findings of extensive and in-depth fieldwork, to delineate the main impact routes, the key opportunities, the obstacles, as well as the main industries and sectors, the institutional support of the collaborations, the processes executed and the key players. The fieldwork was conducted in Israel, in Ethiopia, and Switzerland. We have done 79 interviews, with NGOs, state officials, governmental ministries, embassies, economic delegations, and decision-makers in Israel and Ethiopia, players from the global development field, international organizations, consulting and research agencies, impact companies, impact funds, and scholars exploring the field of impact and development. The chapter, collecting the findings from that fieldwork, assembles the core recommendations concerning the practices Israeli companies targeting the African market should adopt, the main parameters and focuses in order to reach sustainable success there and the policy guidelines that the state shall adopt, as well as collaboration channels, in order to support this effort.

The key questions posed were built to extract a better understanding of the core topics that constitute the impact environment, the bilateral challenges, and the international practices, as well as the economic, social, and political challenges in establishing a fluent impact exchange.[80] The conventional wisdom regarding impact is that it is by nature reciprocal – for the developing state or agency and for the other side, bringing economic and political benefit to both parties. The target of the impact eco-system is more often than not the middle class in developing states, not only the poor population. The former can be early adapters of impact technology, and boost the economy forward. Therefore, we refer to impact as an important state tool rather than private only, and this is widely reflected in the way the fieldwork was conducted.

For the purpose of this research, we shall refer to some core challenges, processes, and

[80] The list of key questions as well as the list of interviewees and the documentation of the interviews is kept in the researchers' records.

common denominators in Africa in general. However, in parallel, we will attempt to elucidate the particularities of the main case study and objective – Ethiopia. Through the particularities of the Israel-Ethiopia relations, specifically in the impact arena, we aim to derive the modalities that impact players, as well as state institutions and agencies, shall adopt to reach sustainable global impact aside from financial profit.

One point that emerges is how Israelis, including those in senior positions within the circles exchanging with African states, tend to view Africa as one cohesive block. However, counting fifty-four states (or fifty-five, as there is a conflict about the inclusion of Western Sahara), a fundamental difference between the different states constituting the African continent is evident in the economy, social realm, foreign relations, and political structure, compelling the segregation of African states into distinct units.

Mapping Africa and targeting the core African states to develop and deepen relations with Israel, we typically include Kenya, Ethiopia, Ruanda, and Ghana, all of which feature great innovation potential. Nigeria is also fairly prominent regarding its potential at the Business-to-Business (B2B) level but is not targeted at the state level. The chapter is structured to delineate the main conceptions, experiences, state of affairs, and professional outlooks of the interviewees. It then consolidates the core implications that were heightened in the framework of recommendations, for both the state and for impact companies aiming to penetrate the Ethiopian market.

3.2 NGOs

The Conceptualization of Impact

In general, impact is to a great extent an evolution of the market-based approach to international development, which identifies a social challenge combined with market failure. This is a rather new approach in the philanthropic market. Since many of the Israeli NGOs are supported by diaspora Jewry, the young generation of American Jewry is very much pro investments in developing states, being with a more universal context and less of a Jewish-only orientation. They are motivated by the prevailing perception of doing good for the Jewish community, including through activity towards non-Jewish, strengthening thereby the reputation of the Jewish community. This, nonetheless, is just the beginning. A genuine shift of paradigm from philanthropy to pure business with impact is still at a nascent stage and an in-depth process of what the local population needs is yet to kick off.

While measurement is key in investments in general, is it still not very evident in the case of impact, as the latter is somewhat an evolution of the activities of NGOs and non-profit organizations in the non-profit field of development. Therefore, the actual measurement of impact is neither by classic metrics of ROI (Return on Investment) nor by the pure new presence in the targeted markets. Social bonds, also known as the Pay-for-Success model, are a relatively smart tool since they deal with the problem and not the symptoms, but other problems are not solved through such tools, as some things in civil society cannot be backed by profit tools. In addition, confusion persists between international development and impact, and industrial strands, such as farms, that might be presented as impact but are not impact per se. Therefore, we must be careful when discussing and projecting impact investments on all developing states' needs from exterior companies and exchange. There should be a responsible discourse around impact – donors who are 'willing to also profit', placing impact as a more responsible type of investment.

Some of the interviewers from NGOs further introduced an interesting and far less romantic approach regarding impact investments: whatever has a business market –the impact dimension is less important. If there is no business market – the impact investor is a donor and profit is a bonus at best. Furthermore, the conception of impact investments might be integrating two divorced notions that are only synthetically attached, which might be dangerous for civil society organizations, and since it is increasingly becoming a business trend. Those, contrary to impact companies, do not need impact investors to support them, they need donors. Therefore, there is a concrete risk for some organizations whose essence does not enable measurement or profit – and they may thus lose funding opportunities. Some crucial foundations of the developing world will simply not exist if we will have investors only and not donors. Nonetheless, in developing states it is easier to generate impact. Many profitability models can be duplicated, but this is just the beginning.

The Main Advantages and Business Opportunities of the African market

In general, 7 out of 10 developing markets are situated in Africa. These economies must develop and prosper, and they must enhance their productivity, in areas of agriculture, finance, and energy, as more and more money from the west will flow there. Specifically, there are few substantial advantages in Ethiopia. First, these are the logistic advantages, such as population size, accessibility, and the actual need as well as demand for existing and new technologies. In addition, Ethiopia has a very positive approach to Israel, with great admiration for the Israeli tech capacities in addition to the affinity between the nations, and a great preference to collaborate with Israel.

The demography features the majority of households in agriculture, thus providing both financial leverage and economic safety. This is the most exchangeable sector. A good illustration is the public bids for entrepreneurship in the field of digital agriculture, jointly by governmental offices, the JOINT, CULTIVAID, and Pears Program for Global Innovation.[81] Mid-tech in Israel is a cutting-edge technology in Ethiopia, and access to funding is provided if on top of it so that local agriculture gets the knowledge and the funding to expand – it is a genuine business opportunity for local agriculture and even a breakthrough. Other crucial needs, therefore room for opportunities in the Ethiopian market, include water, cyber for governments and e-payments systems, and of course, the health sector. There are great exchange centers already in tourism and communication, to be further substantiated.

Many opportunities are coming from the international organizations active in the region – International Monetary Fund (IMF), Initiative for the Development of Africa *(*IDA), programs of the European Union (EU) Institutions, global funds operating in the region, United Nations Development Program (UNDP), USAID (international development agency), etc., looking for entities to provide services, mainly for humanitarian purposes. Also, many Ethiopian entrepreneurs came back to their mainland and look for business and investment opportunities as well as specific products. The connections between companies on both sides created more concrete responses to global challenges and enhanced the lines of products and solutions which are relevant and do not exist in the local market.
Tov (Tikun Olam Ventures) by JOINT–JDC *(Joint Distribution Committee,* a leading global

[81] https://www.thejoint.org.il/news/37/

Jewish humanitarian organization*)* is a fairly unique and hybrid example of an organization of philanthropic nature but with deep thought of cost-effectiveness. The TOV local team in Ethiopia, employed by JDC as a philanthropic organization, must comply with all demands of bureaucracy; it collaborates with governmental ministries – agriculture, health, economy, and all relevant offices. TOV further exchanges with different organizations which are active in the local sphere: Techno Serve (value chain development)[82], local hospitals, and philanthropic activity in the medical field, as well as financial advisers (also on the Israeli side) to help with the local banks. It is supported by the JOINT which is most prominently active in the fields of women's rights, agriculture, and health, in Ethiopia, Mozambique, and now beginning in South Africa. TOV provides another investment model - a combination of philanthropy and investment - essentially a model of subsidiary profit. Another aspect of TOV is to encourage entrepreneurs to get to know the market opportunities, realizing the potential of this market, through delegations, market communications such as podcasts and webinars, and general support of the penetration process. As agricultural transformation takes years, this is the way to overcome the challenges and intermediate the technology used to such communities. In the case of TOV, the success opportunity is measured by the maintenance of communication and continuing establishment in the market. Market penetration and investment sustainability are the central goals. A case example is cold storage solutions, featuring integrated path management. TOV takes companies with compatible solutions on a one-year journey, exposing and helping a market penetration/business development (biz-dev) move. This platform is a knowledge infrastructure in itself. This trajectory also bridges cultural gaps, leading to successful opportunities. Another example is the Health project focusing on back surgeries; there, the challenge is to encourage the government to take ownership and to support it. TOV put the money because of the access to forex there is a problem and facilitates the collaboration path, firstly the contact with local partners and collaborators.

The Key Networks, Communication Channels, and Position Holders

The most relevant anchor is first and foremost the government. Israeli governmental bodies, such as the Ministry of Economy, Ministry of Foreign Affairs, embassies, and economic attaché offices are able to bring the proper players and map the needs. The Ethiopian

[82] https://www.technoserve.org/

ministries, nonetheless, are completely autonomous with no compelling rapport with their Israeli parallel ministries. Global entities with Israeli representation, like development banks, are important as well. Networking organizations such as Mass challenge, Tech for good, and GITA provide solid networks. The JDC has proficiency in the critical point of budgets. The local offices of its projects (e.g. SID, TEN, TOV) are a critical source of knowledge.

Companies must have their own people on the ground to do market surveys, both local partners and employees of the Israeli side. Advisory bodies that look at both the human factor and the economic needs enable financial measurements concerning impact evaluation. Local law firms for labor laws, to scrutinize the contracts are needed, so are local financial advisors to provide currency continuous review, for local salaries and credit lines, as well as for registration for state programs for which there must be a governmental certificate. Local companies are important partners, even on a contract basis of exchange. Increasing local teams is helpful, particularly to compensate COVID constraints. The key practices include working with local organizations and forces.

The critical funding at the initial stage of penetrating the market arrives from funds like IFC, World Bank, EU, and other development finance institutions that invest in pilots. This is increasingly visible in the establishment of funds that aim to invest in the impact area. Ethiopian local banks provide micro finance funds in Ethiopia, as well as some connections. Local branches of international organizations, on the range from NGOs to multi-national corporations (MNCs) are focal. Professional brokerage is critical and in many cases the lack of which is an actual gap preventing new players from trying to collaborate in African states. In general, NGOs adopt three levels of work with Israeli technologies: products, especially in agriculture, that are purchased as such; innovation journey which includes training and assistance, mentoring, connecting, and creating pilots in Ethiopia; and education– podcast series, etc. to generate knowledge. NGOS needs to create an integrated axis that includes Research – Government – Private sector – NGOs.

The Challenges and Gaps

Finance deficit, by means of lack of access to foreign currency, funding, and insurance channels, hampering exchange, as well as hardening bureaucracy, are some of the challenges that emerged for doing business in Ethiopia. There are hardly any startup investors targeting developing states. Companies, therefore, need to come up with complex financial structures, such as US intermediation. Acquisition of products is easier but transactions which need long-term funding and more complex financial processes are more complicated to execute. These are the result of the centralization of the Ethiopian market, as the banking system is closed thus access to forex is restricted, through earning money in Ethiopia and taking money out. The know-how of investments in Ethiopia, to enable big money arriving there, including Israeli money, remains unresolved. Also, Ethiopia is slow in terms of execution, due to the complex political and bureaucratic structure. In addition, labor productivity (GDP per hour worked) is very low, and concerning willingness for innovation, Ethiopia is perceived as more complicated. Although corruption is not prominent, Ethiopia features a very high level of difficulty in doing business, as evidenced in the previous chapter, and an opaque financial system. It is very highly regulated. Therefore, although Israeli technology is accessible – the partnership model with local banks is too challenging and not reliable. In general, Israeli companies deciding to enter African markets have often reported an unpleasant experience. Ruanda, for example, changed in that respect from a small country that is easy to do business with into a difficult one. Finding and aligning with a local partner, although critical, is a challenging process Israelis find difficult to adjust to.

Other than that, cultural gaps and ethnic conflicts, similar to other states, are obstacles. Cultural nuances are difficult to understand and it is hard to bridge them as generally, the country is pretty closed and not an active player in the international arena. Political instability and security, mainly in light of the past couple of years, are also key factors that prevent new companies from establishing their activities in the Ethiopian market. The political boundaries, all the same, were there before the 2020 continuous conflict.

Data and information deficiency is another core problem. Companies do not know enough so it is hard to convince them to try and penetrate these markets. Thus, they perceive the alternatives, in the West mainly, as more attractive and with a fast go-to-market timeline. The substantial lack of knowledge about Africa and the widespread misconceptions regarding corruption prevent qualified companies from approaching this market. They often do not conduct good research to understand the market-specific needs and culture as they are deterred by these conceptions.

These hurdles make the collaboration process long and pricey, with the actual cost being hard to predict; since Impact companies are not usually of deep pockets, these expectation gaps block the continuity of the penetration to the market. On the other hand, Israeli executives are, in most cases, not used to the type of collaboration that doing business in Ethiopia requires. They traditionally look for quick wins with an intermediary function to do their job, and, in many cases, may select the wrong distributor to trust. Also, being established in the local market is a must to generate the required connections, and the Ethiopia side expects the actual presence of the other party. For them, in-depth collaboration requires relocation, to show full engagement. As Ethiopia is a less attractive destination and there is scarce will by Israelis to commit to the process this way, the huge cultural hamper is not bridged. In many cases, the companies which enter the market are adopting a project–oriented mode of operation, rather than a long-term establishment in the market.[83] In addition, Israeli NGOs were often described as not flexible. This is illustrated, for example, in the competition on UN bids.

Also, in other developing states, NGOs face key impediments in terms of collaboration. In India, collaboration has been vivid since the 2000s, evolving along with the activity; the work there was mainly facilitated through the government. The government is very enabling, with funds and exchange opportunities, on the other hand, regulation is very heavy and the reliance on daily wages is catastrophic. All the same, good local technologies and a good business initiative culture are certainly a facilitating factor.

The Measurement of Profitability and Sustainability

Such evaluation, including of impact in general, remains undeveloped. The cost is naturally the main consideration, so Israeli companies need to be attractive in terms of the value proposition. Any ROI model, which is inexorably different for every product, would need to

[83] See McKinsey&Company. Rethinking the African business Opportunity, November 2018

introduce the profit for both sides. TAM (total addressable market) estimation is important. In agriculture, for example, you need to reach a substantial number of farmers to make it worthwhile for global companies to open offices in Ethiopia, obtaining a certain threshold of profitability. Local infrastructure or activity of a company is a criterion for driving positive change in the provision of food, water, healthcare, and sustainable infrastructure. Improving the ease of doing business is an important parameter. Regarding positive vs. negative impact: local funds of NGOs such as the JDC traditionally provide support to small companies that need them, and not the big corporations, part of which have been involved in bribes and corruption. The reputation of companies is indeed important, but the target of the NGOs funds is, to begin with, small companies from the impact eco-system.

Current and Prospective Plans

Some new plans are being developed. The JDC has a few programs planned in the pipeline. Enlarge TOV is one focus. There is a new humanitarian program aiming to integrate the eco-system as well, for example, 3D printers. There is also currently a review of medical innovation and the development of new projects of best practices in the health sector. In addition, the economic empowerment of women through the bio-gas oven, using solar panels with knowledge purchased from Israel is planned. Finally, the Locus competition, which increases the availability and affordability of transformative impact, runs a pilot for the winning company in Ethiopia or Kenya. As for other developing markets, Ghana, Tanzania, and Zambia are on the agenda. Outside Africa, India was a long-term goal.

To sum up, the logic of collaboration, including the States-NGO-Private sector axis, needs to offer a more holistic structure, generating the right business model for the challenge; it needs to introduce a solution, instruction, reaching the local cooperative, collaboration, and adaptation process. The growing will of the Israeli side to collaborate must be backed by a genuine success story to make such an exchange appealing.

3.3 State Officials

The Conceptualization of Impact

Development in general in Israel is still very initial. Other developed states invest substantial amounts of money in development, specifically in other developing states. Israel is far from them in terms of its investments in development but also concerning the importance of thereof in a national political economy. What makes it more difficult is that the public discourse on that matter hardly exists. Furthermore, there is a prevailing confusion in Israel, assuming bilateral trade generates an impact. While it does create liquidity and employment, the impact is a well-mediated process that needs designated deliberation. In general, the prevailing perception is that impact is based on philanthropy aside from profitability for sustainability. The issue is complicated and requires multiple partners, as well as overcoming cultural and perception gaps, through allowing access to knowledge, information, and tools.

It is well acknowledged that Africa features massive growth, overcoming critical social and environmental challenges. It is the strongest market over the past five years, with a high Israeli presence, manifesting the ultimate intersection between the capacities of the Israeli exporter and the African needs. In recent years there is a growing understanding that although some of the positive impacts cannot be evaluated in financial terms, it generates important implications. What vastly accelerated this understanding were COVID and the Abraham Accords on the other, both creating new opportunities in the region, together with the collaboration with the United Arab Emirates. Still, it is well agreed that the potential in Africa is not well used.

On the demand side - Israel knows how to best provide African needs – agriculture, water, health, security, etc. and indeed there is a high African demand for Israeli products, as stressed by Israel's trade and economic commissions. On the offer side – the reliance on state loans is limiting the quota to African assets to around 1 billion dollars, out of 3.5 billion of state provision in 2019 which is very low. Senegal, Ghana, and Ivory Coast, although have full capacity, cannot execute new deals. Still, African states aim to do business with Israel, although European conditions are better. Within African states, there is also a substantial difference in the ease of doing business. Rwanda, for example, is very organized, a one-stop shop for doing business, with everything being structured there. Ethiopia, conversely, has an investment bureau but decisions are not made there. The preferred focus on Africa is mainly on the East-center – Sudan, Eritrea, Ethiopia, DRC, because of the understanding of Israel's strong interest in working with them.

The Roles of State Ministries and Industries in the Impact Field

The Prime Minister's Office (PMO) is the center for government decisions, producing so far the most comprehensive strategic plan of impact investments in the area. Since 2013 PMO has had a strong presence in the arena of bilateral and multilateral relations. After the global financial crisis, the prevailing understanding was that the centralization of the Israeli export is harmful and thus needs to be expanded. In 2016 there was a government decision regarding Africa, and this delineated the governmental action plan. The government decision back then was not good enough; the discussion about Africa was along the lines of the US and Europe, not adjusted enough to developing states. The focus in that domain was on China, Latin America, and then Africa, but the plans were not accurate and focused enough. The experience in India, conversely, was way better. This was a wake-up call to look at things differently and consolidate strategy for developing markets. In 2018 it was a government decision to, first, conduct a committee to advance this area of international activity; second, to set priorities; and third, to set strategy. Prioritizing was successful and the strategy is still being conducted. Israeli ministries need to catch up with the rest of the world in terms of conceptualization, analysis, teaching, and learning.

