

# GUIDE TO DOING BUSINESS AND INVESTING IN ETHIOPIA



This guide is intended to assist investors interested in doing business in Ethiopia. It does not exhaustively cover the subject, but is intended to serve as a synopsis of some of the important issues of concern for those planning to invest in Ethiopia.

The information in this booklet is based on investment proclamations, tax law, legislative proposals, government sources, United Nations reports and current practices. It intends to serve as a general and condensed guide on the subject matter.

Please note that in this document, the term "Ethiopia" is used in its simple form to refer to the Federal Democratic Republic of Ethiopia.

## FOREWORD

*Since 1991, successive Ethiopian administrations have shown their commitment to transforming the country's economy.*

*The early 2000s saw this commitment further strengthened and, since then, the country has sustained growth rates of about 11 per cent per year.*

*We are aware that past progress in Ethiopia is one indication of what the country and its people are capable of; but we also acknowledge that it is only a beginning - a good beginning. Manufacturing firms have grown over the last five years at almost 20 per cent annually. Both food and beverages industries, as well as apparel and footwear, grew in terms of number of exporters. Foreign direct investment inflows reached close to USD 1 billion or 2 per cent of gross domestic product in 2013, with players such as Ayka Textile and George Shoe expanding their operations, and new global giants like PVH entering the market.*

*We need to act now to enhance our efforts to attract more investment. We need to ensure we have a conducive climate for investment, with a supportive policy framework; lower transport and energy costs; reduced formal and informal barriers to trade; increased labour market flexibility; and effective competition policies.*

*With the industrial parks programme, the Government will create greater room for the private sector – both foreign direct and domestic investment – and address constraints related to access to land, infrastructure, trade logistics, customs regulations and skills. Such parks can thus help address both policy and infrastructure constraints, and can facilitate the agglomeration of benefits from industrial clustering, including the emergence of backward and forward linkages that will over time boost domestic enterprises.*



**His Excellency Hailemariam Desalegn, Prime Minister  
of the Federal Democratic Republic of Ethiopia**

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## EXECUTIVE SUMMARY

With one of the fastest growing economies in the world, Ethiopia is a country on the cusp of transformation. From 2003/04 to 2013/2014, real gross domestic product growth averaged 10.9 per cent per year, compared to the regional sub-Saharan average of 5.4 per cent (World Bank). The World Bank and the International Monetary Fund forecast continued average growth of approximately 7 to 7.5 per cent over the next three years.

Strategically located at cross-roads between Africa, the Middle East and Asia, Ethiopia is the second most populous country in Africa and offers untapped resources, a vast domestic market and a large, young workforce. The country is also ideal for agricultural activity, with varied climatic conditions and abundant fertile land.

Recent government reforms and incentives are unlocking investment and business opportunities. More efficient bureaucratic processes related to registration, logistics and taxation are increasing the inflow of foreign direct investment, especially in the manufacturing sector.

Some of the top investment opportunities are in export-oriented sectors. These include agro-food processing, textiles and garments and leather and leather products. The ambitious targets of the national Growth and Transformation Plan II – which culminate in Ethiopia achieving middle-income status by 2025 – are driving the country's growth and openness to foreign investment.

## ETHIOPIA IN BRIEF

<b>Official name</b>	Federal Democratic Republic of Ethiopia
<b>Political system</b>	Federal system with a multi-party democracy
<b>Head of State</b>	President Mulatu Teshome Wirtu
<b>Head of Government</b>	Prime Minister Hailemariam Desalegn
<b>Capital city</b>	Addis Ababa
<b>Main cities/towns</b>	Mekele, Dire Dawa, Bahir Dar, Gonder, Harar, Adama, Jimma, Hawassa
<b>Surface area</b>	1,104,300 km <sup>2</sup> , of which water amounts to 104,300 km <sup>2</sup>
<b>Arable land</b>	513,000 km <sup>2</sup> (45%)
<b>Population</b>	96.6 million
<b>Language</b>	Amharic is the working language of the Federal Government. English is widely spoken particularly in business transactions
<b>Religion</b>	Major religions in the country are Christianity and Islam
<b>GDP</b>	USD 55.61 billion, at purchasing power parity 145 billion (2014)
<b>GDP per capita</b>	USD 690.9 at purchasing power parity 1,374 (2015)
<b>Exports</b>	Coffee, livestock products (skins and hides, leather), pulses, oil seeds, spices, cotton, fruits, vegetables, textiles, natural gum, mineral products, etc.
<b>Imports</b>	Petroleum products, vehicles, spare parts, construction equipment, pharmaceutical products, industrial equipment and machinery, agricultural and industrial chemicals, hybrid seed, fertilizers, consumer goods, etc.
<b>Currency</b>	The unit of currency is the Ethiopian Birr (ETB)
<b>Exchange rate</b>	ETB 1 = USD 0.0457695 (July 20, 2016)

# INTRODUCTION

## Ethiopia – A brief outline

Ethiopia is a country with a unique and rich history. Located in the north-eastern part of Africa, Ethiopia is bordered by South Sudan and the Sudan to the west, Eritrea to the north, Djibouti and Somalia to the east, and Kenya to the south. After launching a political and economic renewal campaign in the early 1990s, the country began to open its doors to the world economy, heralding a new era of transformation and challenges. Today, Ethiopia is seen as an emerging market and one of the most dynamic economies of the world.

Ethiopia is part of an ancient civilization and is one of the only two African countries to maintain its independence throughout history. Addis Ababa is not only the capital city of Ethiopia, but also the political capital of Africa hosting the headquarters of the African Union and the United Nations Economic Commission for Africa. Mekele, Dire Dawa, Bahir Dar, Gonder, Harar, Adama, Dessie, Jimma and Hawassa are also large commercial cities.

## Geography

Ethiopia is the tenth largest country in Africa with a land area of approximately 1.1 million km<sup>2</sup>. This is about twice the size of Kenya or five times the size of Britain.

Ethiopia has immense geographical diversity; its topographic features range from the highest peak at Ras Dashen, 4,550 meters above sea level, down to the Afar Depression, 110 meters below sea level. The Great Rift Valley splits the plateau of Ethiopia diagonally. The western highlands get summer rainfall; the lowlands and eastern highlands are hot and dry. A diverse geographical topography, together with hills, highlands and rift valley areas, is ideal for comprehensive economic zones.

## Climate

Ethiopia is in the tropical zone, lying between the Equator and the Tropic of Cancer. There are considerable variations in climate and rainfall patterns throughout the country. The climate varies with the topography, from as high as 47°C in the Afar Depression, to as low as 10°C in the highlands.

There are three different climate zones according to elevation. Kolla (tropical zone) - is below 1830 meters in elevation and has an average annual temperature of about 27°C, with annual rainfall of about 510 millimeters. Woina dega (subtropical zone) - includes the highland areas of 1830 to 2440 meters in elevation and has an average annual temperature of about 22°C, with annual rainfall between 510 and 1530 millimeters. Dega (Cool zone) - is above 2440 meters in elevation with an average annual temperature of about 16°C, with annual rainfall between 1,270 and 1,280 millimeters.

Ethiopia has four different seasons. Kiremt (summer) is the rainy season covering June, July and August. Belg (spring) - March, April and May is the spring season with occasional showers. May is the hottest month in Ethiopia. Tseday (autumn) - September, October and November is the autumn season, sometimes known as the harvest season. Bega (winter) - December, January and February is the dry season.

## Population

Ethiopia's total population, according to Central Statistics Agency (CSA) estimates, amounts to 90 million (CSA, 2014) with an annual average population growth rate of 2.49 per cent. It is the second most populous country in sub-Saharan Africa, after Nigeria and ranked 13th in the world. Approximately 85 per cent of the population resides in rural areas. Ethiopia has the largest working population in Africa with 41 per cent of the population aged between 15 and 40 (UNDESA, 2015 and Indexmundi).

## Government

Ethiopia is a decentralized federal state with nine administrative regions and two city administrations. It is a parliamentary republic with a bicameral house and dual executive. The Prime Minister, who is appointed by the lower house of the Parliament (House of Peoples' Representatives), is the Head of Government, whereas the president, elected by both chambers of Parliament for a six-year term, is the Head of State.

# INFRASTRUCTURE

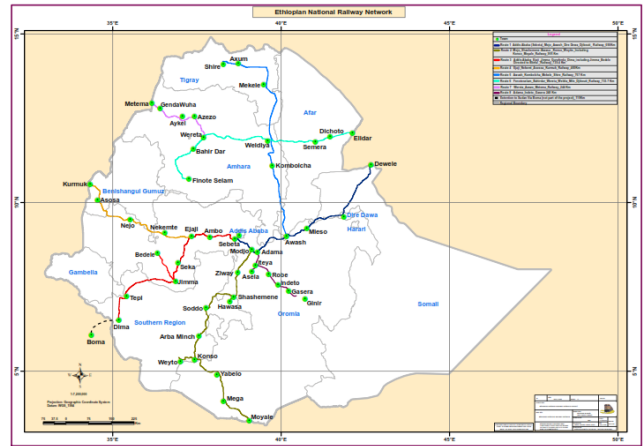
In recent years, Ethiopia has made significant progress in infrastructure development. Public investment rose from about 5 per cent in the early 1990s to 18.6 per cent of gross domestic product (GDP) in 2011, making it the third highest in the world (Moller and Konstantin, 2015). Its infrastructure indicators compare relatively well with other low-income countries. In an analysis of 124 countries over four decades, Ethiopia ranked among the fastest 20 per cent in terms of infrastructure growth (World Bank, 2015).