The Ministry of Economy (MoE) is designed to support and assist Israeli companies, so its role in development is different since it does not aim toward a political profit, therefore the activity in African countries is not as optimized as can be for private companies. The MoE further collaborates with funds invested in the World Bank and IDB. Colleagues in the World Bank consolidates standpoints regarding big projects or subjects; collaboration is then in front of the Ministry of Finance to derive policy of foreign exchange. Profitability is not the main consideration: The GDP per capita of every state determines the width of the granted loans. The macroeconomic data of the state thus determines the investment and not the specifics of the project or local needs etc. Intergovernmental partnerships, such as the Commission for Development, are important in order to translate the impact to other ministries. This connects Israel to the UN Sustainable Development Goals (SDGs) [84] vision and goals and enables Israeli impact players to integrate into the arena. The Israel Export Institute is a senior partner of the Ministry of Economy, but they have difficulties collaborating in the development field. Everything done in Washington should be followed up by Israel, with the equivalent

[84] See https://unstats.un.org/sdgs/report/2021/

allocated resources, and this does not happen, or at least not enough. The Export Institute helps the Israeli industry also in places of market failure. It operates in two channels: priorities – mainly with respect to creating employment, and the share of the profit invested in future training and development.

The Israel Innovation Authority is to advance Israeli technology, assist Israeli high tech, and the development of new technologies. It is the governmental and exclusive body that advances innovation at a national level and thus, has the experience, ability, and diplomatic prestige. The Ministry of Finance advances collaboration in terms of Government-to-Government (G2G) agreements; Business-to-Government (B2G) agreements, in cases of bids, and Business to Business (B2B) agreements, mainly concerning collaboration with the local representatives where there is no commercial attaché. The bilateral exchange uses diplomatic relations to leverage exchange and vice versa. There is no specific pursuit after impact investments, but there is a good partnership with development banks. One of the things that have changed in the context of the development bank is that the Bank of Israel used to mind mainly about stability and the Ministry of Finance gradually started leveraging the bank's power in favor of investments and integration of Israeli industry abroad. It has been a win-win settlement – contributing to developing markets and enhancing the pool of states Israel exports to while generating risk diversification. It is also a growth engine for companies. Indeed, throughout the past years, there is a growing emphasis on membership in development banks, advancing the Israeli interest. In Africa, they took part in a few plans, like TECHEMERGE,[85] and collaborated with ministries of Economy and IFC. Some illustrative projects are the Water resource fund of the World Bank and the Digital Development Partnership.

The Ministry of Foreign Affairs naturally holds the most hands-on approach in terms of local representation, collaborating with MoE, the Ethiopian Investment Commission, and all bodies with connections to local markets that can help Israeli companies. The Ministry of Foreign Affairs is not only useful for opening doors but also assumes significance in eliminating barriers; yet, the diversified platforms are key in conducting collaboration. The embassy in Ethiopia, to illustrate, often provides political lobbies to big economic transactions. The economic arm of the Ministry of Foreign Affairs is more active in terms of

[85] See https://www.techemerge.org/initiatives/techemerge-health-east-africa/

B2B while representing the government. MASHAV (Centre of International Cooperation) within the Ministry of Foreign Affairs is a key player in Africa. The Ministry of Construction and Housing takes part in Habitat - United Nations Human Settlements Programme. The Ministry of Environmental Protection is a part of the United Nations Economic Commission for Europe (UNECE) in its activity in Africa. The Ministry of Agriculture also holds deep exchanges with Ethiopia ministries and agencies, including at the regional level.

The governmental risk policy towards Ethiopia is new and still being developed. ASHRA, the governmental company designed to provide credit insurance services for exporters,[86] is particularly significant in illustrating the mediation of governmental bodies in private sector activity. It is a governmental company, in charge of insurance of foreign exchange risks and part of the risk partnership. Its goal is to support export, where banks are not willing to give credit. ASHRA undertakes the risk management for the loan takers, in most cases – the other government. It insures political risks, not commercial risks. The due diligence of the Israeli exporter is basic – history, and capabilities, among others, but this is not a significant parameter. ASHRA does not check the financial abilities, the bank does. For example, the World Bank has a heavy screening mechanism for that purpose, to assure the risk-safe surrounding of the players. Thanks to ASHRA, the World Bank sees the risk of Israel state and not of Ethiopia. If an Israeli company does not provide the product as a case in point, the bank cannot complain to ASHRA, which mainly covers political risks – Koo, liquidity crisis, etc.

The supportive conditions to receive ASHRA insurance include first and foremost being an Israeli company in terms of employment and taxation. There are no sectorial criteria; each sector that supports legal deals is eligible for insurance. The priority is also not according to Israeli advantages. The sectorial importance is expressed when there are reserves and thus there is a choice between two deals - the priority will be on the one with a bigger Israeli factor, like security or water tech. ASHRA doubled the risk insurance to Ethiopia of SMEs (ILS 100 million and below). Nevertheless, these are less compatible since mostly the projects are big and the insurance is the medium-long term. Each exporter needs to offer insurance of guarantees. For big companies, less money in obligo is not a big deal; however,

[86] See https://www.ashra.gov.il/eng/

it is a problem for SMEs. Therefore, ASHRA aims to develop such a tool to release 75 % of this money to the bank, so the SMEs will have it liquid. The exporter will have guarantees from the bank and will only invest 25% whereas 75% are state guarantees. This tool, though, is difficult to implement.

ASHRA developed a model that calculates a few macroeconomic parameters and other state features, whereas the grade determines the level of exposure. The new model calculates the expectancy of the predicted loss – thus the chances of default. The models today are less relevant due to the varied risk appetite for each state (for example, Chad is bad, and Senegal is good). Once annually, ASHRA conducts a monitoring process – analysis of the state in terms of credit rank, economy, growth, debt balance, forex reserves, interest rate, employment, and in general - all macroeconomic conditions in the past year. In addition, it conducts a political analysis – of stability, election period implications, etc. This analysis maps the change in the risk status of the state. The data is collected from Bloomberg, Moody's, and other international agencies, like IMF, as well as press releases and general publications. ASHRA is also a member of the Bern Union (Export Credit Agency- ECA) so based on the experience of member states in these countries, they have information from there as well. The rationale of ECA (counting around 85 members around the world) is to insure credit risks for the long run, in cases of a market failure, since the private sector is not willing to undertake such high risks, and if so – only in excessive price. If the state is part of an assistance program – it is also a very important source of information. This information is shared, for example with the Foreign Trade Administration at the MoE. If states are not ranked, to illustrate, since they do not produce bonds – less data is available so other sources must be examined, like the African Development Bank, which is a focal partner. Nonetheless, the tools of ASHRA are outdated despite the critical significance of such bodies. The default rate for SMEs is 7%; during COVID, it was around 20% so there were great opportunities in this period to increase guarantees; all ECAs expanded assistance, but Israel added nothing. This might deter the African market from collaborating.

The Main Advantages and Business Opportunities of the African Market

The core needs in Ethiopia are related to the fact that 70% of the population is making a living from agriculture. A focal problem is low productivity, especially by farmers.

Ameliorating this is one need, along with creating sustainable jobs, which can also prevent human trafficking. Infrastructure is a critical need; 60% of households are not connected to electricity. The issue of food security is of course substantial. The main problem is not access to resources, but how to use most efficiently the resources at hand. A little intervention can make sustainable change. Response to climate change, similarly to all states, including water and renewable energy, is compulsory. Health and medicine, also in terms of digitization and technological development, is critical. The COVID proved that community care, along with access to medical services to the entire population in the different regions, is becoming more and more important, rather than hospitals only, thus generating remote healthcare treatment, health education and digital health treatments is focal.

Education in general is a growth engine – where impact in effect starts. Africa is a fertile destination for it (by means of learning and e-learning), mainly in the context of professional training. Finally, fintech is extremely significant by means of impact, especially because of the foreign exchange impediment. Besides E-payment solution, it also helps to target money laundering issues. In china the full control on money resolved money laundering issues. In Africa dark capital is still dominant, but fintech systems assist in preventing it, thus in developing a more stable economy.

The main advantages and business benefits that the African market has to offer for the Israeli impact eco-system include all SDGs-oriented fields. There is a great advantage of size, with people aiming for better future. There is furthermore an easy access and connectivity to the country. The Ethiopian market needs are compatible with Israeli tech and industry capabilities. The Israeli competitive advantage in water, agriculture and fin-tech can be easily adopted in Ethiopia. Infrastructure needs are aligned as well. The right plans can include and be based on existing Israeli products with no extensive needs of further development, but with mere adjustment. There is high potential for partnerships, with the Ethiopian population in Israel being a facilitator. The great interest, of private players and international institutions in Africa, is a good leverage for entrepreneurship, collaboration and partnership.

The Key Networks, Communication Channels, and Position Holders

The most important partner in initiating projects of development is the World Bank, as well as International Development Bank (IDB). The World Bank is increasingly more interested in Israel now, particularly targeting the startup ecosystem and acknowledging its advantages. Focusing on knowledge sharing and transferring, water and health are salient issues with the funds of these international institutions. The products of this collaboration mostly include delegations, workshops, reviews, webinars, and technical assistance (through public bids), exposing Israeli companies to these activities. The MoE is the more trivial address to connect these companies if an Israeli company wants to use the services of The World Bank. The World Bank funds the project per state, and the state, in turn, decides which company would lead the project. The developing state is the one to conduct the bid and select the relevant Israeli company, as opposed to the World Bank or the Israeli government. The process is thus between the World Bank Headquarters, the local representation of the World Bank, and the developing state. The main focus of the World Bank is the impact. The correlation of CPF (Country Partnership Framework, approved every 5 years) is a central tool. The world bank Delegations to Israel are also extremely effective. The ripple effect shows the momentum these delegations create for Israeli companies.

The international Finance Corporation (IFC) is the platform used by the Ministry of Economy for development work, which is sectorial and not geographic, like the health fund. IFC has led to a paradigm shift in the past few years, emphasizing impact. The investment in certain companies is analyzed in terms of RAROK (risk-adjusted return on capital). Israel also invests in bilateral or multilateral funds with other states. Bilateral funds fund pilots, delegations, and workshops, to advance the collaboration of the Israeli private sector in developing states, in many cases with the World Bank. Development agencies, the European Bank of Reconstruction and Development (EBRD), and The Ethiopian Investment Commission are important partners as well. The European Investment Bank (EIB) is an important channel of collaboration in Africa, which provided many loans for Israeli projects in the areas of solar energy and water desalinization.

African Union, Bank for Development of Africa, OECD – DAC *(Development Assistance Committee*), and UN agencies, such as UNDP are also important. The UN, in general, is

significant in public bids; nonetheless, companies must know how to get access to and use wisely their resources, not always optimally allocated, to say the least. Collaboration with other development institutions such as International Monetary Fund (IMF) and World Food Program assumes significance as public money for these purposes is scarce. The governmental bodies as well as banks should engage the private market to advance the project goals.
National banks are qualified partners, in France for example, which is very interested in collaboration, or the Vatican investment fund finances a significant deployment of funds, to keep Christianity.

In Africa, the exchange between Israeli players is primarily directed towards local representatives, since they have the weight and authority to advance certain activities, while others are required to go through the headquarters of the organizations themselves. This support is people-dependent and project-dependent. Ethiopian Ministries (e.g. Agriculture) as well as Mid-level organizations active there, such as TECHNOSERVE and unions of local agriculture are key collaborators.

Civil society and international organizations are also significant partners, among which are TOV, SID, Pears, Milken, Startup Nation Central (SNC), and Power Africa. Israeli companies, mainly start-ups but also corporations are often a partner. In terms of general data on business activity in these markets, the World Bank is a central data source, as well as projects of investment banks. It is useful in creating the infrastructure to approach the states. MASHAV is also rather useful in some domains. SNC databases according to sectors can be of use to have benchmarks of other Israeli companies. Impact funds also hold useful data. Same for the Ministry of Economy.

Globally, the Millennium Challenge Corporation (MCC) and International Development Finance Corporation (DFC) have substantial data. So do international agencies such as Organization for Economic Co-operation and Development (OECD), International Monetary Fund (IMF) has also important datasets, on growth prediction for example. DEVEX International Development is important concerning data on development. Bids of projects and Procurement plans and strategies of banks of development help identify the needs for the

Israeli relative advantages, as well as national strategies of other states representatives on the ground, such as ambassadors and commercial attaches, hold important knowledge and data or access to data and to decision-makers. They are a source of support, helping the investors to learn the procedures and the system and create the atmosphere for investments. They escort the investors to governmental offices so they have better access, despite the fact that it remains a bureaucratic process.

The Challenges and Gaps

The key obstacles on the Israeli side are primarily bureaucracy, surprisingly, this is emphasized on the Israeli side. First, the presence of Economic attaché in the field to support the holistic process is not realized in all strategic locations in Africa. There is not enough spread of Israeli representation in Africa – especially South Africa, Kenya, and Ghana. Then, there are multiple players without clear ownership of the impact domain within the Israeli ministries. Some of these players' activity is not transparent, let alone that of the private players in the loop.

Another obstacle is that low governmental budgets are allocated to development, and in many cases the budget is predetermined, and the projects do not complete the Proof of Concept (PoC) stage. The MoE, for example, contributed to a water-tech fund of one million NIS, but by the end of this year the budget was terminated and there is no prospect for future investments. There was a basic approval, with a $250 million target, a managing company was selected, but the project was stopped during COVID and has not yet resumed. The current solution in the meantime, until a more Israeli strategic outlook is advanced, is a collaboration with key international institutions focusing on development targets, to make Israeli technologies accessible, aiming to place Israel in a more significant place in the global eco-system.

Regarding the impact of private players, although Africa is highly prioritized by the government, there is often a lack of interest from the Israeli private sector. The nature of the Israeli market is of SMEs, characterized by limited long-term investment capacity, which is required when trying to penetrate the African market. The aim is for quick wins rather than a long-term process. Very few can invest several years in building the exchange, but the rest, which is the core of the Israeli market, cannot. The reward is huge but most do not survive the precondition of long-term integration for implementation, with adequate Israeli and local overhead.

Israeli companies are not directing their efforts to developing markets due lack of awareness of the opportunities of emerging markets, with a strong preference to deal only with the low-hanging fruit - US and EU. Israeli companies often know developing markets but do not understand the development language (SDGs, the development strategy of the state). In addition, there is less tolerance for politically unstable places, with currency risks. On the investors' side, some of them fail to understand the dynamics. Their mindset is only profit-oriented, thus abusing the local resources, and undermining the potential of society. In addition, they are concerned about security issues and focus on the risk, although the latter can be substantially mitigated by having local partners as a reliability mechanism within society. ASHRA helps in it but they are more conservative. This perceived risk is traditionally higher than the actual risk. Furthermore, corruption does not necessarily reflect the actual challenges. Rwanda, for example, is relatively not corrupted. Also, Ethiopia does not suffer from corruption in a way that disrupts such required collaboration.

Finding a business partner is very difficult and complex, and after finding it is onerous to collaborate. The required partnership is also concerning risk. Once finding it, collaboration is utterly different. Market–related challenges include pricing - Israeli products are over-priced, featuring rather slow and inefficient product adaptation and scarce work on product-market fit. Sometimes it is difficult to internalize the product and there is an unbridged gap between Israeli products to what the market needs.

In general, lack of data and information is a key problem; the first source for entrepreneurs does not exist. There is no system of impact data, and economic projects, as well as data on the impact on active companies in the market, are not documented. The same holds true for Israeli data on development. The information is not concentrated in an organized way, by a governmental platform or system that concentrates and collects impact data. Thus, although to conduct and sustain business activity one must have designated data, Israeli companies do not even have initial access.

On the Ethiopian side bureaucracy, funding and different business culture are the three main blockers. Closing a deal is also super challenging, and the morale of payments is perceived as sub-optimal at best. Access to foreign currency is another critical challenge. The state suffers a severe liquidity crisis, and one cannot take dollars out. Therefore, because there are no foreign currencies to pay with, only the interest rate is paid, and not the fund. Access to some of the materials in the local market is also a hurdle. There is a substantial improvement with the young generation, but it is still a factor hampering attempts to penetrate the market. Political instability is of course a gigantic risk. The potential projects are versatile enough. In general, the difficulty of the market can be of great advantage for Israeli entrepreneurs, thereby enjoying the high growth rate of developing markets. [87]

Current and Prospective Plans

Concerning plans for governmental funding and assistance programs, the Israeli government prioritized six subjects corresponding with the Israeli competitive advantage: Agriculture, infrastructure, water, health, education, and technology. For example - Kesef Hacham state subsidies plans are designed to assist exporters to penetrate new markets.[88] Tax treaties already exist and there is a direction for new ones in favor of collaboration and with substantial deliberation around it; however, those agreements are not prioritized. Investment protection plans mainly concern with Financial Protocols Agreement as a policy mean to mitigate collateral risk. This, in many cases, does not apply to African states since the state itself is at high risk and most of the activity in Africa is in front of the state.
Prospective plans include a physical center of development banks for innovation in Israel. In addition, there are plans to enhance accessibility for Israeli companies to collaborate with international institutions, thereby creating new opportunities in developing states. These include mapping relevant companies and then connecting them to serial winners, thus

[87] For more see https://www.globes.co.il/news/article.aspx?did=1001270704&fbclid=IwAR0hvfyi_BuH0LgvKtvuUZN1jzjCLAyF-BGVCVFPI-ONus0ET3LTZJ633cI

[88] (https://investment.org.il/%D7%9E%D7%A2%D7%A0%D7%A7-%D7%9B%D7%A1%D7%A3-%D7%97%D7%9B%D7%9D-%D7%9C%D7%A2%D7%99%D7%93%D7%95%D7%93-%D7%99%D7%A6%D7%95%D7%90-%D7%9C%D7%A9%D7%95%D7%95%D7%A7%D7%99%D7%9D-%D7%97%D7%93%D7%A9%D7%99%D7%9D/?gclid=Cj0KCQiAsoycBhC6ARIsAPPbeLvkdkycJNWkM_DIfig0m2HxznaepEMjKV_zTaBHKBXMT7r42mrQzgEaAkj3EALw_wcB)

encouraging Israeli integrators to unite and offer an integrative solution. In general, there is a strong intention to enhance the synergy between Israeli ministries. As delegations are an important tool, there is a need for a set methodology for the due diligence or screening process filtering which should become members. As of 2022, there is no decision on new impact programs due to the absence of a budget.

Generally, there is consensus on the fact that Africa is a challenging place in terms of development: the gaps are bigger – companies must invest in things that in Latin America for example already exist. On the other hand, Africa is geographically closer and the under-development is indeed a great opportunity. Political instability hardens but there is a great receptive approach. Today we are witnessing a growing Israeli effort to increase business collaboration and exchange in innovation between Israel and Ethiopia. The lack of acquaintance with the market starts with scarce knowledge and market research, as well as a lack of connections with the local arena. The job of development banks and governments is thus to bridge this perception gap, first and foremost through supporting these persisting efforts and connecting the right partners. A holistic solution for Israeli exporters needs to touch base with all steps of the funnel.

3.4 Impact Funds and Other Impact Players

The Conceptualization of Impact

The impact funds provide a broad definition as possible, referring to a set of processes and the ability that causes different circles of stakeholders - states, investors, and local communities - to benefit from them, socially and economically, thus encouraging the stakeholders to create such opportunities. Accordingly, the general discourse combines profit and impact or positive influence on the subjects of the investment, at the same time and with the same importance. Impact eco-system is leveraged to the highest common dominator, like infrastructure, water, electricity, food, women's rights, education, and employment. It is the right thing to do but also the right business to do. Increasing exchange with Africa has to do with impact, but it is not necessarily intrinsic to the African arena.