## Railways

Railway infrastructure development was one of the priority programmes of the first Growth and Transformation Plan (GTP I) and the Addis Ababa-Djibouti corridor was given priority. A new 756 km electrified railway route eastward to Djibouti is being constructed, the shortest distance from Addis Ababa to a seaport; it is expected to transport 11.2 million metric tons of freight in 2016. Contracts were also awarded to start the construction of Mekele-Hara-Gebeya (Woldya) (268 km) and Hara-Gebeya-Semera Assayita (229 km) railway projects. Construction has already begun for the Awash-Kombolcha-Hara Gbeya (Woldiya). Ethiopia is also actively developing a rail industry to serve the broader region including South Sudan, Somalia (Puntland) and northern Kenya.

In order to improve accessibility to the Djibouti port, the Government of Ethiopia (GoE) initiated the construction of a 5,000 km railway to connect the port with major Ethiopian cities.

Figure 1: The railway projects of Ethiopia



The construction of a 34 km Addis Ababa Light Rail Transit project is complete and operations started in 2015. Railways will increase integration within the country and within the region.

## Roads

As a land-locked country, Ethiopia is highly dependent on road transport for the movement of passengers and freight. The Government has prioritized improving the road network and dedicated more than 5 per cent of GDP to road investments, one of the highest shares in Africa. As a result, the road network increased from 48,800 km in 2009/10 to 60,466 km in 2013/14. Under the Universal Rural Road Access Program, 39,070 km of all-weather district roads were constructed. As a result, the proportion of Kebeles (lowest administrative unit) connected by all-weather roads increased from 39 per cent in 2009/10 to 68 per cent in 2013/14. At the same time, road density increased from 44.5 km/1000 km<sup>2</sup> to 90.5 km/1000 km<sup>2</sup> in the same year. Thus, the average time to reach the nearest all-weather road was reduced from 3.7 hours in 2009/10 to 1.8 hours by 2013/14 (National Planning Commission, 2015).

## Air transport

Ethiopia is a regional leader in air transport. Ethiopian Airlines is one of the three main sub-Saharan African airlines and Bole International Airport serves as a regional air transport hub for passenger and commodity transport. Ethiopian Airlines is the largest airline group in Africa, with an active fleet of almost 80 aircraft and a network of 92 international and 19 domestic destinations. The airline plans to expand its overall fleet to 150 aircraft by 2025.



Furthermore, the airline is planning a long-haul network expansion in 2016 with new destinations to Asia and North America. Ethiopian Airlines was the first airline company outside of Japan to fly a Boeing 787 in August 2012 and is the fastest growing and most profitable airline in Africa. Ethiopian Airlines has won the Airline Reliability Performance Award from Bombardier Aerospace five years in a row. It is the largest African carrier with revenue topping USD 2.3 billion in 2013, according to the airlines ranking of the International Air Transport Association (Ethiopian Airlines, 2014).

## Sea transport

The Government has established the Ethiopian Shipping and Logistics Enterprise to ensure efficient, cost effective and reliable import and export movement of cargo to and from the seaports of neighboring countries. The enterprise is currently operating two dry ports, which are located at Modjo and Semera, 73 kms and 588 kms from Addis Ababa respectively. The enterprise is also operating another four sub-terminals, which are located at Dire Dawa, Mekele, Combolcha and Gelean, 515 kms, 783 kms, 376 kms, and 34 kms from Addis Ababa respectively.

Addis Ababa is linked by road and railway lines to the Port of Djibouti (910 kms) at the Gulf of Aden. The ports of Barbara (964 kms) in Somaliland and Port Sudan (1881 kms) in Sudan are other external trade routes that provide services for export-import trades between the countries. Another potential port accessible to Ethiopia (in the south) is Port Mombasa in Kenya (2077 kms).

Ethiopian Shipping Lines (ESL) also provide a sea transport service using its own fleet. The main focus of the shipping sector of ESL is to provide coastal and international marine transport services to and from Djibouti Port, through the Ports of: Indonesia, Japan, Republic of China, Republic of Korea, Singapore and South Africa. The shipping sector provides uninterrupted sea transport services in and around the above ports with own ships, as well as through slot chartering of major global carriers.

## Telecommunication

Telecommunication is another area that has seen major investment aimed at improving service quality, expanding service coverage and enhancing institutional

capacity. The number of subscribers in the overall telecom services increased from 7.7 million in 2009/10 to 29.63 million in 2013/14. The number of mobile subscribers increased from 6.25 million in 2009/10 to 28.3 million in 2013/14. Similarly, the percentage of the rural population with access (within a 5 km radius) to telephone services increased from 62.1 per cent in 2009/10 to 96 per cent in 2013/14.