The motivation lies with the actual situation on the ground, like areas with no electricity; the challenge is in the difficulty of such investment. However, there is a problem of awareness in the private sector. Big corporations prefer donations over business activity in specific regions, including Africa. Accordingly, the biggest concern according to the *Global Impact Investing Network* (GIIN) survey[89] among impact investors is Impact wash – devoting only a partial segment of the transaction to impact, to cover for general non-impact activity, and in some cases – a harmful one. It is thus critical to make a positive and measurable impact. This leaves small-medium business (SMBs) that have products designed for the African market. The public sector is lagging behind its private counterpart, and many governments are unaware of how to generate impact. We are thus substantially left with the consistent impact activity of the social sector, ranging in the spectrum between philanthropy to non-impact investors. Altruism, though, is not enough for sustainability, there must be an impact on the business as well. Business management is an important impact dimension, not only inclined towards shareholders, but also towards stakeholders - employees, providers, and customers. Similarly, consumers can be a part of the impact infrastructure, for example, to insist on institutional investors managing public money on the impact dimension in the investment strategy without compromising profitability or connecting the company to the community in which it operates. The impact funds' general mission is along the lines of improved quality of life for communities of low and even medium income. Some global private profit-led organizations try to integrate into this new contract; the terminology of 'transition from aid to trade' spills over to the companies on the ground, which are the change agents.

Measuring Profitability and Sustainability

Evaluation and measurement are the most important issue in the impact world mostly manifested by impact funds. Such evaluation, conversely, is often perceived as too abstract or synthetic. Models of impact measurement first consider what the company wants to achieve, but a big part of the companies still have difficulties in defining it. The impact evaluation around the world is still not big, around 1 trillion is invested in this eco-system; the big money goes to *Environmental, social, and governance* (ESG) regulations and allocation – 30-40 trillion $ in assets under management (AUM).

ESG for companies has four advantages: first, it provides a strategic-operational channel to

[89] See https://thegiin.org/research/?filters=43&search=annual+survey&sortby=relevance%2Cnewest

help companies consolidate their corporate responsibility and generate models integrated into their work plans. ESG must be part of the business, attached to the strength of the company, and be cost-effective. This is tailor-made for each company. Second, concerning reporting, ESG orientation helps to consolidate corporate responsibility reports, which can be boosted by government ministries. The report needs to be accessible to different stakeholders in the company. Third, allowing for impact measurement and modelling of the impact of the activity, to see that the desired outcome is achieved, contributing to the reputation of the company. Finally, impact *Initial Public Offering* (IPOs) – producing public social and environmental bonds responding to social needs, while allowing the monitoring of the process.

ESG focus is on 'do no harm' while in the impact world the intention is to do good. Additionally, ESG is not measured, therefore, it is problematic, mainly when confused with actual impact investments. All the same, ESG, while only partially efficient, is to be increasingly embedded among corporates, aside from severe sanctions for non-compliance. There is a difference between impact investments and impact economy. In the latter, there are two traditional approaches: impact first and finance first. The difference has also to do with the expected return. Finance first has to do with market return; impact first can compromise it. To generate a real measurable impact, three conditions must co-exist: investment de facto; intentionality – intention to generate impact with a business plan devoted also to impact; and measurement of performance vs. plan.

Impact accounting rules are a critical dimension. Today GEP (General Expected Principles) do not enable us to understand the impact of the company from the current form of reports. The way the accounting report reflects the impact of a company will enable different decision-making. A fairly recent study has examined how companies can contribute to social impact efforts, not by ESG actions, but by genuine proactive engagement and new accounting mechanisms.[90] This will enable a full prism on companies to enforce measures to reduce harmfulness and enhance impact. When firms adopt this theory of change and determine their strategic objectives, the *Key Performance Indicators (*KPIs) are to reflect outputs and the outcomes. Then the value addition is to be estimated. In general, those should be investments

[90] Serafeim, G. "Social-impact efforts that create real value." *Harvard Business Review* 98.5 (2020): 38-48.

in essential development drivers. Israeli technology, which is the competitive advantage of Israel, has a huge impact that is not measured and not leading strategic decisions. These companies operate in Africa because it is another market and not because of impact considerations. The activity of Israeli companies still did not implement a responsible chain of supply.

VITAL Capital has produced an advanced evaluation mechanism, through an investment axis consisting of five features: Traditional, Responsible**,** Sustainable**,** Impact, and Philanthropy.[91] The main principles defining the impact environment are Impact Management Projects; Operating principles of Impact Management; Iris plus; SDGs; PRI; Global Impact Investment System. The five directions defined by Impact Management Projects (IMP) are the What - outcomes in the impact; Who – is experiencing these outcomes; How much – did you generate a massive effect; Contribution – how did your specific involvement influence outcomes – what would happen without you (egg production, for example, is not impact-wise significant because it is profitable anyway so you would easily be replaced); and the Risk – for example when relying on affordable energy – if the company is bankrupted and the system stops working - many families are left with useless devices they paid for. Thus, this is a numeric measurement. The way to estimate profitability and sustainability for players is Management Measurement - measuring actual impact rather than intention and impact washing. A measurable example is the activity of Vital capital in all of sub-Saharan Africa, in essential services and products – water, health social infrastructure, generating five times higher profit than its competitors**.** Six million people getting essential services that they did not receive before, more than 750 million$ flew into local markets and 3000 new jobs were created.

Governance within impact funds is also an essential tool. Vital Capital, for example, conducts a policy of Dual gatekeeper –an investment committee examining the transactions is separate from the impact committee, both with veto rights. This way, finance and impact teams receive the same deals with a firewall between them. An exclusion list – like oil and gas companies – is another tool. Other tools that funds can use include monitoring and auditing

[91] See https://vital-capital.com/

the impact consistently. International platforms and networks are super important, to enhance the impact measurability and compare to market benchmarks.

The Key Networks, Communication Channels, and Position Holders

The primary go-to functions are states and organizations where the know-how exists. Most importantly, the government's role should be in building economic and political stability and facilitating regulation, not necessarily as an active player in the process of exchange. G2G is most important to facilitate B2B and to normalize it. Still, states are not sufficient, as they can be approached after a certain funding is guaranteed. A supporting alignment like conferences, explanatory means, and access to knowledge is critical. International organizations and forums such as the World Economic Forum (WEF), Emerging Market Private Equity Association (EMPEA), Global Impact Investment Network (GIIN), and National Advisory Board (NAB) of GSJ, Impact Nation, and Africa Venture Capital Association (AVCA) are important players in the arena. Key stakeholders include private sector players, both SMEs and start-ups, Multi-National Corporations (MNC), Government and government agencies (US Aid; D FEED in UK), Non-profit organizations and Investors – banks, Development Finance Institutions (DFIs), Venture Capital funds (VCs), and family offices. Private sector inter-state companies collaborating in all states, such as TONIC (family office in Europe) or Deloitte, are active in learning from competitors, mainly EU, Australian, and South African companies, and can encourage companies to bring good practices.

In Israel, SID is generating business opportunities, instead of humanitarian aid; Israel- Africa is spreading more opportunities and information, and TOV – Joint is a good source. The Israeli business community has the ambition to drive the business collaboration between Israel and Africa but mainly at a global level as opposed to the national one.

The main advantages and business opportunities of the African market

For impact funds, the advantages are entangled with the core needs, which, again, include agriculture, a core occupation and source of living in most states, thus ag-tech, water tech and energy are central targets. So are food security, education tech and Health, where there is a lack of providers and lack of access. Israeli impact in Ethiopia can also be in the areas of Forex, and in collaboration in the Environmental sphere with NGOs active in Ethiopia. Trade with Africa is a minor percent of total global trade. Even in the search of new markets, Africa is not a primary or secondary preference. However, there is a huge room for creativity in operating there, although it compels persistence. The technical advantages of geography and time zone are noted, as well as the endless needs of this huge market which holds enormous potential, providing a good basis for Israeli entrepreneurship. Same applies to the great opportunity for education. PPP and The Rising middle class is also a good PoC area to try things cheaply before scale. Israel, thanks to it entrepreneurship and innovation, is perceived in Africa in general as something to look up to, what eases the access of Israeli companies to the local markets.

The Challenges and Gaps

In terms of the challenges and obstacles in doing business in Africa, again, separating the different states, similar challenges are indicated, including first the cultural gap and trust, referring mainly to the different business cultures. Understanding and acquaintance with the market is a major obstacle. This also refers to who you know. There is no awareness of the opportunity, and start-ups do not target Africa.

Data deficit and lack of supporting alignment substantially prevent access. In general, the Israeli market wants to be in the impact but is afraid to exhaust profitability. In terms of capital, the massive capital is under a constant search of allocation possibilities since Africa is a fragmented market and not a cohesive continent. Israeli companies need a grant for their access to facilitate and stimulate, which is not easy to obtain.

Finally, there is slight efficiency. If attempting to collaborate, there is a relatively low adaption to the specific needs of the solutions and no capability of how to distribute and sell to the local market. To illustrate the reluctance of Israeli enterprises to penetrate the market, the innovation center in Rwanda could hardly find Israeli enterprises that are willing to make PoC there, so it made an extensive effort in the past years.

The challenges on the Ethiopian side are similar to those mentioned by all sectors - political: regime change risk and lack of political stability, the long duration of business implementation, Forex, infrastructure, and the perception of governmental corruption. Because of the cultural gap, there is an initial suspicion on both sides, as Israelis are connected to "impact tourism" coming for the short term and escaping back to comfortable life.

3.5 Impact Companies

The Conceptualization of Impact – Illustration through Case Study

We use NALA as a case study for impact companies, although it is not a traditional one with respect to its essence as a profit-oriented company, for three reasons. First, it optimally illustrates the collaboration channels at the international level, aligning with international organizations (WHO, Gates Foundation), and international corporations (Merck) and attempting to align with state ministries and agencies (Ministry of Health, the Israel Innovation Authority, a connection that was unsuccessful so far). Second, NALA managed to generate sustainable impact, by creating behavioral change, rather than integrating into a certain chain of supply. Finally, NALA features an incredible ROI and manages to demonstrate a success story to draw on.

NALA was founded to be the operative arm in the field. The start was more of a research nature. The Ethiopian immigration to Israel in the 1990s allowed exploring the genesis of the pathogenesis of the disease. The motive behind NALA was to generate a fundamental change of behavior; the understanding of behavioral change characterizes NALA, lifting the awareness of the human factor. It then turned to the operative dimension most extensively, at the expense of research. NALA now operates in three levels: individual level; community, a supportive environment and its services; and as policymakers – at federal and state levels. In front of the Ethiopian ministries – NALA is a sort of advisory in tackling the national problem dealt with, providing proposals for solutions. The substantial knowledge of the problem and the solution is in the hands of the other side. NALA needs to bring it to the top level and substantiate the ownership of the Ethiopian side. 80% of the activity is placing NALA as a sub-contractor of an international body. Knowledge transfer has become a local demand for an international project, since many of these vanished after completion because of prosaic reasons, like lack of basic ingredients to use the product when expires.

NALA operations require funding in advance, of a period of 2-3 years mostly, to establish treatment in a region, otherwise, it creates more damage than good, replicating the 'white saviors' syndrome', of coming for a short period without creating any substantial change. The collection of data is conducted through KAP – Knowledge Attitude Practice – questionnaire accompanied by preventive treatment, along with observational service. Other data sources include the Ethiopian Ministry of Health, United Nations International Children's Emergency Fund (UNICEF), other NGO data, end-line surveys, and internal data and mapping of NALA. Data input collection, specifically in the health sector, is a long-term process, coming down to country ownership, to address the sensitive points of supporting the supply chain and understand what happened in order to tackle the actual problem. By quant measures, you can understand core problems, but the long duration and sustainability of the project are compulsory.

The donors of NALA are NGOs, philanthropy, and business enterprises (such as Uniliver, Merck). NALA took part in the drug donation program of Merck; the program was aimed towards behavioral change and preventive care of NTD (Non-Tropical Diseased) and bilharzia, rather than donation only. The unique role of NALA in that sector is in actually implementing tools and generating a shift of paradigm in local health behavioristic patterns. It thus generates a dual impact – on health and the economy. Being people and community-cantered, the sustainability of the systems implemented encourages the actual objectives - investment in individuals' health, as a part of the community, balancing the entire population. NALA thus generates infrastructural change. The structure of the activity, and as a result - the funding and the workplace - are not designed for immediate, short-term achievements, which is the pain point of the impact industry. Instead, NALA aims towards sustainable and innovative change. NALA only recently received a grant for impact from Effective Altruism, [92]for creating educational health vehicles in schools.[93]

Merck has conducted two studies (to be published in the coming months) that help calculate the ROI of an organization like NALA: the effect of reducing sickness (thus leaving kids in school), illustrating how each additional education year adds 10% to future earning capacity. They have reached a tremendous ROI calculation, far higher than private, for-profit companies.[94] The evaluation of what is worth returns and the necessity of ROI illustration has to do with deepening the understanding of impact - not ideology solely but business. In this example, school years produce productivity making countries move out of poverty, and resulting in healthier economies, thus a win-win approach to creating healthy people and healthy markets.

The close ties between NALA and a corporation like Merck are not only important for both sides, they are in effect a way to realize business strategy, effective implementation of designated plans, and impact. The advantage of a corporation like Merck is in its partners, which are at the core of the activity. It is a collective action and everyone needs to be aligned and guided by the same principles. Such collaboration must be open and transparent, as transparency and visibility in this field are often a pain point. This way, a corporation aiming to do good and generate change can impose its perspective on different continents with different perceptions and prioritization. Merck aims to motivate governments to stimulate awareness, but awareness alone is not enough; alternative behavioral patterns need to be conveyed to understand the impact. Awareness in itself is not effective. For robust results, to illustrate the impact more sharply, a long time period is required, which, again is a problem funding-wise. Within the community of partners, there is a layered approach –a partner does not necessarily do the work itself, but contracts someone who contracts someone – this is a waste of resources that can be saved by choosing the right partners. MNCs like Merck, therefore, look for the best partners for this purpose of integrated approaches – such as NALA, featuring a human-cantered approach. NALA has a unique role in that sector, holding

[92] See https://www.effectivealtruism.org/
[93] See https://www.merckgroup.com/en/sustainability/health-for-all/schistosomiasis/living-our-commitment/wash.html
[94] The full analysis was not yet published officially, thus we cannot quote the results as of yet

the direct input – they know what happens de-facto, generate visibility and transparency on where the data is coming from and take a hands-on approach, with a physical presence on the ground along the project lifetime, to generate a sustainable change that remains after the project ends. Such collaboration between Merck and NALA is an illustration of actual SDG/ESG commitment.

All the same, the transition of NALA from NGO to social business/for-profit is very challenging. It has to do not only with its internal structure and modes of collaboration but with a general shift in the developing world to a for-profit state of mind, allowing measurability of actions, and profit targets through collaboration and efficiency. This, as mentioned before, might be dangerous to this world, characterized by non-profit targets. Nonetheless, the fragility of funding can be substantially resolved and assured long timeline for distinct organizations creating a genuine change.

Cassit, a medical device company for innovative Splints and Casts for Orthopedics, Rehabilitation, and Emergency care is an impact company that managed to penetrate the African market. Kenya is its main activity, and there is an activity in Nigeria, described as a more complicated state regulation-wise. In Ethiopia, there was firstly an establishment of an Israeli Point of Contact, to make the due diligence. The motives behind the activity in Africa were not only ideology but also common sense – there is no competition, so it is easier for a young company to access. The population is huge, the access (specifically, to Kenya) was easy and collaboration was immense.

The most important partner was found on Facebook. The search for local experts to accompany the visits, meetings, and pilots in Kenya opened many doors and led to the introduction of many people. The work with the economic attaché (in Kenya, as in Ethiopia there is none) is also very important, in order to find a distributor and regulatory advisor, not to be found otherwise. Even so, For Cassit it has been easier to access through the private sector, primarily private clinics, then state institutions, while the government channel is approached afterward. Access through the institutional channel is way slower, while through a private, sectorial channel – the process is much easier and shorter, since sometimes the partners (in their case – clinics) is a one- stop shop, so the deal can be concluded very efficiently. Same for regulatory confirmations. For the solution that Cassit provides – the slow pace of establishment in the African market and the market, in general, is an advantage. The private sector in the health domain compensates for the obstacles of the government one in the case of Cassit.

The Challenges and Gaps

There is great importance to how close and deep the relations are with the equivalent ministries, playing a key role in how well the company does and how impactful it is. Specifically, to penetrate the Ethiopian market, you need to pass Investment committees and ministerial procedures to build health policy. The cost of a license ranges between USD 50K to 200K (in case there is no local partner), while many companies are denied funding. Then, it takes a certain amount of time till it is approved by the Investment Committee to start the activity.

Business-wise, passing the primary phases, of regulation and compatibility tests, is the most difficult. For fin-tech innovation in Ethiopia – the immediate answer is more often than not negative because the state officials lack knowledge, and regulators are not always in their role due to professional merit. Elsewhere, there are levels of permission. A fintech company can only come and sell tech, but most of them want revenue share. The latter was allowed until the national bank determined a criterion of either being a tech provider or a 100% Ethiopia-owned company. There are regulatory barriers in reaching business readiness, as the regulatory advisory is easier in Africa and clear enough, but very slow. Local licenses to transfer money, in addition to great vagueness regarding the know-how of doing business are a great hamper. The duration and the differences between the states, in addition to compliance and geo- spread in transferring money are hampering collaboration. Also, knowledge is mostly accumulated post-mortem, upon the strategic plan of the government which is frequently updated and adjusted. Connectivity, access, and data exist, but the regulatory authority, which is a kind of a black box, can change the law in an unpredicted way and retroactively, a challenge foreign companies cannot overcome, unlike the other challenges. Regulation reacts after the low came out. In the Fintech scene in Ethiopia, for example, after 10 years of operations of two companies, the government declared no revenue-share, so while the business community just adopted the product, they had to close the business.

Financing poses another key challenge. Forex is a major issue and at the moment local earnings are blocked from external transactions. Digital remittance is not accepted and banking, finance, and insurance are closed to foreigners. WTO's negotiations on opening the market are going on for 10 years. On the contrary, M-Pesa,[95] a digital wallet developed in Kenya 10 years ago, enabled in the past year a partial opening of the financial system in Ethiopia. Allocation of resources by the government is difficult to attain, but from a private party it is 3-4 times the price

Bureaucracy is difficult also for opening and closing businesses. It will take three years to close a business, because of the suspicious mentality of the tax authority. The forensic accounting verification process is even more difficult for ex-Pat companies. Although the digitization draft exists for a few years in the Ethiopian government work plans, the process is still in person in the bank, and people must be well connected. In Ethiopia, it is not only bureaucracy but a complete negation of transactions due to a lack of understanding. The lack of visibility and stability is an actual barrier. In Kenya, on the contrary, there is a ‘no objection’ letter- they let companies operate for two years, watch them and then decide how to regulate them. A few fintech companies interviewed strongly argued that they did not penetrate the African market and it is not at all on the agenda. No analysis was made, and the collaboration is not closed on the radar, due to the prevailing knowledge of the hurdles of the market. It is, however, assumed that in Ethiopia there is a startup eco-system not typical to other African states.