## Energy supply

Ethiopia has also invested significantly in the development of its energy sector. Large investment projects were initiated to support on-going efforts to ensure sustainable development. The Great Renaissance Hydro Electric Power Project (6000MW), Gilgel-gibe III (1,870MW) and Genale-Dawa III (254MW) and other wind power projects (Adama and Ashegoda), were distinctive features of the first GTP. The projects are all well in progress, with wind power projects such as Ashegoda, Adama No. I and II already having begun generating electricity. The country offers the lowest price of electricity in the world as depicted below.

**Table 1: Price of electricity**

Price of electricity (US cents per kWh) as of June 2015	
Ethiopia	5
Sudan	5.6
Kenya	21.6
Egypt	11.5
South Africa	9.3
Tanzania	16.7
Uganda	20.9
Djibouti	22.8
Nigeria	26.7
South Sudan	50.4

Source: <http://www.doingbusiness.org/data/exploreeconomies/sudan/getting-electricity>

## Financial sector

The Ethiopian financial sector consists mainly of banks (three public and 16 private), insurance companies (one public and 15 private) and 31 micro-finance institutions. The banking system accounts for about 80 per cent of total assets of the financial sector and is dominated by state-owned banks, mainly the Commercial Bank of Ethiopia. Currently, public banks account for 51.1 per

cent of bank branches (1,724), 54.6 per cent of total capital, 68.4 per cent of total deposits and 63.5 per cent of outstanding bank loans, although their dominance is declining with the entry of more private banks, as well as the expansion of existing ones.

### Bank loans

The Development Bank of Ethiopia provides long- and medium- term loans for agricultural, agro-processing and manufacturing investment projects, mainly to projects focused on export. It also provides short-term working capital loans for its clients with an interest rate of 7.5 per cent. The interest rate of the Commercial Bank of Ethiopia for short-, medium- and long term loans is 8.5 per cent. However, the bank may apply different interest rates based on customer classification, type and nature of credit products, customer credit risk rates and collateral position.

### Foreign exchange

Foreign exchange regulations of the National Bank of Ethiopia allow expatriate employees to remit their salaries subject to certain restrictions. The local currency, the Ethiopian Birr, is not freely convertible. Since 2004, the National Bank has permitted non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and maintain foreign currency accounts up to USD 50,000.

## ECONOMIC STRUCTURE

### Economic overview

Ethiopia is one of the fastest growing economies in the world. In 2013, the country's GDP amounted to USD 46.87 billion, with a growth rate of 10.4 per cent that same year. Ethiopia has maintained an average growth rate of 10.9 per cent since 2004. The World Bank and the International Monetary Fund forecast continued average growth of 8.5 per cent in 2015 and approximately 7.5 to 8 per cent over the next five years (U.S. Department of State, 2015).

**Table 2: Real GDP growth in Ethiopia**



Source: IMF World Economic Outlook, October 2014

Economic growth is largely driven by government-led development policies, with a rapid expansion of public infrastructure and basic services. Increasing exports and foreign direct investment (FDI) have also fueled growth. The Government of Ethiopia follows an integrated five-year development plan, the Growth and Transformation Plan (GTP I and II), which aims to achieve 11.2 to 14.9 per cent GDP growth annually, and attain middle-class income status by 2025.

These developments are positive indicators for future private sector development, but rest on the flow of significant amounts of capital into public sector infrastructure projects, which can provide important opportunities but can also limit capital available to the private sector. In the fiscal year 2011-2012, public infrastructure spending amounted to approximately 19 per cent of Ethiopia's total GDP (World Bank).

Buoyed by a growing economy, income per capita has doubled from USD 270 in 2006/7 to USD 573 in 2014. The percentage of people living below the national poverty line of USD 0.6 per day dropped from 38.9 in 2004 to 29.6 in 2011 (World Bank, 2015). Ethiopia is one of the most equal countries in the world and had a Gini coefficient of 33.6 in 2011.

### Agriculture

Agriculture remains central to the Government's structural transformation and poverty reduction efforts. It contributes 40 per cent of GDP and 90 per cent of exports, uses 80 per cent of the labour force and supplies 70 per cent of the raw materials used by local industries. The country's overall economic growth has strong ties to the performance of the agriculture sector. The abundance of unused arable land (11.7 million of a total of 51.3 million hectares of arable land are currently cultivated) presents a substantial opportunity to increase agricultural output.

Cognizant of the fact that the vast majority of the Ethiopian population resides in rural areas and derives its livelihoods from agriculture, the GoE has prioritized agriculture within its national policies. To ensure a more efficient utilization of land and labour resources in rural areas, the GoE has invested heavily in the provision of rural public services, including rural education and health, infrastructure, extension services, and public agricultural research. Between 13 and 17 per cent of government expenditure has been channeled towards agriculture - far more than the average for sub-Saharan African countries.

The Government has prioritized improving infrastructure for agricultural development and initiated several projects aimed at expanding the road network, power supply as well as agro-industrial zones.

## Industry

Structural change – the shifting of resources, especially labour, from agriculture to industry – is an important aspect of Ethiopia’s economic development strategy. The country’s industrial sector is still relatively small, accounting for 14 per cent of GDP in 2013/14, to which manufacturing contributed 31 per cent (or 4.4 per cent of the overall GDP). The contribution of manufactured products to total exports does not exceed 5 per cent of GDP. Currently, there are more than 2610 medium-sized and large industrial enterprises in Ethiopia.

## Service sector

The service sector contributes more than 45.8 per cent to Ethiopia’s GDP. According to GDP data released by the Ethiopian Ministry of Finance and Economic Cooperation (MoFEC), the service sector grew by 14 per cent exceeding the growth of agriculture in 2015. This is a shift from 2010, when agriculture’s annual growth rate amounted to 16.9 per cent while the service sector grew only by 6.3 per cent.

## Macro-economic policy

In 2012/13, the Government continued to pursue prudent fiscal policy aimed at curbing inflation while maintaining public spending on the development of physical and social infrastructure. Fiscal policy has focused on strengthening domestic resource mobilization (particularly tax collection) and reducing recourse to

central bank lending. At the same time, the Government has increased spending on efforts to reduce poverty, including investment in physical infrastructure.

Over the past few years, domestic revenue collection improved owing to vigorous tax reform measures, improved tax administration and trade facilitation efforts. During 2013/14, tax revenue increased by 24.8 per cent and increased from 11.6 per cent in 2011/12 to 12.7 per cent as a ratio of GDP (Ministry of Finance and Economic Development, 2014). As a result, the Government was able to finance 81 per cent of its expenditures from domestic sources. Public debt is on a declining trend, amounting to 35 per cent of GDP in 2011/12, and the country is at low risk of experiencing external debt distress.

## Inflation

Keeping inflation under control, while boosting economic growth, is a key priority of the GoE. In February 2016, Ethiopia registered a single digit inflation rate of 8.7 per cent.

## Labour force

The labour force is one of Ethiopia’s competitive advantages. The country has an abundant young and easy-to-train labour force. In 2014, Ethiopia’s workforce amounted to 47 million, with around a million people added to the labour force every year. Youth literacy rates (15-24 years) were over 55 per cent in 2012.

**Table 3: Tertiary school graduates in Ethiopia**

Graduates from Ethiopian schools and institutions, 2014/2015	
Teachers' education	45,566
TVET	125,738
Graduate	8,021
Undergraduate	86,210

Source: Ministry of Education, Education Statistics Annual Abstract

## Wage rate

At present, Ethiopia does not have a minimum wage. Skilled wage rates range from USD 80 per month for entry level to USD 150 for experienced workers. Higher and lower numbers have also been reported depending on location, sector and benefits.

**Table 4: Construction sector skilled and unskilled labour wages**

No	Labour type	Wage/day	Rate/hour
1	Assistant electrician	60.00	7.50
2	Assistant plumber	60.00	7.50
3	Assistant mason	60.00	7.50
4	Assistant bar bender	60.00	7.50
5	Assistant carpenter	60.00	7.50
6	Assistant painter	60.00	7.50
7	Assistant plasterer	60.00	7.50
8	Bar bender	80.00	10.00
9	Carpenter	80.00	10.00
10	Chiseler	80.00	10.00
11	Daily labourers	40.00	5.00
12	Electrician	120.00	15.00
13	Forman	200.00	25.00
14	Gang leader	50.00	6.25
15	Grinder/compactor operator	50.00	6.25
16	Mason	80.00	10.00
17	Mechanic for mixer	80.00	10.00
18	Painter	80.00	10.00
19	Plasterer	80.00	10.00
20	Plumber	100.00	12.50
21	Tiller	100.00	12.50
22	Welder	80.00	10.00
23	Assistant welder	60.00	7.50
23	Glazer	80.00	10.00
24	Assistant glazer	60.00	7.50

Source: Ethiopian Investment Commission, 2015

### Employing foreign nationals

Investors can employ duly qualified expatriates required for business operations. A foreign investor can employ expatriates for top management positions without any restrictions. A foreign investor or a domestic investor who wishes to employ an expatriate for non-top management positions must prove that the required expertise is not available in the domestic labour market. If the local labour market can supply the required profiles and expertise, the law gives priority to the employment of Ethiopian nationals. In addition, the right to employ expatriates for non-top management positions is limited by the legal requirement that foreign investors should replace, within a limited period, such expatriate personnel by Ethiopians by arranging the necessary training thereof.