Although the government tries to attract investors, they are then frustrated by the unclear policy and direction, the slight visibility, and the relatively low net profit they indeed earn. Ethiopia's image as an investment destination is thus difficult. In general, for impact companies, a key problem is the approach of investors to impact. Israeli investors do not appreciate the potential of the African market. Although few companies can show multiple orders from Africa in no time – these success stories are not compelling enough yet. Even

[95] See https://www.vodafone.com/about-vodafone/what-we-do/consumer-products-and-services/m-pesa

investors that operate in Africa are still less interested in Ethiopia. However, they do contemplate how to do it right in terms of exposure to developed and developing states. They mostly intend to do business, not to provide aid plans. They thus refuse to implement a differential pricing policy - raise the price in developed states, but provide comfortable prices in developing states. Investors mostly rely on international bodies to complement the budget. The tough business environment and the preliminary suspicion are contributing to the small number of investments.

Because of the financial risk, Israeli companies seeking access want full ownership. However, with substantial shareholding, they cannot cope in the market without a partner. The mechanism of ASHRA is problematic in many cases, due to the partial nature of its work. International economic development is in the hand of the Accountant General in the Ministry of Finance, who does not always understand the complexity of impact funding and ROI. When funding comes from the Israeli government – it is indeed enabling. However, Israel is not as advanced as other states. Finding partners that can easily be trusted is a great challenge, and suspicion is reciprocal.

While a local partner is indeed a must and a partial solution to the delineated hurdles, there are some challenges in the aftermath of the alliance. The Ethiopian partners often treat the company like it is their own, allowing for a new board or committee to make decisions and not let go. At the moment, the shared cost of doing is prevailing.

Lack of sufficient data and exchange is also a major impediment. There is fragmented information, disinformation, and information silo, making it very complex to understand how to get things done. Data is mainly concentrated by the government; there is a strong intent to share this data, but the protection policy was not yet determined. There is paranoia in Ethiopia about sharing data and information, and fear of abuse. Furthermore, the data is partial and great parts are missing. Collecting, cleaning, and digitizing data in its current form is almost impossible and accordingly, there is no engagement around it. As an anecdote, the government kept tones of manual documents in containers; heavy rain terminated critical trade and exchange data for good.

Infrastructure is also an issue, although there is progress. In addition, in the health sector, there is a lack of medical staff and awareness of the specific problem Israeli companies often come to resolve. The slow pace of instruction to professional teams is indeed a barrier. Access to land, not the central cities, is also an issue. Pricing is challenging. There are also issues with the chain of supply and logistics, travel, and events budget, which, in Kenya for example, were substantially more expensive than in other states. Tech Infrastructure and the banking system just started rechanneling towards the private sector. Opening the telecommunication sector was great for a business environment. The war of course has taken back a great part of the progress made.

Cultural gaps indeed disturb, including transparency to decision-makers and local companies, as well as personal trust. The paradigm in the Africa union is of high attachment and low engagement. It is difficult to penetrate even for ex-locals. Tech is not well developed because of suspicion of external forces and internal governance priorities. For the entrepreneurs themselves, Ethiopia is still state-dominated so there are not many private sector investors and not much know-how of working at the global level. As for corruption– there is a basic assumption of western and Israeli businessmen, one feeds the other creating a corruption syndrome. Nonetheless, the cultural gap Israelis experience with states in Africa is efficiently bridged by other states. Those introduce, generally, a more humbled approach and in many cases agree to stay in the shadow and allow room for local players, to generate the desired impact. In many cases, they use an intermediary organization that supports the company and works with the local community. What is also prominent, is that non-Israeli companies always see the next phase and plan, for a long and sustainable period. The Israeli agencies still do not have this strategic vision and capacity.

In general, lack of political stability is a deterring factor. The political situation is volatile, and government changes can throw away what was done, thus continuity is slight.

The Main Advantages and Business Opportunities of the African Market

Because of all these hurdles, the impact dimension is becoming increasingly critical, but opportunities are immense. The main advantages and business benefits are the huge populations, featuring numerous partners in Africa with great potential for the specific solution offered, and the geographic proximity – easy access to central states. The attachment to the international settings is no less important: global development potential, also to collaboration with NGOs and global organizations, and connection to non-business channels Generally, Africa features obvious growth and consumption potential, mainly in relation to the development of the middle class.

A great opportunity nowadays is in the financial sector in Ethiopia. There is work going on to open the financial arena to foreigners in the next couple of years so that companies and entrepreneurs will be able to bring external loans so that their revenue will go overseas. Ethiopia should adjust the exchange rate and float its currency (ETB).[96] The law for mobile money in the process and privatization of key segments is going to be a major contributor to opening the forex market. The government, all the same, prefers to keep the financial sector closed.

While the regulatory climate in fintech is too risky, agriculture and health are a lot easier; both sides realize the potential, so collaboration is much simpler and the market is open. However, due to bad experiences with investors taking all the land and disappearing, there is still a spirit of suspicion. The Services industry is growing, unlike, for example, the manufacturing industry. To develop a globally competitive advantage to increase the manufacturing sector, there needs to be an internal policy adjustment and bureaucratic capacity. The budget for medical device in Africa are almost 50% of that of global humanitarian institutions allocations, there is no competition so easier for a young company to access while collaboration is immense. The patent is less copied in African markets, and the ability to enforce the patent is higher. The African Union leads core processes, such as scandalization, though slowly and not in a coherent fashion. In the EU, the advantage is in the cohesive regulation of the member states, so regulatory barriers are minor, and in Africa, there denotes an attempt to pave the way to such facilitation.

The need for stability must be reconciled with innovation. It is very important in the context of education and for the next generation to receive the skillset to deal with global challenges. The Ethiopian side did strongly suggest that Israeli companies have every opportunity but they need patience and money, access, and knowledge. Currently, the ecosystem in Ethiopia

[96] See for example https://www.bloomberg.com/news/articles/2020-07-28/ethiopia-sees-new-benchmark-rate-floating-currency-after-2023

mostly relies on philanthropy. The transition from philanthropy to impact shall be conducted through a profit-driven orientation. There need to be foundations to make channels of investment. One big success story can attract others, pointing to a profit-oriented environment, we well as the use of data for decision-making. Ethiopia's vivid and growing startup ecosystem is becoming a tangible and facilitating partner.

Measuring Profitability and Sustainability and the Funding Challenge

In terms of profitability evaluation, NALA did not even consider it as a pre-condition before operating, as it started and still is an NGO. Cassit came with a basic product but then made adaptations to the population, infrastructure, and specific needs, also marketing-wise. Many decisions that were made as a result of the adaptation desire are in effect compatible with the needs elsewhere. This way, there are many benefits outside the local market itself once penetrating there**.** For a Company that sells solutions and not systems –profitability is higher. The main parameter and focus for Israeli companies to reach sustainable success is funding. Export Credit Agency (ECA) in the Netherlands, for example, provides credit, similarly to ASHRA. Most of this effort is project-based work for which one must come with a package of funding. Available governmental funding and assistance programs (national and international) are provided by Israel Innovation Authority, the Pears program (especially valuable for networking), the Economic Attaché, and The World Bank. Other channels of funding do not prevail due to the reluctance of Israeli investors to allocate resources toward Ethiopia.

Concerning collaboration and investments – the recipient of the funding and the providers are not the same. To illustrate, Phillips (health care company) is to reach 3 billion people through external providers, thus improving access to cares while creating an eco-system of professionals and patients providing technologies and services.

In the global health sector, the big funders are the US, Bill & Melinda Gates Foundation[97], state agencies, and other privately held NGOs. There is little visibility and transparency regarding who does what, and what results in the waste of resources. Funding is flexible and not always pre-defined, length-wise. The US government has funding for five years but it is

[97] See https://www.gatesfoundation.org/

hard to tell what the financial landscape will look like, and sometimes data collection and actual implementation take way longer. No single corporation or agency can work alone, and their contribution needs to be supported by other efforts which are difficult to assure. NGOs' implementation of change on the ground assumes significance for donors, who often do impact assessment and precision mapping. They have a vast portfolio to support, and the landscape is constantly changing. A substantial amount of funding was pulled out due to governmental decisions after Brexit, which came at the expense of various medical segments. Those include, for example, NTD, which although on the agenda since 2012, does not elicit much attention and engagement on the global level. NTDs are always falling behind, although demonstrated ROI there is particularly high.

The Key Networks, Communication Channels, and Position Holders

In Africa the partners are integrators based in Israel, taking technologies, funding, and services and building a package of integration like MedAfrica.[98] On a global scale, it is about governments stepping up. WHO roadmap, to illustrate, is moving away from donor dependency to country ownership, compelling an integrated approach. Country ownership is incorporated into the engagement of the ministry of health, which would be in charge to demonstrate the value of investing in human health (e.g. NTD) – to show that 'nobody is left behind'. Although it might seem idealistic, it is necessary to push for this idea. Countries are to invest and drive these programs forward, moving away from the donors' dependency model. The sustainability component is the anchor now, and behavioral change rather than supply is a key objective. With state support, health corporations would become accountable for generating global impact. The focus is not on the process only but on the generated impact. Return on Investment (ROI) is becoming increasingly important to demonstrate, also at the patient level. Already the measurement focus is on the business methodology approach to show the benefit to the patient.

States in collaboration with the private sector need to find a transitional path where slowly but more concretely they can step in, and provide guidance and support on how to sell impact programs. They need to assure they allocate funding for these purposes. Ministries work based on their agenda and priorities, but an impact community can support and increase these

[98] https://medafrica.org/

efforts in a better way. Such a community includes MNCs, entrepreneurs, NGOs, and in the health domain - Centers for Disease Control and Prevention (CDC), where the executive on the ground (Director General) is a key player. In addition, local government offices; WHO national counterparts intermediating between the sides have an important role. WHO country offices are represented in every country in sub-Saharan Africa and have focused attention. Both entrepreneurs and state agencies should build a context-dependent network, top-down and bottom-up, in which the locals are most important. The state acknowledges the limitations of G2G, therefore a body conducting the twinning is critical.

Also on the Ethiopian side, there is an emphasis on good acquaintance with the policies, but no less important - is clarity on politics, religion, social values, and the actual meaning of impact. In general, key stakeholders believe in the ownership of impact and responsible innovation. In Health tech it is important to integrate local hubs, through public global data, such as WHO health-tech surveys.[99]

It is crucial to find the right balance by maintaining the value but convincing others to showcase the value as well, creating thus a real impact and driving change forward. The effectiveness of partnership is indispensable to creating change. For Merck, the way of generating the impact process and owning the whole thing is not through the supply chain - providing tablets or stimulating awareness - but by owning the whole process, through the right partners. Such corporations need to generate a model and make it sustainable for the donor, attainable for state ownership and continue to monitor the impact once the partner is not there. Companies need to empower the community to take ownership and look for the sustainability of partnership - evaluate or monitor after a certain period of intervention.

3.6 Academy

The Conceptualization of Impact

There is no one definition of impact; nonetheless, it must be a win-win for all partners, economically, business-wise, culturally and socially. Some key principle is 'Do no harm', allowing room for multiple voices, including states, NGOs, and the people from the field for

[99] See https://tdr.who.int/activities/digital-health-technology/WHO-CCU-18.02-Ethiopia

a long-lasting impact and as a result - local empowerment. Impact comes along with sustainability – everything has an impact but the importance is that it lasts, and the local community is a partner that can maintain it after primary external involvement.

Most institutional players in Israel did not succeed in all the above-mentioned parameters. There was a win – political, economic, and diplomatic - but it was not reciprocal and they indeed caused massive harm. The harmfulness question, nevertheless, was never asked, it was just the functionality that was assessed. There were no multiple voices with respect to integrating local voices and no sustainability with local empowerment. In contrast, other states, such as the Scandinavian states, have much more awareness of these elements, and research infrastructure is immense[100]. The Nordic models, which have no post-colonial biases, are less harmful and their impact is bigger. It is important to remember that there is no such thing as an African market, but the too general and not well-adjusted approach is the pain point of development.

Concerning Africa, the Israeli private sector is utterly different from the government sector. Sometimes NGOs want to differentiate themselves, depending on who the minister is and what is the environment. Among Israeli NGOs, nonetheless, the work with the public sector is tight, and there are some examples of impact de-facto, including NALA – searching to implement behavioral rather than just medical. The good projects in Israel started with a person aligning with a local partner and building bottom-up collaboration. In general, there was a trend of people from kibbutz and state camps plans (e.g. Gadna) who ended their mission in Israel and searched to contribute elsewhere. Israel also brought to Africa what was very relevant in some states, such as Nigeria – the Israeli mentality (direct approach, working behind the scenes) – and solidarity was thus created. Israel brought the state of mind of entrepreneurship and power building to post-colonial states in Africa and offered a partnership in advancing the local agenda in this statecraft, challenging colonialism. Sixty years after colonialism did not make much difference.

[100] For example, the Centre of African Studies in Denmark (https://teol.ku.dk/cas/) or the program of collaboration in Africa in Lund, Sweden (see https://www.lunduniversity.lu.se/about-university/international-collaboration/collaboration-africa)

Today, China is the key to understanding the efforts made in Africa. China does not care about impact or sustainability. It needs African dependence for the long term, which would, in turn, require China's presence for many years to come. This is, to a great extent, the new economic colonialism, and a massive disturbing factor for impact. Collaboration between Chinese and Israeli companies is in debut; the trade war in the US – China is a hampering factor. As for the impact needs, water is a cardinal goal within the poverty challenges. It derives gender equality, employment, and poverty treatment. The Israeli mindset and evolution in terms of water are particular.

The Key Networks, Communication Channels, and Position Holders

The most relevant ones include academic researches worldwide that are published in local journals and seminars. Archives, oral history, ethnography, and ideas are good sources. It is noteworthy that the global datasets are in great part inaccurate. Mostly they feature a bottom-up approach – governmental, regional, and international reports. The most important is fieldwork.

The Challenges and Gaps

The main obstacles include the cultural gap, which is not getting smaller; Israeli companies want everything served, while the Ethiopian side has its rhythm and way of doing business, and there is massive fatigue and skepticism on both sides, from prior experiences. Financially, there is a local discouragement from this collaboration. Israeli impact players are in most cases incapable of initiating the penetration to the market, since bodies and funds like ASHRA are limited, and the banking system is not accessible. Also, in the Israeli development scene, there is a dependence on global Jewry and there is a fear of dependence on foreigners, which spills over to the impact arena.

On the Ethiopian side, the population often does not have the means to pay. The exit strategy of foreign companies, which is important for project sustainability, is opaque, and there is excessive regulation. Transportation across the country can be challenging. Workforce-wise - there are not enough trained people to advance these efforts.
In Africa, most projects must generally pass through state channels; most of the state officials

search for additional income or coupons, as their salary is low, so they look for ways to get their own money.

3.7 Recommendations for State Players

This part collected the main findings from the fieldwork, focusing on the key governmental impact channels - what shall be changed/added/omitted from the current government funding programs is Israel and the general impact strategy Israel shall adopt concerning their activity in the Ethiopian impact sphere, as well as core recommendations for impact companies aiming to penetrate the Ethiopian market and integrate with the local eco-system. It is widely agreed that there is a global event at the moment in which Israel is not included. Nonetheless, impact investments will probably be among Israel's national goals in the near future. Israel has a reputation for small, effective, and flexible solutions and certainly has a lot to offer to the global impact ecosystem, specifically in Africa. The impact trend among Israeli businesses is far from reaching its full potential, thus governmental support is needed, being the first and most important factor in advancing the Israeli impact eco-system towards a grand and well-directed process of impact. Below are some key steps to be contemplated and framed at the state level and the strategic plans of its institutions.

In terms of data, all bodies dealing with penetration and establishment in developing markets in general, and African states in particular, such as the Israel Innovation Authority and Israel Export Institute, must have data on several features to make decisions, including the potential, the activities of financial institutions in these states, the activities of philanthropic institutions and key case studies to learn from. The companies interviewed for the most part did not use governmental data (national and international), but based their analysis on their own data. The data offered to them in their perspective was demographic data and other local data which was found less relevant. Basic and general analysis of the impact of key sectors and domains is a must, first for establishing a benchmark.

Data from international bodies such as World Bank, IMF, development banks, and international funds mentioned in this review facilitates networking and post-networking business collaboration. At the moment, the data is sporadic and, in many instances, costly. The state can devote a knowledge platform to delineate the information and plans in a concentrated fashion and share this knowledge, along with the fund's Point of Contact. The state must be much more aggressive in creating an intermediate data corpus and establishing industry-targeted knowledge. An institutional networking platform is no less important. Bilateral dialogue alongside private networks and clubs is super effective**.** The kick-off of the exchange can vastly be boosted by state agencies. For example, there is already a Presidential Seven Years Plan of Society and Economy to give a stage to business delegations to emerging markets. Aligning it with the endeavors of other state agencies dealing with foreign relations and economic collaboration can shift and strengthen the impact efforts. Today there are good channels of communication and players for doing business.

From a G2G point of view, creating collaboration at the highest level, looking at the grand picture, is a real game-changer. G2G holistic platform is necessary to drive change and collaboration, including research, funding, support, training, and education. A good starting point would be to target states, favorable sectors, designated impact bodies, and anticipated partners. Assuming the potential is evident, the next phase is to determine what to do and who is in charge of doing that. The formal authorities such as Israel Export Institute, Israel Innovation Authority, and Foreign Trade Desks should thus be included in this vision. The way to bridge existing gaps is complex, ranging from designated business development through state agreements and international treaties, including funding and insurance of the exchange. In the field, the embassies and economic delegations should have a point of contact in every sector.

Funding-wise, the main policy steps can include, first, state encouragement of impact through taxation policy prioritizing impact - tax relieves given to investors in start-ups or to start-ups directly. Second, there are many impact funds, but not at an early stage; the state can bridge the short-termism of Israeli companies by extended guarantees - which is basically capital, provided initially by the state but for long-term profit goals, oriented towards the impact industry. In terms of mitigating the risk hazard from investments in Ethiopia, ASHRA needs to develop a new risk model, to overcome the limitations of current conservative models, based on risk levels. It should increase the guarantees provided and convince the Ministry of Foreign Affairs and Ministry of Economy of the contribution of export and its significance to the Israeli economy. This tool is incredible, since the state does not invest de facto, but put a guarantee, and the risk is paid only in case of default. If the contribution of each dollar exported is measured, to illustrate how profitable it is, the ceiling will increase. Even if exposed – there is a risk fund, based on the premium from each deal, taken from eight insurance products. The transaction determines which side funds the premium, depending on the product needed.

Most importantly, in their provision of funding to young companies, state institutions such as the Innovation Authority must take into consideration more hybrid forms of technological impact companies, in which the technology can be an innovative way of approaching local problems. NALA is a great case study of a company bringing innovation, a designated solution, an actual foot on the ground and hands-on approach, and immense ROI. However, they are not compatible for innovation grants as NALA is not a classic technological company. Broadening the segments funded in favor of impact necessitates revisiting the applied technology range in these cases. It is also useful for The Israel Innovation Authority to find new targets for the Israeli market in light of the global crisis, and redefine the economic logic to impact.