### Labour regulations

The principal legislations on employment relationships include the Ethiopian Civil Code of 1960, Labour Proclamation No. 377/2003 (as amended), and the Private Organization Employees Social Security Proclamation No. 715/2011. The Labour Proclamation applies to employment relations based on a contract of employment that exists between a worker and an employer. However, it does not apply to managerial employees (defined as employees vested with a power to formulate and execute management policies, to hire, transfer, suspend, assign or take disciplinary measures against other employees). Relevant provisions of the Civil Code apply to managerial employees.

## INVESTMENT CLIMATE AND OPPORTUNITIES

### Investment attractiveness

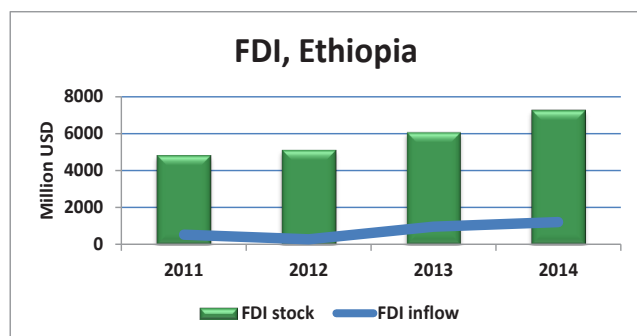
Ethiopia is becoming one of the prime destinations for foreign investment. The country is attracting investors with tax incentives, low-cost labour, strategic location for trade, and improved transport infrastructure.

In recent years, the Government of Ethiopia has made considerable effort to improve the country's business and investment climate through the issuance of targeted legislative measures. The revised Investment Code of 1996, as well as the Investment Proclamation, provide incentives for development-related investments and have gradually removed most of the sectorial restrictions on investment. Furthermore, the 2012 amendment to Ethiopia's Investment Proclamation introduced provisions for the establishment of industrial development zones, both state-run and private, with favourable investment, tax and infrastructure incentives. Other measures include the revision of regulations for potential investors, standardization of appropriate accounting practices (to more accurately assess tax and other operating liabilities), increased protection for shareholders, provisions for bankruptcy filings, and the modernization of trade and registration processes.

These measures have paved the way for increased FDI flows to the country. Ethiopia ranked as the third largest FDI recipient in Africa in 2013, a 240 per cent increase from 2012 (UNCTAD, 2015). The country also registered a significant increase in FDI stock – the

amount of investment from abroad held within the economy. FDI inflows reached USD 1.2 billion in 2014, up from USD 279 million in 2012. As a share of GDP, FDI rose from 0.4 per cent in 2008 to 2 per cent in 2013.

**Figure 2: FDI stock and inflow**



Source: United Nations Conference on Trade and Development, World Investment Report, 2015

Ethiopia's FDI inward stock also reached close to USD 7.2 billion in 2014, up from USD 4.8 billion in 2011. The sectors that have attracted the most FDI are floriculture, horticulture, textiles and leather. Recently, commercial farming has attracted Indian, Saudi, European, and U.S. investors.

The private sector and foreign investors are playing an increasingly important role in the economy. Through regular business meetings and dialogues, the Government, the private sector and foreign investors can exchange views on legislative issues. The Government is also implementing measures to further privatize and liberalize the trade regime and, in turn, create a safer and more attractive investment environment.

## Encouraging investment opportunities

The Government of Ethiopia is trying to increase investment in a wide array of sectors. Among others, the country has comparative advantages in agriculture, agro-processing, leather and leather products, and textiles and garments.

## Agriculture

With diverse agro-climatic zones, a long growing season and water availability for irrigation and arable land, Ethiopia is ideal for farming. Agricultural crops with government incentives include: tea, sugarcane, cotton,

spices and herbs, coffee, livestock, and horticulture. The growing demand of agricultural output both locally and internationally makes the agriculture sector particularly attractive to investors. Ethiopia is the second largest flower exporting country in Africa and the fourth in the world. It is also an ideal location for the cultivation of highland and lowland world class flowers. In fact, the flower industry is one of the fastest growing sub-sectors in the country. Ethiopia is also Africa's leading producer of *coffea arabica*.

## Textiles and clothing

Ethiopia has a comparative advantage in the production and processing of textile fabrics and garments. This includes the spinning, weaving and finishing of textile fabrics and, with regards to garments, the manufacture of knitted and crocheted fabrics, carpets, sport wears, etc. An abundance of raw materials, low wages and low energy costs give it a comparative advantage over other countries and regions. Ethiopia also grows some of the world's finest cotton and has a rich spinning and weaving history.