The state itself is a critical source of funding, mainly in channeling access to markets not accessible otherwise. It should conduct assistance plans, even using Africa as a pilot. The business still needs to meet the defined KPIs but the access should be enabled and funded, and later tested, to create opportunities. This should be a national priority, for example through channeling a certain percentage of GDP to be invested in emerging markets or legislating allocation of foreign support, to better deepen Israeli presence in the development arena.

The state can generate designated bodies for funding impact purposes, like investment banks to accompany the relevant players in building a joint venture with local market players. Innovation hubs positioning Israel as a different player in the global arena are also a good starting model for external relations. The economic aspect is an indispensable part of state strategy; as is a regional strategy. Importantly, Israel is not a member of the African development bank and should examine how to join, and the cost-effectiveness of such a move. The Israeli formula can replicate China and UK, which founded business associations.

Those, even within the investment commission, have specific investment desks, provide the service and facilitate collaboration. Also, Israeli companies based in Ethiopia can provide such knowledge which might even be more effective in terms of their foot on the ground than an association. In this context, Israeli Start-ups association is a formidable solution.

In addition, institutional investors are a good path for mobilization and innovation of funding. In the case of ESG, an increasing number of financial players, including institutional investors, allocate funds to comply with ESG directives. A genuine allocation of these in favor of the impact investment ecosystem needs to be formalized. Certain state subsidies for pensions can be invested in development goals, which can be reproducible to other channels. An example is trying to open a fund through IDB - Inter America Development Bank. Such compelled allocation needs to be directed, regulated, and enforced by the relevant state arms, and advanced by public support, informed, again, by the state.

Another step is compelling financial reports that include ESG like by authorized bodies such as the Capital Market Authority, Insurance and Savings. Other governmental steps include the monitoring of implementing SDGs in Israel and abroad, acknowledging that this is a direction for Israeli companies to become more tangible, particularly in emerging markets and in light of the COVID period. To enhance the impact on industry and effect, the impact must be promoted by big organizations, but the state has the legislative, regulatory, and monitoring power to veto companies that do not comply with ESG.

The state agencies are to work together and open up opportunities for Israeli companies in the early stages to generate projects that are relevant to the state and let Israeli companies lead them. The Israeli-Ethiopian community is key to developing impact collaborations (as detailed next); so is the new generation of American Jewry. The conceptualization of impact and its legitimacy is critical; the dual impact of strengthening the world and in parallel strengthening the Israeli economy is a winning strategy. The human factor is critical and cannot be translated to functions solely. Israeli-Ethiopian community is exceptional in this effort because it has a clear advantage in connecting to local representatives, being part of the place and of the people of both sides. This has a massive contribution to integrating the Ethiopian population into the innovation business landscape in general, and the impact ecosystem in particular. Nonetheless, The Israeli Ministry of Social Equality often in charge of integrating the Ethiopian community and strengthening the exchange is the first to be damaged by budget cuts; the same holds true for social services for government delegates. The political structure is very concentrated, which is why the cuts are immediate and one-dimensional, not seeing the implications. Although such major financial challenges are also an opportunity, the social sector is most exposed to crises. The solution can be state-supported impact models with double profit lines, which are independently existing socially and economically. Alternatively, the stringer ministries, such as Finance, Economy, and Foreign Relations can be those using such local powers in favor of financial return.

To ‘clean’ the bad image of Israel in some of the developing states, and turn the focus to impact there needs to be a shift of paradigm in the national perception and awareness of the impact, nourished by an institutionalized system of foreign relations to make it easier and faster. Professional state agencies, as well as A President House that are committed to foreign Jewry, Tikun Olam, and a common identity and does not need to be re-elected, may be the right entity to advance such strategic impact using foreign relations.

Finally, the state should tighten its collaboration with that respect with Israeli bodies operating in the global sphere. The focal role of the private sector was already heightened in the 2020 PMO report, which robustly pointed to private sector practices. As long as Israel is not the key player itself, the way to succeed and make the Israeli impact most meaningful is through the integration of non-state actors. The government must invest resources to enable such a meaningful impact. Global, non-impact players, such as accounting firms, are important, in terms of their geo-spread in African states and/or subsidiaries. They can assist Israeli companies interested in penetrating or extending their activities in the continent by supplying services and working actively in exposing these companies to the African market. In such corporations, there is a palpable effort to turn Africa into a more important region of activity and to make a transition from a country-by-country focus to regions or groups. However, no proactive moves are taken yet. Same for private corporations in the health sector, such as Merck, looking to shift to country ownership on impact. Financial institutions in the capital market are an interesting partner to advance fin-tech efforts in the Ethiopian arena. The state can be the generator of such outsourced energies starting to operate in the impact field, in turn strengthening Israeli interest and return.

3.8 Recommendations for Private Impact Players

The recommendations for private impact players aiming to penetrate and collaborate with the Ethiopian market can be summed along the following strategic lines:
To reach sustainable success, there are four main pillars. First – map the impact – designated research on how to contribute to development, understanding of the impact terminology, and what problem is being solved. Second - identify the state benefits and understand the value you create for the state, the knowledge transition, and the way of collaborating with the local population, so they are part of the project. Each state in Africa is different and sometimes the difference is at the province level. Third – conduct a competitive intelligence analysis - knowing the global players by means of knowledge and penetration strategy, as well as the competitors of the suggested product or service. Finally – create partnerships - companies should connect with local representatives and partners for the go-to-market phase, to understand and comply with laws and procedures, such as obtaining investment permits, gaining access, diminishing financial risk, assuring payments, and getting the best data and knowledge. Go-to-Market in general obliges local partners, G2G support, and a long timeline. Companies must engage and collaborate with a local partner – individual, company, community, NGOs, or international organization, which matches with what the Israeli side does. This alignment of contacts is hard to build and hard to detect the 'joker' – the right partner, so efforts should be channeled from the start towards that direction. When trying to build a local office and recruit, obtaining human resources is the main obstacle. Sometimes it is preferable to have a few partners to diversify risk. In addition, for doing business in Ethiopia one must invest in cultivating relations with the government; there is a substantial willingness and corruption is in effect fairly marginal. The connection to international organizations active in the arena is crucial. Favorable partners are permanent or long-term position holders, starting at the ministers' level, which can accelerate the process. The World Bank is often the natural choice, which projects are for the long term, at least 2 years.

Concerning the preliminary research, there are no generic challenges for the Israeli market.

A rather new territory to do business needs to answer a certain checklist: understand the values, customs, common denominator of language, difficulty in doing business, and compliance to agreements, where Africa (although the generalization is problematic) is not well understood, which thus prevents access. The connotations of African and Israeli business deal vastly with the grey area of business integrity. Israeli companies would do well to learn more about the culture, history, language, and religion of the country, and no less importantly - about the bureaucracy. The considerations include the scope of investments in the state, the ecosystem, and the regulation. In terms of access to local capital – banks, financial services, etc. - it is important to know how to handle the procedures of taxation, accounting, and reports. Same for designated research of the market and especially – the product-market fit.

Companies are often busy selling products and not generating solutions. They thus need to contemplate which core problems are being solved and distinguish transformational change from transactional or operational change. Companies need technology or products that are innovative solutions yet close to the local market, to be adapted quickly and efficiently by it. Businesses trying to penetrate the African markets need to obtain knowledge and investigate thoroughly the market features, motivations, trends, areas of interest, etc. They must detect their competitive advantage, and examine the logistics – how easy it is to mobilize commodities, how important is local presence vs. local partner and then offer a holistic solution that includes technology, services, and funding. A preliminary analysis of the data produced by international organizations and local representatives is crucial. It is important to approach these not in times of trouble but already in the introduction phase. A model of collaboration must include five aspects: Planning; Social; Economy; Technical; Environment. Generalizing and prioritizing is a pain point that must be tackled. Evaluate the chance to succeed, risk, and unknown, transactions give a clear idea of the timeframe and ensuing bureaucracy.

The preliminary examination of the market is congruent with competitive landscape analysis, to identify the competition for the product, service, or company in the local market, the nature of their activity, companies' sizes, overhead costs, HR structure, and the domestic vs. the international – if most capital transactions are domestic it is one use case; if international – another use case and hence much more appealing.

This brings us to the next point - sustainability– Israeli companies need to plan how to make their effort sustainable. Sustainability has to include the integration of the local community into the project or service. Also, the market acquaintance in terms of culture and needs takes time. There is no room to count on a one-time shot, but to plan for sustainability – long-term yields of the collaboration. For sustainable and long-lasting solutions companies must have a profitable business rather than rely on NGOs only. People who deal with development do not care enough about sustainability but about impact; therefore, the sustainability concept must be from the first step. In developed markets, the timeline till fluent exchange is shorter, as the basic condition of license and regulation compliance makes the project plans more predictable.

The next phase is to analyze the TAM (Total Addressable Market): the ability to take innovative products and penetrate the market. Market cap and the potential of going out to other states (business transactions), as well as currency considerations, are in it. Ease of doing business includes considerations of inbound/outbound and business development which requires more time to reach, as well as weather a local office and representatives exist, requiring otherwise a bigger investment. Finally, the difficulty of market education –the extent to which the market for the product or service is developed, and weather a rather stable and solid eco-system exist. The goal is to first create a local network and understand local clients, how they operate, and what their needs are, in order to adjust the product to be a leader. All the same, pioneering is not necessarily an advantage, and success stories are critical.

Product-wise, it is recommended that the problem solved can apply to Africa but not exclusively. The product or technology must be a good fit for Africa, but with huge economic potential outside it. There are products on the Israeli side that can be beneficial for the Ethiopian side. Israeli companies facilitate transactions, knowledge, and technical support. The main needs are, accordingly, access to technology and knowledge, access to markets, and access to finance. For a Company that sells solutions and not systems –profitability is higher. It is of course critical to avoid abuse.

Besides avoiding the immediate suspicious sectors as delineated before, it is important to integrate the know-how in the region. Human ingenuity, education, and access need to be developed. All the same – there is a dissonance, for example, Israeli companies operate in the field of renewable energy, while in Ethiopia millions of people have no electricity; companies thus need to bridge existing needs with more immediate solutions in order to enable people to live well also before implementation. Integration is critical, and not always the implementation of the proposed solution is evident. Companies thus must offer a more holistic solution. A company is to bring a tangible model, which is easy to transmit and illustrate – with a demo product. A well-defined adaptation process is a must and can spill-over to other areas.

The data and information consumed about costs and general conditions are mostly inaccurate and it is always recommended to find out concrete conditions. Then, a company must make a physical acquaintance with the target audience, the needs, the environment, etc. which must be felt on the live ground rather than consumed theoretically or by proxy - brokers, distributers, and partners. Innovation and adaptation will come this way. Not to contradict, as Small-Medium Enterprises have less access and funding opportunities, it is essential for them to establish reciprocal relations with local players, conducting a continuous follow-up for the next level of collaboration.

Currently it is hard to find a mechanism to enable such continuous exchange. Empower Africa, GITA and other networking bodies operating in Africa enter this gap, but they are sometimes pricey for the companies that need them. Also, their product is often a sort of network, organizing conferences and meetings, but timeline and efficiency are not defined. Furthermore, meeting the minister is not always enough for doing business, there is a need for a granular mediated process that only starts with the first acquaintance done by brokers. Thus, although such bodies are important bridges for business, they are mostly good for the kick-off of the exchange, but in the current capacity, no player can execute the B2B follow-up of such an exchange.

Creating a trusted community of impact is essential, and a one-stop-shop intermediary body, to establish such a process and accompany all steps of its funnel is acute. Africa is a continent of relationships. The usefulness of the product or business is only secondary to the inter-personal connection in doing business, differently from the US and Europe. Acquaintance and exchange are mostly conducted by companies and corporations, as well as individual players present there. The fluent discourse after touching base in no less important, while actual presence in the country, and not by proxy, is focal. Cultural rapprochements like the Israeli-Ethiopian community or travels of ex-soldiers to Africa is important in attracting people to later work there and establish a cultural trend.

Important Networks include the Ethiopian Management Institute, Multi-National Corporations (MNC) operating there, international organizations, such as WHO, the World Bank, and development banks; Gates foundation data; global consulting agencies such as McKinney; African fintech network. [101] Mostly important are local research companies providing invaluable data and knowledge, both domain and economy as a whole.[102] These companies provide a set of services to help the establishment of companies in the market, including market systems for growth. The advisory services are focused on agriculture and the value chain (processing, distribution, etc.), which are most impactful since a vast majority of the population is making a living off the land. They enable and facilitate the arena of operations of the private sector, handling workforce development, creating jobs, training and getting individual's employment or advancing them to self-employment, advancing the digital economy, and integrating technology in everyday operations, such as e-commerce and anything digital to boost and enable capital mobilization.[103] They further help companies to raise capital for expansion, thus generating an ecosystem and creating a platform to connect and suggest service providers. Besides, there is an increasingly dominant startup Eco-system, a network that was found through the members' startup experience.

As for funding, it needs to be reciprocal, with funding entities on both sides, to assure mutual funding, thereby strengthening collaboration. Long-term allocation of capital is a must, rather than building on quick wins. The process in Ethiopia is long and consuming and requires patience, backed by financial resources. Africa is a huge market with relatively small purchase ability and extensive bureaucratic and regulatory hurdles, thus the funding, as well as the income model, needs to be long-term and not medium or short-term. It is noteworthy

[101] See https://www.africafintechnetwork.com/ - A pan-African association currently including 23 countries with the aim to include, by the end of 2025, all African member states
[102] See for example Precise roadmap for digitization of agriculture data, designed to create a platform that empowers companies and farmer ((Digital Health in Ethiopia,2021))
[103] For disclosure purpose, we have collaborated with some of these companies to collect data and analyze key processes in this research

that global banks fund cooperatives rather than single players, so aligning with a partner, is, again, critical.

To reduce risk, companies should get support from bodies such as ASHRA for institutional provision of insurance, as well as similar plans of the World Bank. Companies need to be able to take losses, while profit sustainability is probable. For this purpose, G2G needs to coordinate with B2B to overcome market barriers and act in it.

For strong and long-lasting rapport companies must physically go to Africa to make a difference and change perceptions. Another critical factor that companies often miss is the necessity of coming to give to the community, rather than business solely like in other places. Doing good is a must. It is important to expose all relevant players and stakeholders to the project, to enhance the chances to win. Awareness, language, added value, and adjustment to the local market – are key. Generating a success story shall bring other players on board although the profit is not necessarily the highest. In terms of the general state of mind, Israelis must be patient and present, for the Ethiopian side to have faith and strengthen reliability. Currently, we see the beginning of a collaboration with relevant players and efforts to make the knowledge accessible to the Israeli industry. The perception of performing well but also doing good, while evaluating the extent to which impact can assist the Israeli needs, are crucial.

The market investors are the natural leaders of impact perception and shift of paradigm. The government has limited influence - it can be very helpful, but cannot lead this change. The companies themselves have in many cases less interest in generating impact (although this starting to change). The main drivers are the investors. They can attract high-quality employees, due to their good reputation. The discourse now of investors' role and measurement is local since it is a small audience, and the governmental discourse, which is the leading one, is limited. Indeed, we see a growing willingness to invest rather than donate to impact companies. It should be a global issue, development-oriented and with rigid and measurable indicators. The more business done in Africa – the more it will develop. The change will come through the private sector.

Finally, more than 160,000 Bete-Israel community members live in Israel, the second largest Ethiopian Diaspora community (after the USA). They are part and parcel of Israeli society, making them a key to accessing the Ethiopian market. Following the first visit ever of Israel's President to Ethiopia, the statement of the President of the state of Israel, H.E Mr. Reuvaen Rivlin in 2018, encouraged development and deep cooperation between the two countries in some of the many fields in which Israel excels. The Ethiopian Israeli community can be a significant player for both countries, being interested in strengthening existing commitment and sharing historical heritages; opening opportunities by exploring Ethiopia to the new generation for Impact investments; and seeking to flourish business engagement from and to the Ethiopian market. Partnerships with the Ethiopian community in Israel to generate social and economic impact are the kind of brokerage needed to penetrate the Ethiopian market, generate sustainable collaboration there, and enhance the integration of the Israeli Ethiopia community in the socio-economic structures in Israel.

3.9 Conclusions

There is a growing demand in the global economy for a new socio-economic contract between states and inside them. *"Almost 60% of Mutual Fund Assets will Be ESG by 2025 - That's the finding of a new report from PwC that forecasts as much as 57% of mutual fund assets in Europe will be held in funds that consider environmental, social, and governance factors by 2025, or 7.6 trillion euros ($8.9 trillion), up from 15.1% at the end of last year. In addition, 77% of institutional investors surveyed by PwC said they plan to stop buying non-ESG products within the next two years.*[104] The impact investments are basically a concrete evolution of ESG, complementing policies and guidelines adopted by existing corporations. They can be located in the range between philanthropy, G2G, and development, but with concrete target, ROI, and measurable impact.

Only in the past years, there has been a growing understanding and discourse on the impact terminology. While DFIs and funds already exist around the world, Israel is only starting. Also, concerning impact, SDG, and corporate responsibility, the Israeli industry is behind. Organizations on the ground tend to prefer existing companies to scale, where it is easier to

[104] *. Source: Bloomberg, Almost 60% of Mutual Fund Assets Will Be ESG by 2025, October 19, 2020.*

generate higher ROI. New impact players thus encounter tremendous difficulties on both sides. In Israeli companies, a substantial part of the leaders in industrial companies has a limited understanding or acquaintance with the needs and the potential of technological and industrial development in developing markets. According to the Israel Export Institute, for many years there is a significant concentration of export to developed markets and a narrow number of states; 70% of Israeli export is to US and EU, and 10 states account for 65% of the total export. On the contrary, Israeli export to developing states is a one-figure percentile of total export, with only 1% on average of total export in the years 2016-2020 to African states. The processes are long and complex, and if companies do not have the right incentives – they choose not to enter. Quite the reverse, most of the managers in the high-tech sector have good tech stack and reliable knowledge of local needs in these markets, but low inventory of employees and managers that suit penetration and establishment of activities in these markets.[105]

As for the African side, a key lesson from the preference of global companies to collaborate with the EU is its cohesive and rather simple regulatory regime, and the acknowledgment of the safety and ease of doing business there. This is a challenge to be tackled in a continent level, which although consists of 54 or 55 states – should provide a common ground for Foreign Direct Investment. A hopeful act is the following declaration: "Launched on 1 January 2021, the African Continental Free Trade Area (AfCFTA) is an exciting game changer. Currently, Africa accounts for just 2% of global trade. And only 17% of African exports are intra-continental, compared with 59% for Asia and 68% for Europe. The potential for transformation across Africa is therefore significant. The pact will create the largest free trade area in the world measured by the number of countries participating. Connecting 1.3 billion people across 55 countries with a combined gross domestic product (GDP) valued at $3.4 trillion, the pact comes at a time when much of the world is turning away from cooperation and free trade. The agreement aims to reduce all trade costs and enable Africa to integrate further into global supply chains – it will eliminate 90% of tariffs, focus on outstanding non-tariff barriers, and create a single market with free movement of goods and services. Cutting red tape and simplifying customs procedures will bring significant income

[105] Processed from the 2020 Strategic Affairs Interim Report - https://www.gov.il/BlobFolder/generalpage/strategy_report/he/strategic_affairs_Interim_Report.pdf

gains. Beyond trade, the pact also addresses the movement of persons and labor, competition, investment, and intellectual property..."[106]

On a global scale, it is about governments stepping up. WHO roadmap, to illustrate, is moving away from donor dependency to country ownership. It compels an integrated approach. Countries are to invest and drive these global impact programs forward, moving away from NGOs or donors' dependency model. The sustainability component is the anchor now, and behavioral change rather than supply is a key objective. Such a shift of paradigm can only be made through a collaboration between states and companies, a well-defined and supported strategy along with sustainable and long-term engagement of the private players of the impact eco-system.