## Leather and hides

With an annual production of 5 million tons of hides, 8.1 million tons of sheepskins and 7.5 million tons of goatskins, Ethiopia has a comparative advantage in the leather industry (MoFA, 2015). There are ample opportunities for investment in tanning, up to the finishing and manufacturing of luggage items, handbags, saddlery and harness items, footwear, garments and other leather goods.

## Integrated agro-industrial parks

The GoE, together with stakeholders such as UNIDO, the Food and Agricultural Organization, the United Nations Development Programme and the Italian Development Cooperation, is currently piloting cluster-based agri-development through integrated agro-industrial parks (IAIPs). The IAIPs aim to coordinate and integrate dispersed value chain components by clustering and creating linkages between farmers, processors and consumers. The IAIPs will be spread across the country and linked to each other through agro-industry growth corridors (AIGCs). A total of 17 AIGCs were selected in different parts of the country, from which four areas were identified for pilot projects.

Figure 3: Agro industrial growth corridor, Ethiopia

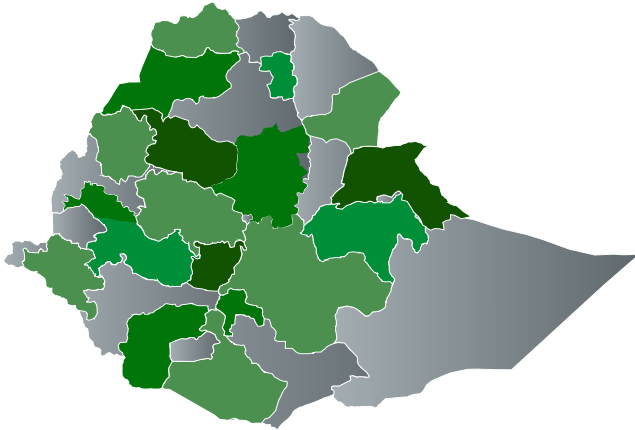


Figure 4: Location and key information for selected Integrated Agro-Industrial Parks (IAIPs)

**TIGRAY - WESTERN TIGRAY (BAEKER IAIP)**

<b>Crop and livestock</b>	Sorghum and sesame, fruits and vegetables, dairy, meat and other animal products.
<b>Total Area of IAIP</b>	258.62 Ha
<b>Population</b>	4.3 million
<b>Grand total cost</b>	US\$ 232.83
<b>Initial Investment</b>	US\$ 72.67 million
<b>Investment over 4 years</b>	US\$ 181.18 million
<b>Profit (after tax)</b>	Year 1: US\$ 122.48 million Year 2: US\$ 54.49 million Year 3: US\$ 6.04 million
<b>Internal Rate of Return</b>	17.09 % (13 years of operation)
<b>Payback period</b>	3 years

**AMHARA - SOUTH WEST AMHARA (BURE IAIP)**

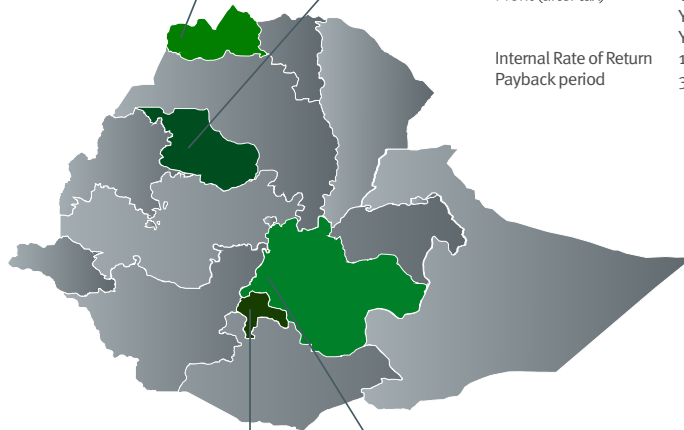
<b>Crop and livestock</b>	Sorghum and sesame, fruits and vegetables, dairy, meat and other animal products.
<b>Total Area of IAIP</b>	154.99 Ha
<b>Population</b>	17.2 million
<b>Grand total cost</b>	US\$ 227.58
<b>Initial Investment</b>	US\$ 69.71 million
<b>Investment over 4 years</b>	US\$ 173.81 million
<b>Profit (after tax)</b>	Year 1: US\$ 84.7 million Year 2: US\$ 53.8 million Year 3: US\$ 5.9 million
<b>Internal Rate of Return</b>	18.23% (13 years operation period)
<b>Payback period</b>	3 years