[106] Source: World Economic Forum, 6 reasons why Africa's new free trade area is a global game changer , February 09, 2021

Chapter Four: The Startup Eco-System in Ethiopia

4.1 Introduction

The purpose of this chapter is to provide an assessment of the startup eco-system in Ethiopia, to understand the implications for the impact landscape. For this purpose, the review provides key characteristics of the impact arena relevant for external collaborators. To enhance the echo of these implications, the review is entangled with a data-driven optimization model, drawing on three key industries or sectors of analytics: digital health, agriculture, and fin-tech.

The chapter draws on unique datasets on the impact landscape in Ethiopia; a part of these datasets was structured for this research. It assesses the main components of the impact of startup ecosystem development, including market, policy, finance, culture, support, and human capital. It provides an overview of the different types of support systems, what they offer, how they are used, and key channels of the funding journey and environment. The regulatory framework under which the impact ecosystem operates and the recent and upcoming changes, entrants, and prospects are further assessed. By means of the data collected, built, and analyzed, applying data processing methodologies, the chapter offers an optimization model for future collaboration between the Israeli ecosystem and the Ethiopian industry.

The structure of the chapter is as follows: the first part is a general review of the startup landscape in Ethiopia and the key features of the entrepreneurial ecosystem, including the digital strategy of Ethiopia. The second part analyses each of the six components delineated above. The third part is a more concrete review of three key impact industries: agriculture-tech, digital health, and fin-tech, and the main active players in these domains. This part also includes specific regulations and challenges in these domains. The fourth part is an optimization model, based on unique and central datasets assessing three companies in these sectors, deriving a more robust conclusion regarding the chances of penetration to the market.

4.2 The Startup Landscape in Ethiopia

Ethiopia is a landlocked country with a population of 117 million (2021) and a total area of 1.14 million sq. km where 12% is arable land of total area and 7% of the total area is irrigated land. Due to the conflict in the North and COVID-19, Ethiopia's GDP has decreased from 6.1

(2020) to 5.6 (2021). All the same, it is largely perceived as an African Beacon of Prosperity, especially since the ground for development is vivid and abundant with opportunities. [107]

Three focus areas in Ethiopia were identified as national priority: agriculture, representing the productivity sector, tourism, the services sector, and the cluster of the various enabling sectors such as energy, transport, sustainable finance, innovation and technology, urban development, irrigation, and human capital. From the latter, two focus areas were highlighted as highly enabling factors: innovation and technology and sustainable finance.
Innovation and Technology is one of the enabling sectors that is under focus. The objective related to this sector is building a digital economy by creating jobs and capital through developing national scientific research and technological capabilities while developing technological and data protection systems. Ethiopia's digital economy is estimated to grow to USD 60 billion by 2025 representing 39% of the country's GDP.

Concerning Sustainable Finance, the focus in this domain is on transforming short-term to long-term financing. This can be achieved through a combination of reforms: increase the number of domestic saving institutions both in rural and urban areas, support domestic finance with foreign exchange capacity and foreign direct investment, modernize the domestic revenue collection system, raise voluntary tax payment attitude, and bring the informal sectors to the formal tax system.

Ethiopia Digital Strategy 2025 is a strategy set out by the Prime Minister's Office to realize the bigger development vision. It includes job creation, forex generation, and the obtaining of middle income by 2025. The strategy defined core recommendations in four areas: upgrading the telecom and power infrastructure, creating enabling systems such as Digital ID and Digital Payment, generating e-Government and e-Commerce digital interactions, and advancing a digital economy focused on finance, people, and policy.

[107] Ten Years Development Plan: A pathway to Prosperity, Planning and Development Commission, Ethiopia.

A key step in enabling these objectives is the Startup Act, first drafted in 2020. The National Startup Council consisting of public sector stakeholders will be appointed by the Prime Minister and will be led by the Ethiopia Ministry of Innovation and Technology. The Startup Act clearly defines parameters and incentives for companies to be labelled "Startup", "innovative business" or "ecosystem builders". It vastly relies on the conceptual definition of the Organization for Economic Cooperation and Development (OECD)–Eurostat Entrepreneurship Indicators Programme of Entrepreneurs:

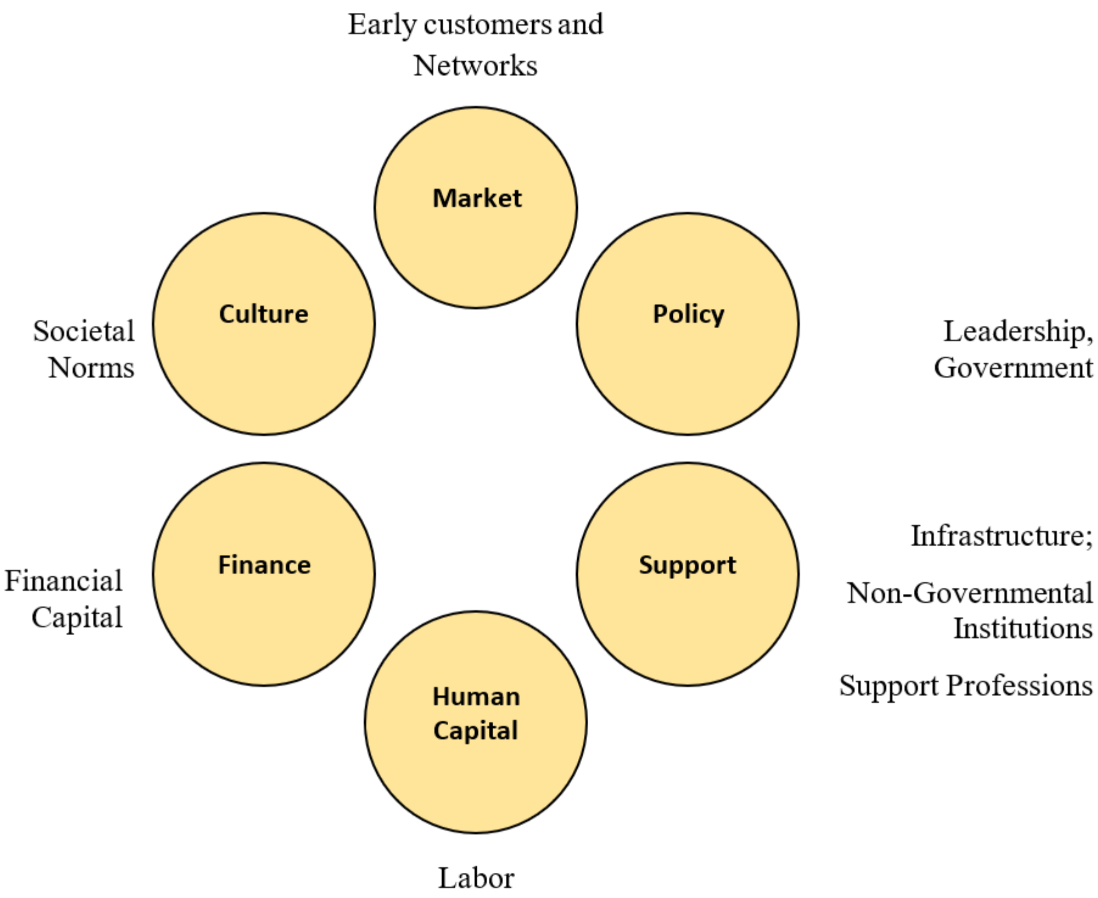
Entrepreneurs are those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploring new products, processes, or markets.[108] The National Startup Council will be responsible for ensuring the creation and maintenance of support for start-ups. The Act also aims to create a National Innovation Fund to tackle the lack of access to capital, with a wide mandate of both sourcing and distributing funds via a grant, credit guarantees, subsidized loans, and capital investment.

4.3 Key Features of an Entrepreneurial Ecosystem

To identify these key features, the analysis uses Daniel Isenberg's definition of an entrepreneurial ecosystem to understand the Ethiopian Entrepreneurial landscape.[109] The definition consists of six domains, market, policy, finance, culture, support, and human capital. Every ecosystem is unique as it develops under idiosyncratic circumstances. The ecosystem can refer to a nation or a city but is not limited to a specific geographical scale. The following will delineate Ethiopian particularities

[108] See https://www.oecd.org/sdd/business-stats/

[109] For more see Isenberg, Daniel. "The entrepreneurship ecosystem strategy as a new paradigm for economic policy: Principles for cultivating entrepreneurship." *Presentation at the Institute of International and European Affairs* 1.781 (2011): 1-13



Market

The Ethiopian startup ecosystem is at a nascent stage where the market has a small number of players with a variety of services. At this stage, trust is very small among stakeholders where no sign of institutional collaboration directly supporting start-ups is significant enough. All the same, network events are fairly pertinent. Monthly events have happened to create awareness of the existence of the market for policymakers and ecosystem players (for example Orbit Health together with CIPE), and other startup events to highlight new and disruptive technologies (e.g. AfriDev Con) and create networking are on the run. The Ethiopian Chamber of Commerce has been a go-to place for local and foreign businesses to find partnerships and networks. The regional chamber represents their region and works under the umbrella of the Ethiopian Chamber of Commerce. The Pan African Chamber of Commerce and Industry (PACCI) is an independent, non-profit and non-partisan organization established in 2009 with more than 50 national chambers of commerce acting as its local focal point.

PACCI aims to serve Africa's businesses by promoting public policies that will foster continental economic integration, competitiveness, and sustainable growth by offering a wide range of services including advocacy for the creation of the African Economic Community (AEC), capacity building, and business networking.

Policy

Ethiopia is ranked 159th out of 190 economies in the Doing Business rankings (2020) and 110 out of 137 countries in the 2018 Global Entrepreneurship Ranking. The policy environment is not ready for the digital economy. There are no regulations that encompass the needs of the digital companies and operational model, which compels the existing regulation without considering the broader digital vision context. The Commercial Code of Ethiopia, which was enacted in the 1960s, discourages angel investors and equity financiers, as well as other forms of foreign investment, as the Investment Proclamation sets high minimum investment requirements for foreign investors for all sectors including digital entrepreneurship and digital financial services (a minimum of US$150,000 for investing in Joint Ventures and US$200,000 for outright ownership). Not only that, there is a law that states foreign investors expatriate their foreign exchange but the actual implementation on the ground suggests differently, as elaborated in previous chapters. The recent policy changes are aimed at easing doing business in Ethiopia, as the new commercial code will simplify company formations, company restructuring, ownership options, and bankruptcy management.

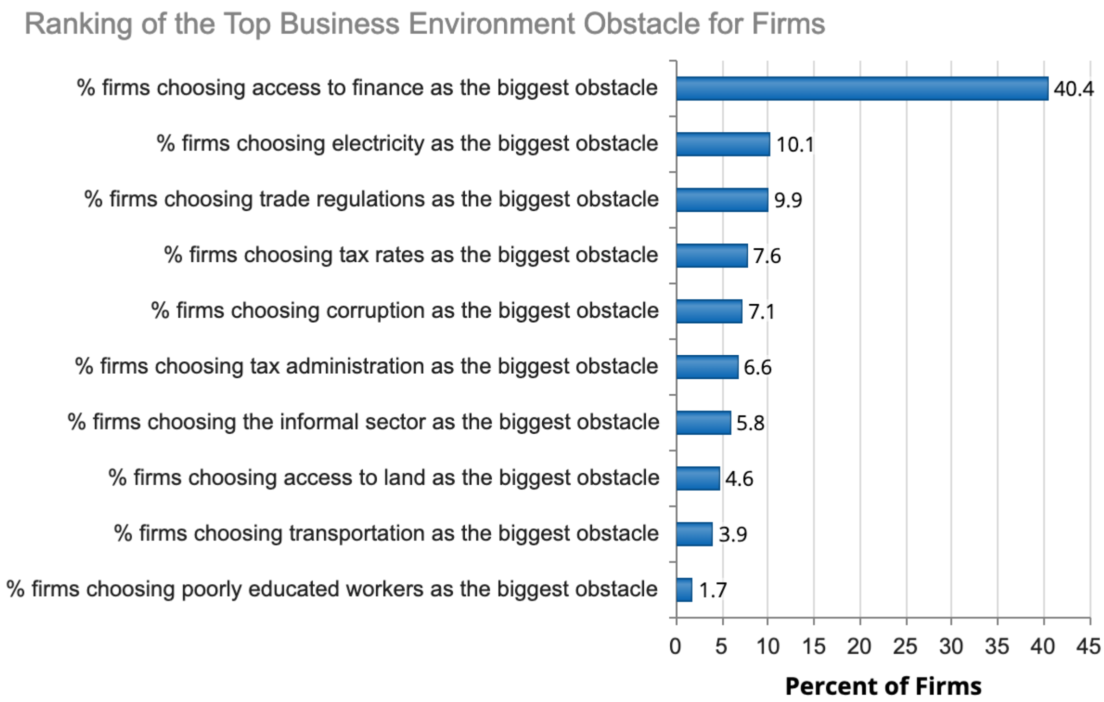
The new investment law accepts the Ethiopian diaspora as Ethiopians and allows them to invest as a citizen and also opened up previously closed sectors for foreign investors. The national entrepreneurship strategy plans are thus designed to create a conducive and functional entrepreneurship ecosystem by creating opportunities, finance, and capacity building.

The startup proclamation aims at supporting start-ups by removing legal barriers and accepting them as a business category. An innovation fund will be established to allocate funds specifically allocated for start-ups.

E-Transaction proclamation and directive is a key facilitating digital tool, which covers electronic trade, taxation, authentication of documents, e-signatures, consumer protection, and data integrity. It also establishes a new digital economy council tasked with promoting and facilitating the sector.

Finance

The ranking of top business environment obstacles for firms is as follows:[110]



The private sector has stunted growth as the Ethiopian business environment is not conducive. The market lacks a supportive environment where businesses thrive. In the World

[110] https://www.enterprisesurveys.org/en/data/exploreeconomies/2015/ethiopia#2

Bank Enterprise Survey, conducted on 848 companies, 40.4 percent chose access to finance as their biggest obstacle, 10.1 percent chose electricity being their second obstacle, and 9.9 percent chose to trade as their biggest obstacle.

The banks are the natural source of funding, but the high-interest rate and the requirement for collaterals are deterring factors. Family and friends are a good source of funding which is ideal if one has affluent and well-connected acquaintances. In addition, other funding sources include Addis Ababa Angels Network and RENEW Impact Investors who, although small in number, prominent in the impact space. In the Private Equity and Venture capital space, we find Cepheus Growth Capital Partners, Helios Investment Partners, 54 Capital, Catalyst Principal Partners, Ascent, Zoscales, and Novastar Ventures. Below are some prominent fin-tech companies:[111]

Company Name	Last Round	Total Raised
International Clinical Laboratories ICL	Venture	$2,500,000.00
Africa 118	Grant	Undisclosed
Cambridge Industries	Series B	$12,750,000.00
Simbona	Grant	$50,000.00
Verde Beef Processing	Private Equity	$7,400,000.00
ZayRide	Grant	$100,000.00
GreenPath Food	Venture	$3,175,000.00
Deliver Addis	Venture	Undisclosed

[111] *See https://startuplist.africa/location/ethiopia*

Gebeya	Venture	$3,150,000.00
Eshi Express	Angel	Undisclosed
Lersha	Grant	Undisclosed
Taskmoby	Non-equity Assistance	$126,500.00
HelloSolar	Series A	$1,000,000.00
Omishtu-Joy	Grant	$25,000.00
ConDigital	Pre-seed	$25,000.00
beU Delivery	Seed	$125,000.00
Garri Logistics	Grant	Undisclosed
Across Express	Angel	Undisclosed
ArifPay	Equity Crowdfunding	$3,500,000.00
Liyu Muya	Undisclosed	Undisclosed
Siidaa Technology	Undisclosed	Undisclosed

Culture

Ethiopia is one of the poor countries in the world which lacks basic market conditions for businesses to thrive. Entrepreneurship training are given at the university level but they are more theoretical and are not relevant to the market conditions the market faces. Entrepreneurs in Ethiopia, as comes out in the research, are characterized by a set of traits and skills that would make them relevant in the market, including critical thinking, creative thinking, innovative stances, the stamina of a long-term player, collaboration and more. Societal norms don't help with entrepreneurship mind-sets as society is risk-averse and does not celebrate failure. Risk mitigation is a support that is essential yet hard to obtain.

Entrepreneurs have a particular social prestige and are celebrated in the media despite the surrounding challenging financial and policy conditions.

Support

Support here focuses first and foremost on infrastructure. The first hamper of developing states is connectivity, and thus the attribution to a global network is key in any strategy or development. The Ethiopian Government has made huge investments in the telecommunication sector to enhance its capacity, expanding the service coverage and improving the quality of service. This is because of the understanding that telecom infrastructure helps to create and connect markets, attracts investment, and enables new opportunities. Due to the policy measure, Ethio-Telecom, the only service provider until recently, has enhanced its customer satisfaction, provision of quality services, and customer acquisition. Safaricom, the new game in town, has bought a license and entered the telecom market, passing the one million subscribers mark recently.[112]

EthioTelecom has 66.1M Mobile Service Subscribers, 30M Data and Internet Users, 535.6K Fixed Broadband subscribers, 882.6K Fixed Service Subscribers, 68.3M Total Customers (as of November 2022).[113]

As for the cost of Connectivity and accessibility, digital solutions are enabled by affordable and accessible connectivity. The cost of telecom service has dropped and infrastructure improvements have been significant. Since 2020, the cost of voice per minute has dropped from ETB 0.72 to ETB 0.28 and data access costs have dropped from ETB 0.30 to 0.06 per MB. For instance, a monthly unlimited package costs ETB 999 birr which amounts to (18.8 USD).[114] The entrance of Safaricom has brought competition to the market which made the incumbent broadens its reach and diversify its services.

Concerning energy, electricity is a foundation for the digital solution to be realized and used. Infrastructure and devices need to be powered to enable connectivity. In 2020, out of 115 million people, only 51% have access to electricity. Notably, 93% of the urban population have access to electricity even though a number of outages are reported.[115] Ethiopia is

[112] See https://www.africanwirelesscomms.com/news-details?itemid=5300&post=safaricom-ethiopia-surpasses-1-million-active-subscribers-922385
[113] See https://www.ethiotelecom.et/
[114] See https://www.ethiotelecom.et/premium-unlimited-offers/
[115] See https://trackingsdg7.esmap.org/country/ethiopia

tackling this challenge gradually, through the Great Ethiopian Renaissance Dam (GERD) is set to elevate the energy distribution when completed and starts generating power.

Hubs and Incubators are critical milestones in anchoring collaboration, developing market understanding, and implementing innovative stances. The first incubation space that was opened over ten years ago was iceAddis, which to date has given support to more than 160 entrepreneurs, incubated 45 start-ups, accelerated 31 startups, and hosted more than 300 boot camps, hackathons, and events. iceAddis has over ten thousand community members. [116] The role of iceAddis in the startup community has been immense in creating the ecosystem. It is the go-to place for startups and networking events that are hosted by and for the entrepreneurial community. iceAddis is considered to be a role model for Ethiopian hubs. Although, second movers like xHub and BlueMoon had their role in the ecosystem in creating a buzz and momentum. BlueMoon was an incubator that focuses on agri-business startups which were funded by MasterCard Foundation. It brought a good light to the ecosystem as the founder had previous success with the Ethiopian Commodity Exchange (ECX). Ecx created a marketplace for commodities produced from Ethiopia and eventually brought traceability to the product that was sold. However, they didn’t last as long. The sustainability of the incubators and hubs was much in question as there was no legal framework for them to get tax breaks or funding, which led them to avoid collaboration and synergize their efforts.

As for non-governmental institutions in the support system, GiZ, the Deutsche Gesellschaft für Internationale Zusammenarbeit, has been working in Ethiopia on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) since 1964. [117] It is supporting the startup ecosystem by giving grants to its players to inaugurate associations, as GIZ is not mandated to provide funds directly to companies. GIZ, through its PSD-E project, is assisting public institutions, intermediaries, and the government to advocate for the private sector. One of their outputs is to give grants and assist the Ethiopian Association for Startup Ecosystem to be a crucial player in the startup ecosystem. The association is tasked with advocacy, public-private dialog, and R&D. The long-term aim of the association is to create a digital platform for knowledge resources and collaboration.

[116] See https://www.iceaddis.com/
[117] See https://www.giz.de/en/worldwide/336.html

MasterCard Foundation in collaboration with the Ministry of Labor and Skills, the private sector, academic institutions, and young people has set out a program called Young Africa Works to spur economic growth with an initial investment of USD 300 million. The goal is to have 10 million young people have dignified and fulfilling work by 2030. The areas in focus are agriculture, manufacturing, tourism, and digital Technology.

Korea International Cooperation Agency (KOICA) and The Ministry of Innovation and Technology (MINT) have launched a USD 10m program on ICT-Based Business creation and SME Support to create quality jobs in Ethiopia. The program would benefit 30 entrepreneurs with a digital solution to create jobs, and wealth and support the digital economy. The program has seven-week training, four-month mentorship, and coaching in addition to co-working space for six months and grants seed USD 5000 for outstanding startups.

Human Capital

The universities are mandated to graduate 70% of the students in Science Technology, Engineering, and Math. It is a good advantage that the country gets in terms of human capital, but the graduating students need upskilling to be employable in the market. MasterCard Foundation together with Dereja Academy gives employability and skills training together with the universities to make this achievable. Entrepreneurship courses and training are given at the university level but the courses given are theoretical and not adapted to the existing market. The teachers often lack the necessary knowledge to teach entrepreneurship. Education Development Centre (EDC) is an important corpus in developing human capital, which maintains that supporting an African youth entrepreneurship journey should be complemented with market-relevant skills upgrading, access to affordable finance, and access to adult and peer-based networks that offer them accompaniment.[118] As part of the program, young students learn business planning, financial management, and customer service, coupled with soft skills training like communication, teamwork, leadership, planning, and goal-setting.

[118] See https://www.edc.org/ethiopia-read-ii

4.4 Three Key Impact Industries

The Agriculture-Tech Arena in Ethiopia

Ethiopia's economic development heavily relies on agriculture. The sector contributes 32.7% of the country's GDP, 65.2% of employment and 80% of the population lives in rural areas. The agriculture sector mostly includes smallholder farmers who make their living from less than two hectares of land. The agriculture sector has been growing by 4.7% on average for the past five years, with GDP contribution increasing from 531.7 billion ETB in 2014/15 to 650.3 billion ETB in 2019/20. [119] However, the country hasn't realized its full potential as farming practices are still survival-oriented with limited technology adoptions, highly dependent on rain-fed farming, all amounting to low levels of productivity. Some ag-tech startups include:

Agricultural Transformation Institute developing (four products)

8028 Farmers' Hotline (IVR/SMS)

A toll-free advisory service to strengthen the extension system by disseminating agronomic information to smallholder farmers, development agents, and experts through the use of IVR and SMS. It disseminates agronomic best practice advisories and collects field information via an automated hotline in real-time. The system is composed of an automated call service, an IVR-based help desk, broadcast IVR and SMS alerts, and an interactive survey with over 5.5 million registered callers. It broadcasts more than one million alerts in five different local languages (Amharic, Afan Oromo, Tigrigna, Sidamigna, and Wolaitigna).

Responsible Partners

- Agricultural Transformation Agency
- Ministry of Agriculture
- Ethiopian Institute of Agricultural Research
- Ethio Telecom

[119] See National Bank of Ethiopia Annual Repor, 2019-2020, https://nbe.gov.et/annual-report/

NMIS Project

National Market Information System (NMIS) is designed to collect, process, and disseminate market data (price, volume, and type of produce) from the rural market areas and provide timely, accurate, and relevant market information to all value chain actors (including smallholders, retailers, wholesalers, and policymakers). The system has considerably helped users to make informed market decisions since the information is processed and validated from the selected marketplaces.

Responsible Partners

- Agricultural Transformation Agency
- Ministry of Trade and Industry
- Federal Cooperatives Agency
- Regional bureaus of trade

Anabi

Anabi embed sensors inside beehives to continuously monitor temperature, humidity, weight, and sound to alert beekeepers on mobile devices. They collect and analyze this data using AI algorithms to provide a decision support system. Anabi also links beekeepers with mono-floral honey to a global honey market through its online platform.

Debo Engineering

Debo Engineering in collaboration with GIZ (Coffee Innovation Fund 2021) is working on early coffee disease detection, monitoring prevention apps that predict the diseases, and helping how to manage them using a mobile, desktop, and website platforms.

Fayalo

Fayalo technology share company provided direct veterinarian services and advisory through Web & Mobile App software platform solutions

GebeyaNet

GebeyaNet is a web and mobile-based platform that endeavors to formulate a fresh produce sustainable supply chain between farmers and buyers with an integrated logistical service.

The e-commerce platform also features mobile payments to better link fresh vegetable farmers to markets.

Hello Erf

Hello Erf is a call center-based mechanization hotline that leverages mobile apps, web apps, and a call center that serves to link both farmers and mechanization service providers.

Yerras Gebeya

Yerras Gebeya is an online animal exchange platform, which integrates agri-tech, fin-tech, and e-commerce to allow the sourcing of live animals directly from the farmer. This modern e-marketing platform catalogues healthy and quality livestock for sale, catering to a majority of the vibrant livestock market in Ethiopia.

Armada

Armada is a modern private mechanization service provider offering comprehensive services ranging from operator training and certification to maintenance services and spare parts. Armada provides all of its services on a usage basis to farms of all sizes and levels of mechanization; with operations and offerings optimized by cutting-edge hardware and digital solutions

Lersha – a Case Study:

A one-stop digital solution consisting of critical information (agro-climate advisory, market, farm management advisory) and services (input purchase and delivery, machinery, credit) in a single digital application for smallholder farmers. Lersha enables smallholder farmers to better manage farm risks, minimize the impact of shocks, and increase productivity and household income. The digital application is a one-stop digital platform where farmers directly, or through Lersha agents, access their farming needs. The platform combines a mobile application, a call center (7860), and Lersha agents to facilitate transactions with farmers.

The platform earns by getting a 5%-8% commission as it connects smallholder farmers to input providers such as seed companies and tractor owners. The platform aggregates demand from farmers so it looks feasible for the suppliers to provide services and products. The relevance of the app is for rural people who are involved in the agriculture sector. Digital literacy rate, connectivity constraints, and low mobile penetration are prevalent in the rural area which has hindered all the transactions to happen on the app. Lersha is trying to solve this issue with a call center by providing communication through voice and SMS.

Lersha Journey:

Prior agribusiness Experience - 2010 - 2018
The founder has entrepreneurial experience on many agricultural value chains extending from horticulture, farm input, and mechanization service provision to contract farming.
Market platform study - February 2018
A detailed platform business study was conducted by engaging farmers, development agents, government officials, service providers, and farm service centers to understand the fit of such digital platforms among the agri value chain

Exposure visit - March - November 2018
Exposure visits to Georgia, India, Nigeria, Kenya & Germany to learn and witness the impact of digital agriculture on smallholder farmers' productivity & livelihood. The visit helped us to meet founders of various digital platforms dialogue with users and the development team who built the platform

Initial discussion with Ministry of Agriculture - November 2018
The first meeting with the Ethiopian Ministry of Agriculture to assess the policy & regulatory framework to develop & operationalize a digital platform. Since then, the Ministry of Agriculture has continued to work with Lersha as a partner.

Team development - March 2019
Recruiting young, innovative, and agribusiness; passionate team members due to our presence in the market for more than 8 years. Our team consists of agripreneurs, agronomists software engineers, and marketing experts.

Partner onboarding - October 2019
Lersha commenced discussion with various partners as identified on the market platform development process. Green Innovation Centre (GIC), International Wheat and Maize

Research Centre (CIMMYT), Inter-Church Organization for Development Cooperation (ICCO), and Arsi University.

Early prototype - February 2020
The development and operation team successfully designed the early prototype of the platform. This early vision served as a demonstration tool allowing users to experience the platform & generate feedback

Lersha agent recruitment & Training - June 2020
Recruitment of Lersha Agent, a university graduate in agricultural fields, to serve as a bridge between the platform and the smallholder narrowing a technology and literacy gap. They are recruited from at the smallest village level (Kebele) and assigned to the same area
Pre-Pilot & Pilot in Arsi & West Arsi Zones - September - November 2020

10 Farm Service Centers (FSC) and 32 mechanization service providers are on board to take part in the Lersha Digital Agriculture Platform. More than 11,600 smallholder farmers are registered and use at least one service from the platform.

Scale up to other Geographical areas - March 2021
Scale up targets to introduce the Lersha Platform into East Gojjam and Bale Zone areas.
To this day, 44,160 Small-holder Farmers, 88 Lersha Agents, 1310 Development Agents, and 172 Mechanization service providers have been onboarded.

To sum up, Agriculture contributes 32.7% of the GDP. There is a deep governmental commitment to it, in terms of building infrastructure and support to the agricultural sector. Lersha, despite the unreliable connectivity, infrastructure, and low literacy level, has managed to set foot in the rural area. Lersha cascades on the previous success stories of Ethiopian commodity exchange and the Agricultural transformation agency 8028 hotline call center service provided by the government institutions. ECX and ATA have built services to create technology adoption for the farmers. It shows that Israel's ag-tech startups could expand to the Ethiopian market either by buying equity or acquiring companies that are relevant to their portfolio.

Digital Health Arena in Ethiopia

Key companies in this domain include:

Liyana Digital Healthcare

Liyana Digital Healthcare Solutions offers telemedicine services, on-site medical services, hotline services, and home-based services.

YeneHealth

YeneHealth is the first fem-tech startup in Ethiopia that is unlocking the digital door for sexual and reproductive healthcare services for women. They are on a mission to put power back into the hands of African women by leveraging artificial intelligence on their web and mobile application that supports women to gain self-agency through increased access to health information, products, and various features like menstruation, pregnancy, and medicine tracking.

SABA and Etege health platforms

SABA is a digital platform created to give comprehensive education on sexual and reproductive health and rights (SRHR) topics in an easily accessible and youth-friendly manner.

eTech

eTech is an end-to-end ICT full-fledged health solution for health centres that can be implemented based on the health centres' scale and capacity.

Blue Health

Blue Health Ethiopia has a digital solution to solve prehospital care through our mobile application named "derash".

TenaSeb

TenaSeb started as a YouTube channel to deliver health-related issues. It then shifted to private consultation digital sessions.

Easy-MED

Easy-MED, an all- inclusive, dynamic, form-based hospital management system (including finance management), started operating in 2022. Its target markets are all-level hospitals, clinics, health centres, and health posts.

Opian Information Technology P.L.C

Opian is a digital health company formed in 2014 that develops locally sourced, data-driven software solutions to improve access and quality of healthcare.

iChange Trading P.L.C. (formerly ZAK ICT Consultancy)

Digital health assistance to understand customers' needs individually.

Hepius Medical Innovation Pvt. Ltd. Co.

Hepius is an information technology company that specializes in healthcare technology. Established in 2020 Hepius strives to minimize medical errors and improve patient safety during medical care.

Semilink

Semilink was founded to adequately understand and create consumer-based solutions to health supply chain issues.

Orbit-Health: a Case-Study

Orbit Health, based in Ethiopia, is a digital health company of six years old that is set out to transform healthcare access and delivery through innovative, efficient, affordable, and scalable solutions. Orbit Health has developed several digital health solutions such as Electronic Health Records (EHR). EHR helps manage patient medical information and administrative work to assure evidence-based decision-making and continuity of care. Its solutions are as follows:

O-Health is a virtual healthcare platform that allows patients to choose their care provider and receive physical and virtual consultations.

O-Wallet is a digital healthcare financial management platform that can store, receive, transact and request money for medical treatment and related expenses.
O-Pharma, drug management.
O-Academy, which has offered continuous professional development for over 50 participants on how to design and implement digital health program initiatives.
Across private and government health facilities, Orbit products serve over 20 healthcare institutions, collectively serving 3 million patient data and over 7 million drug disbursements across the facilities serviced. Currently, the company has 22 full-time employees (45% of whom are women) that are working in program management, physicians, software development, and technical support.

To sum up, the digital health sector in Ethiopia is an untapped market as the players in it are mostly counting on digitization and digitalization of the health system. The majority of the products are either donor-funded or the government as a buyer. The urban population gets relatively better services and reliable resources are mostly concentrated in the cities. The rural population is deprived of services and most of their health needs are unmet. The digital health and health-tech arena is an untapped market for Israel's startups to venture in. It is most appealing since disruptive products with an innovative business model could bring real tangible and evident change to emerging markets like Ethiopia.

The FinTech Arena in Ethiopia

Key companies in this domain include:

Mobile Wallets

- Amole
- Awash M-Wallet
- Cbe-Birr
- Coopay-ebirr
- Gizepay
- HelloCash
- Hi-birr
- Kacha Wallet*

- M-Birr
- OroCash
- Sahay
- TeleBirr
- Yaya Wallet*

Payment Processors

- Flocash
- Mastercard
- Visa
- YenePay
- AlemPay*
- AliPay*
- ArifPay*
- Chapa
- MelaPay
- PayWay Ethiopia*
- SantimPay*
- SunPay*
- WeBirr*

Chapa Financial Technologies - a Case Study

Chapa Financial Technologies S.C. ("Chapa") was founded in August 2022 by Nael Hailemariam an ex-TenCent and Israel Goytom an ex-google AI developer. Chapa is an online payment gateway that enables startups, businesses, and organizations to accept all the possible local and international digital payment methods from their customers anywhere in the world. Chapa understands that Ethiopia is a heavily cash-based economy where the financial institutions lack interoperability with a limited offering that lacks a functional digital payment gateway. It has thus brought innovative fintech products and solutions that provide an all-in-one online checkout solution with a simplified payment setup and eliminate the risk of delayed payments.

Chapa's total addressable market (TAM) is $50 billion and its serviceable obtainable market is USD 1.5 billion. Chapa plans to expand in the future to emerging markets such as North East Africa. Its international payment partners are Visa, Amex, Master Card, Discover, PayPal, Union Pay, JCB, and Diners Club. International Partners are Flutterwave, Yapily, and Mila. Locally 10 Ethiopian banks have partnered with Chapa. Using its own platform, Chapa managed to raise over $6.5 million for an Ethiopia-focused campaign. To this day, Chapa's customer base includes 276 corporates, 128 SMEs, and 347 startups, 24 e-Government services have signed up. By 2025, Chapa plans to empower 100,000 businesses and entrepreneurs to transact in the global economy while building a world-class R&D team focused on innovative fintech and financial services.

To sum up, the liberalized telecom sector has opened up a space for the fintech companies, as did the mobile wallets and mobile payments which were born out of the telecom sector. teleBirr and mPesa are great examples of fintech products that brought real change to the GDP. The government has opened up the financial sector and the fintech space for foreign companies. Chapa is an illustration of how government commitment enables the private sector to strive. It has raised undisclosed pre-seed equity investment, showing that deal flows are happening and the market is opening up where the same variables are being spoken of in the investment world. The government's commitment and the opportunities in the market make it increasingly attractive for fintech companies designed to encourage the digital economy, thus facilitating trade, to set foot in the Ethiopian ecosystem.

Fintech Regulations and Challenges

The Government of Ethiopia as part of its Digital Ethiopia 2025 set out a National Digital Payments Strategy through which the National Bank of Ethiopia set out a vision to transform the payment ecosystem to help build an inclusive and cash-light economy by building a secure, competitive, efficient, innovation and responsible ecosystem.

The National Digital Payment Strategy is based on four strategic pillars:

1. developing a reliable, inclusive, and interoperable infrastructure;
2. championing the adoption of digital payments;
3. building a robust and consistent regulatory and oversight framework; and
4. creating an enabling environment for innovation

Challenges for digital payments in Ethiopia can be grouped into four categories: infrastructure, adoption, regulation, and innovation.
Infrastructure: nascent infrastructure, limited interoperability, reliable connection, and power outages are barriers to digital payment adoptions, especially in rural areas.
Adoption: According to the NBE, 90% of retail transactions happen with cash payments as digital payments are novel. Limited use cases and no business case have hindered digital payments. Regulations are being adapted to non-traditional banking models, in particular to low-cost distribution channels, such as agent and mobile banking, as evidenced by the recent issuing of two new directives. Innovative Environments: for technology-enabled financial services, that can benefit from further access to global knowledge, resources, and funding.

The council of ministers decided in October 2022 to open up the financial sector. The National Bank has amended the National Payment System Proclamation as per the decision of the council. FinTech companies could obtain a license as a payment instrument issuer (typically referred to as a mobile money service provider) or as a payment system operator, which is further broken down into national switch, switch, payment gateway, POS, and ATM operator.

Type of Licenses and paid-up capital for the licenses:

- Payment Instrument Issuer - 50 million birr as paid-up capital.[120]
- Permitted products and services

[120] See https://www.nbe.gov.et/wp-content/uploads/pdf/proclamation/oversight-the-national-payement-system.pdf

Based on requests made and written approval of the National Bank, a payment instrument issuer may be allowed to provide the following services:

a. cash-in and cash-out;

b. local money transfers including domestic remittances, load to a card or bank account, transfer to a card or bank account;

c. domestic payments including purchases from physical merchants, bill payments;

d. over-the-counter transactions

e. inward international remittances.

Based on written approval of the National Bank, a licensed payment instrument issuer under the full responsibility of and written outsourcing agreement with a regulated financial institution and pension funds may be allowed to provide the following:

a. micro-saving products;

b. micro-credit products;

c. micro-insurance products; or

d. pension products.

Payment System Operator[121]

License Type	Paid Up Capital
National Switch Operator	300m
Switch Operator	40m
Automated Teller Machine Operator	20m
Point of Sale Operator	10m
Payment Gateway Operator	3m

[121] A guide to the application process has been provided by the National Bank (https://www.nbe.gov.et/wp-content/uploads/pdf/directives/Payement%20system/A-complete-Guide-on-licensing-process.pdf) / https://www.nbe.gov.et/wp-content/uploads/pdf/directives/Payement%20system/ONPS-02-2020.pdf

Investing in Fintech

Fintech is a fairly new market; no foreign company has set foot in it. Safaricom has joined the telecom market for quite some time now and has received a green light to join the fintech space.[122] Still, Safaricom's mPesa awaits a mobile wallet license that was already guaranteed but has not yet been received. A foreign investor who wants to set foot in the Ethiopian business landscape is able to open a business with three types of business licenses.

1. Sole Proprietary
2. Private Limited Company, Joint Venture, Share Company
3. Branch / Multinational Company

The minimum capital requirement for a wholly foreign-owned company is 200,000 USD (USD 100.000 if it is architectural or engineering works or related technical consultancy services, technical testing, and analysis or in publishing).

For a joint venture company, the minimum capital requirement is 150,000 USD (USD 50.000 if it is architectural or engineering works or related technical consultancy services, technical testing, and analysis, or in publishing). Foreign investors will get incentives and tax exemptions.[123]

One of the strategic sectors set out by Ethiopian Investment Commission is Information and Communications Technology (ICT). The Ministry of Innovation and Technology has set out for specific sectors from the standard classification and provided incentives for a domestic or foreign investor who establishes a new business in

(1) software development,

(2) data center and cloud service;

(3) business outsourcing process;

(4) start-up development service; and

(5) Research, innovation, enrichment, and development works;

[122] See https://www.businessdailyafrica.com/bd/corporate/companies/ethiopia-approves-roll-out-of-safaricom-mpesa-3975982.
[123] See https://dmethiolawyers.com/investment-incentives-in-ethiopia/

These companies are set to be exempted from four years of business income tax and employment tax, further extended to five years if the investment is outside the capital and its surrounding areas. In addition, the exemption is for loss carry forward for half of the exemption period after its expiry.[124]

	Sole Proprietor	**JV/PLC**	**Multinational**
Capital requirement	5,200,000	7,800,000	10,400,000
License fee	30,000	30,000	30,000
Investigation fee	20,000	20,000	20,000
Oversight fee	100,000	100,000	100,000
Cost of Doing Business	5,350,000	7,950,000	10,550,000
Operation	200,000	200,000	500,000
License Complexity	-1	2	1

It is noteworthy that there is still no clear answer from the National Bank of Ethiopia if the capital requirement by the Ethiopian Investment Commission will be effective for the foreign fintech license.

[124] For more see https://shega.co/post/software-developers-cloud-service-providers-get-tax-holidays/

4.5 The Optimization Model of Penetrating the Market

Since the data is inconsistent, not long enough, and vastly polluted or missing, and considering no fin-tech, ag-tech, or health-tech foreign company has entered the market to operate autonomously there, only through partnerships or alignment with local companies, it was impossible to build a stable machine learning model. We tried to rely on the datasets we were able to obtain, enrich, or build in order to build a linear regression model. We have used it to list out the key factors constituting the entry barriers, failure points, and success chances, and created a weighted assessment of these.

For entry barriers and failures points, the matrix features the same scoring and color coding:

	Score	Color
Less than four	less critical	
between four and seven	semi critical	
above eight	highly critical	

To estimate success chances, we have used a different matrix and color coding.

	Score	Color
Less than or equal to four	low chance of success	
Greater than or equal to five	high chance of success	

The selected features are as follows:

A. Entry Barriers

Investment/licensing fee

Ethiopia has been a closed market for quite some time. Recently, it's been open for foreign investors, but one of the barriers that is still in place is the investment fee. The Ethiopian startup ecosystem is emerging, but the investment fee for early-stage startups ranges from USD 5000 to 10,000, while the current asking price for a license is more than USD 150,000.

Regulatory misalignment

The government regulations are not well thought out. There is quite a lot of regulatory misalignments between government entities that makes the companies liable. Not only that, the regulations get interpreted in many ways by the person who is handling the case. They can also be changed retroactively.

Delay with customs

Customs in Ethiopia suffer from massive delays and is accountable for mis delivery.

Infrastructure

Connectivity and electricity are major challenges for the rural population. For Urban places the situation is fairly satisfying.

B. Failure Points

Business model challenges

Businesses can fail for many reasons: the wrong customer base, an unwanted value proposition, an unaffordable payment mode, failed partnerships, or environmental variables such as change in market dynamics, change in regulation, or unforeseen circumstances.

Government bureaucracy

Doing business in Ethiopia comes with many hurdles and bureaucracy. Most institutions are not accountable for their misalignment. In most cases, finding the correct information, the right government body, and the right point of contact is a problem.

Government instability

The country relies on foreign direct investment, loans, and aid that are aimed at improving the country's infrastructure and services. Instabilities in the country have a huge impact on financial resources. A careful assessment of when and where to launch products and services is critical.

Lack of experienced human resources

The applicability of high education is unclear, what compels companies to be an active part of the training of employees, as an intrinsic part of the onboarding process. Young companies often do not have the resources and patience for such trial.

Inflation

The economy has been instable for the past years. Ethiopia's inflation rate has doubled in the past four years from 13.8% to 26.8%. The purchasing power has thus been decreasing.

Foreign Exchange

Ethiopia imports three times more than it exports. The country's weak export performance has affected its dollar reserves. Companies will have to wait more than a year to get access to foreign exchange, along with the forex hurdles delineated before.

Corruption

Ethiopia ranks fairly high in the world corruption perception index. As described before, the corruption problem is not the most acute, but can still affect the performance in daily business activities, and the motivation to establish collaborations in the market.

C. Success Chances

Incentives/tax exemption

Foreign investors do get tax exemptions and very cheap rental spaces at the ICT Park, and depending on the approval from the Ethiopian Investment Commission, they are allowed to bring in items tax-free. This will help them get started right away and lower their burn rate.

Novelty

Even though the Ethiopian digital economy has seen copied and adapted products survive in the market despite the regulatory hurdles, Israeli companies need to be cognizant of the uptake of the products that are going to be brought to market and to be considerate of the market's needs and constraints. If so, the implementation can be rather fast.

Disruption

Disruptive innovation helps create jobs and new value networks by making previously expensive products accessible and affordable. One of the ways disruption can take place is through technological advancement, where Israel's high-tech and R&D expertise can play a focal role.

Model Initial Results

The weighted assessment of the delineated features consists of two factors, likelihood and impact. The likelihood is related to how often the company faces the assessed issue. It is designed to emphasize the unavoidable impediments Israeli companies should take into account in order to mitigate their risk. The impact is related to the magnitude of that factor. Each company in the Israeli impact eco-system can thus to use this scheme and integrate it with its own data in order to calculate its market potential. The following is applicable for all three sectors, as it uses integrated datasets.

Figure 10

The Risk Assessment Model

Risk	**Parameters**	**Likelihood (/5)**	**Impact (/5)**	**Scoring (likelihood * impact)/2)**
Entry barriers	investment / licensing fee	5	2	5
	regulatory misalignment	3	5	7.5
	delay with customs	4	2	4
	infrastructure	3	2	3
Failure Points	business model challenges	3	5	7.5
	government bureaucracy	5	2	5
	government instability	4	5	10
	lack of experienced human resource	3	5	7.5
	inflation	5	4	10
	foreign exchange	5	4	10
	corruption	5	4	10
Success Chances	incentives	5	2	5
	novelty	3	4	6
	disruption	2	4	4
	tax exemption	5	3	7.5

4.6 Conclusions

This chapter reviews the start-up ecosystem in Ethiopia and assesses its main components, including market, policy, finance, culture, support, and human capital. It provides an overview of the different types of support systems, what they offer, how they are used, and key channels of the funding journey and operating environment. The regulatory framework under which the impact ecosystem operates and the recent and upcoming changes, entrants, and prospects are further assessed.

As comes out of the chapter, the Ethiopian startup ecosystem has been hindered by a discouraging environment for the past few years. The new government's commitment to bringing about change by gradually opening up sectors is commendable. The government's commitment has been shown by liberalizing the telecom sector (allowing Safaricom to join the telecom sector). The liberalization of the financial sector has also recently been approved by the council of ministers. The Digital Ethiopia 2025 strategy, coupled with the planned Startup Act, is supposed to make the ecosystem thrive, and the Ethiopian Investment Commission encourages "startup development".

As for the innovation ecosystem, most incubation and acceleration were done with donor funding, which is limited by the fund's capacity. Development partners such as the Mastercard Foundation, together with the Ministry of Labor and Skills, are providing training to make fresh graduates employable. Giz, for example, has been running a program called Sustainable Training and Education (STEP) aimed at improving the employment prospects of young Ethiopians.

The chapter, by reviewing the case study and refining them into an optimization scheme, shows that the opportunities are immense, although the hurdles are no less prevalent. The efforts taken by the government, in addition to the vivid bottom-up scene of private entrepreneurs and innovation leaders in Ethiopia are gradually attracting investors, partners, and collaborators. The conclusions of this part fortify previous ones: you cannot enter the Ethiopian market without preliminary research, local partner, and long-term finance. The regulatory hurdles are part and parcel of the work to be done before entering the market. All the same, if decided to try - the Ethiopian startup ecosystem provides a strong supportive setup for Israeli impact companies to thrive, explore new business channels, and get adequate returns by the end of the process.

Conclusions - General

The main findings of the research, corresponding with the research methods, can be classified into four types: IPE resolution, statistical results, operative recommendations, and data-driven conclusions.

On the IPE front, there is a lack of well-needed enablers, such as sound institutions and reliable data, which makes it challenging for investors to create new, impactful business opportunities at a time when the UN's Sustainable Development Goals (SDGs) set the bar high for future global economic development. The African continent in general, and Ethiopia in particular, is a fertile ground for impact investors, who, going beyond traditional investing paradigms, can measure the success of their investments through multiple factors, combining financial gains with the development of positive changes for societies and the planet. In this respect, the lack of full industrial development and the high population is, in theory, positive factors for impact investments in terms of revenue and the scalability of socioeconomic development. In Africa, more than in other regions of the world, impact investments could bring a real change for the better. While 16% of impact investors in Africa have been making impact investments for more than 20 years, for more than 50% of investors, interest in the region has started to surge only recently. The research highlights the intrinsic complexity of Africa. On the one hand, Africa represents one of the biggest untapped markets in the world, which could enable investors to earn unprecedented profits, especially since the African Continental Free Trade Area (AfCFTA) came into force. On the other hand, extreme poverty, high unemployment, limited access to credit, and the lack of infrastructure are among the main impediments to improvement in the local population's living conditions and the creation of more homogeneous economic growth in African countries. Impact investments have a key role to play in this context. They could enable economic and social growth, helping Africa get closer to achieving the SDGs. The research, emphasizing the institutional level, suggests that enabling institutions would allow for a more fruitful and effective experience for both investors and the local population. In other words, to reach their full potential and navigate their way out of the current global economic crisis, African countries and Ethiopia in particular need to provide private actors with a set of key institutional settings that would allow them to enter the market more easily, invest, gain, and create a positive impact, all at the same time. Thus, governments need to push the impact investing sector to the top of their political agendas, developing sound financial institutions, opening their markets, and providing information, for example, by adhering to global networks. Indeed, as the NIE theories highlight, impactful economic actions can grow only when private actors find adequate conditions to optimize a well-defined “good change” and their financial returns.

The second type of finding is the statistical results of the comparative outlook of the Ethiopian impact economy. These results include the quantitative anchor of the unfriendly bureaucratic system for business and the weakness of the financial system in Ethiopia; the two most problematic indicators—protection of small investors and access to credit lines—are related to the latter. The steps that the Ethiopian government took in recent years to improve the business climate in the country are further delineated. This part further discusses the results disclosed in global indices while illuminating core notions in analysing these indices. For example, in the Economic Freedom Index, the Ethiopian economy does not receive a high score (ranked 143 out of 165 countries examined in the index). However, the research shows that the government's activities pull the economy forward, for both the absolute value of the grades and progress over the years on these parameters. It should be noted, nonetheless, that this progress is vastly counterbalanced by indicators attributed to the lack of democracy and freedom in the country. In addition, focusing on the Digital Health (DH) ecosystem in Ethiopia, the research proposes a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis that summarizes the key opportunities and the steps to mitigate barriers. Key findings include limited private sector innovation, a fragmented system, a donor-supported governmental DH ecosystem, and the exclusion of the full landscape of key pillars for the DH ecosystem.

Concerning Israel–Ethiopia trade relations, the conclusion that emerges from existing data is that Ethiopia is not an attractive destination for young Israeli companies, a prevailing impact profile. However, with respect to companies operating in Africa, the picture is significantly different. Most of them are young (established between 2012 and 2022), and a significant portion of them is small (1–10 employees). We can infer from this finding that the availability of limited data, which reflects the small number of collaboration attempts, and the lack of success stories and guidelines have been deterring factors, in stark contrast to the actual potential. The statistical results allow us to conclude that on the one hand, the

Ethiopian economy is neither strong nor improving and has a weak financial system. On the other hand, the Ethiopian government invests a lot of effort in improving the business climate and training professionals, resulting in evidently rising business potential in several domains, such as agriculture and infrastructure.

The third pillar—fieldwork—has yielded a series of operative findings, which were framed as recommendations for the Israeli impact ecosystem, governments, and investors. For the state, these findings include first and foremost support of funding, in terms of tax relief, special grants, and direct funding, as well as diversification in the provision of risk mitigation insurance. At the same time, the state can generate designated bodies for funding impact purposes, like investment banks or business associations. It can also compel institutional investors to devote a segment of public savings in favor of SDGs direct application, as well as monitor more tightly the implementation of ESG regulation in the financial reporting. A governmental data platform is crucial, mainly considering that currently the data is dispersed and, in many cases, costly. An institutionalized networking platform is no less important. Finally, the strategic envision of integrating the Israeli-Ethiopian community is key to developing impact collaborations. This, in addition, has substantial importance for strengthening social cohesion and enhancing the internal structures in Israel.

In general, the state is to come up with a disruptive innovative impact framework, defining an adequate global criterion, with adjustment to the Israeli particularities. This way, tech companies will be encouraged to establish on the African market, non-profit innovative companies such as NALA will be acknowledged for their unique model in terms of funding, and other players will be identified for collaboration.

For impact companies, aiming to penetrate the Ethiopian market, the main findings include the critical need for acquaintance and exchange, collaboration with local partners, and the creation of a trusted community of impact and a one-stop-shop intermediary body, which would help establish an exchange process and enable all the steps of its funnel. In terms of funding, mutual funding needs to be assured to strengthen collaboration. Long-term allocation of capital is a must, rather than building on quick wins. In terms of knowledge, the findings include the importance of prior research, and not on-the-job training, focusing on

practices of access to local capital, the Total Addressable Market, the product–market fit, and the competitive landscape. The importance of sustainability and the key role of investors is further emphasized. In addition, the findings in this part include the main barriers to penetrating the market, the main advantages, key networks, and supportive plans.
The engagement of the Israeli-Ethiopia community is a fundamental link to investments in Ethiopia by Israeli companies that are looking to scale up in the market there. The Israeli-Ethiopian community has the potential to enhance economic ties for both countries, attracting a high number of collaborations in multiple business areas, focusing on opportunities, and solving challenges in the Ethiopian Market.

Finally, the fourth part draws on unique datasets on the startup ecosystem in Ethiopia supporting the landscape; a part of these datasets was structured for this research. This part assesses the main components of the startup ecosystem, including market, policy, finance, culture, support, and human capital. It provides an overview of the different types of infrastructure systems, what they offer, how they are used, and key channels of the funding journey and operating environment. The regulatory framework under which the impact ecosystem operates and the recent and upcoming changes, entrants, and prospects are further assessed. It shows that the opportunities are immense, although the hurdles are prevalent. The conclusions of this pat fortify previous ones: you cannot enter the Ethiopian market without preliminary research, local partner, and long-term finance. The regulatory hurdles are part and parcel of the work to be done before entering the market. Still, the Ethiopian startup ecosystem provides a strong supportive setup for an Israeli startup to thrive, explore new business channels, and get adequate returns by the end of the process.
These very days, there has been an ongoing discussion with the Ethiopian government, specifically the Ministry of Finance, Ministry of Labor and Skills, and Ministry of Innovation and Technology, about angel investment, startups, and skill development together with development partners to create a vibrant ecosystem. The place of Israel in this new structure is well recognized, as was evident in a delegation from the Ministry of Labor and Skills together with the Ministry of Innovation on a study visit to Israel in August 2022.[125] Nevertheless, the Startup Act hasn't been enacted yet, and there is still a regulatory gap.

[125] See https://twitter.com/Jobs_FDRE/status/1554557450644295681?s=20&t=Rtsvu9bCizUMF2q7yXRxzQ

No less critical is the fact that the war in the north has tarnished the country's image and depleted its dollar reserves, which has caused substantial damage to the social fabric of the country. Ethiopia's foreign exchange shortage is being reflected in many areas where repatriation of profits has been a bottleneck for most foreign companies in other sectors as well. Paying for online tools and services that require foreign exchange is done through a parallel market or a friend abroad.

In addition, when considering the penetration of companies into Ethiopia, there are cultural differences that need to be considered, as Ethiopia is a collectivist, culture-oriented, and religious country. These factors affect leadership, creativity, and productivity; this gap is not bridged by education, as the universities mandate is to teach students the theoretical aspects of the industry but not make them employable. Skills development is thus attributed to the onboarding process in the companies themselves. The ministries in charge are mandated to take on the policies and adapt them to their structures, but they are very slow and often stagnant, suffering from capacity problems. Companies, therefore, must take it into account when considering their establishment in the market. Nonetheless, the thriving surrounding provide distinct opportunities for impact players, with unprecedented growth potential.

What comes out clearly from this research is that the players leading the Israeli impact eco-system, starting with the government and continuing with NGOs, foundations, impact funds, and private players, need to align together to shape a long-term, cohesive and sustainable impact strategy, enabling a new thinking of impact investments and a disruptive model, allowing for reluctant players to come on board, while providing a stable networked ground for exchange and gains. The significance of all parts is in delineating a primary and unique “source of truth” for the Israeli impact ecosystem when planning to penetrate the Ethiopian market, assessing its core challenges as well as opportunities. The Ethiopian case study applies to other developing states, and this knowledge hub can assist in formulating national policy, state agencies’ strategies, and plans of investments and collaboration by various impact players.

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