**OROMIA - CENTRAL EASTERN OROMIA (BULBULA IAIP)**

<b>Crop and livestock</b>	Wheat, barley, haricots bean, fava bean, tomato, potato, fruits and vegetables, dairy, meat and other animal products.
<b>Total Area of IAIP</b>	263 Ha
<b>Population</b>	27.16 million
<b>Grand total cost</b>	US\$ 233.12 million
<b>Initial Investment</b>	US\$ 72.1 million
<b>Investment over 4 years</b>	US\$ 69.71 million
<b>Profit (after tax)</b>	Year 1: US\$ 84.4 million Year 2: US\$ 53.9 million Year 3: US\$ 5.96 million
<b>Internal Rate of Return</b>	18.23% (13 years operation period)
<b>Payback period</b>	3 years

**SNNP - EASTERN SNNP (YIRGALEM IAIP)**

<b>Crop and livestock</b>	Cereals, coffee, fruits and vegetables dairy, meat and other animal products.
<b>Total Area of IAIP</b>	214.86 Ha
<b>Population</b>	15.04 million
<b>Grand total cost</b>	US\$ 176.21
<b>Initial Investment</b>	US\$ 51.55 million
<b>Investment over 4 years</b>	US\$ 128.53 million
<b>Profit (after tax)</b>	Year 1: US\$ 61.42 million Year 2: US\$ 39.17 million Year 3: US\$ 4.53 million
<b>Internal Rate of Return</b>	17.03% (13 years of operation)
<b>Payback period</b>	3 years



## Investment incentives

The current Investment Proclamation offers various incentives to investors with projects in the preferential investment sectors and/or areas as follows:

### Customs duty

The Council of Ministers Regulations No.270/2012 specifies the areas eligible for investment incentives.

- The Government of Ethiopia grants customs duty exemption provided for investors engaged in eligible new enterprises or expansion projects, such as manufacturing, agriculture, agro-industries and other sectors.
- 100 per cent exemption from the payment of customs duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment and construction materials.
- Spare parts worth up to 15 per cent of the total value of imported investment capital goods, provided that the goods are also exempt from the payment of customs duties.
- An investor granted with a customs duty exemption will be allowed to import capital goods duty free indefinitely if his investment is in manufacturing and agriculture, and for five years if his investment is in other eligible areas.
- An investor entitled to a duty-free privilege that buys capital goods or construction materials from local manufacturing industries will be refunded the customs duty paid for raw materials or components used as inputs for the production of such goods.

- Investment capital goods imported without the payment of custom duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.

### Income tax exemption

Investors engaged in manufacturing and agro-processing, the production of agricultural products, the generation, transmission and supply of electrical energy, and information and communication technology development will be entitled to income tax exemption (Invest In Ethiopia, 2016):

- Foreign investors who establish a new enterprise in selected areas of Ethiopia (*such as Gambella; Benishangul-Gumuz; Afar, Somali, Guji and Borena Zones in Oromia and other regions*) will be entitled to an income tax deduction of 30 per cent for three consecutive years after the expiry of the income tax exemption period.
- An investor who expands or upgrades his existing enterprise and increases in volume by at least 50 per cent is entitled to income tax exemption.
- Investors that export at least 60 per cent of products or services, or supply the same to an exporter as production of service input, will be exempt from income tax for an additional two years.

**Table 5: Tax exemption**

Areas of investment eligible for income tax exemption		
Sectors	Addis Ababa and specialized zone of Oromia surrounding Addis Ababa	Other areas
<b>1. Manufacturing</b>		
Food industry	1 up to 5 years	2 up to 6 years
Beverage industry	1 up to 3 years	2 up to 4 years
Textiles and textile products industry	2 up to 5 years	3 up to 6 years
Leather and leather products industry (Except tanning of hides and skins below finished level)	2 up to 5 years	3 up to 6 years
Wood products industry	2 years	3 years
Paper and paper products industry	1 up to 5 years	2 up to 6 years
Chemical and chemical products industry	2 up to 5 years	3 up to 6 years
Basic pharmaceutical products and pharmaceutical preparations industry	4 and 5 years	5 and 6 years
Integrated manufacturing with agriculture	4 years	5 years
<b>2. Agriculture</b>		
Crop production (except growing of fiber crops, medium-term spices, aromatic or medicinal crops, perennial fruits, beverage crops and other perennial crops in Addis Ababa and its surroundings)	2 and 3 years	3 up to 6 years
Animal production ( except farming of wild animals and production of milk, eggs and similar products in Addis Ababa and its surroundings)	2 and 3 years	3 and 4 years
Mixed (crop and animal) farming	3 years	4 years
Forestry	8 years	9 years

## Export incentives

The fiscal incentives given to all exporters are the following:

- With the exception of a few products (e.g. semi-processed hides and skins-150 per cent), no export tax is levied on export products of Ethiopia.
- Duty drawback scheme: this scheme offers investors an exemption from the payment of customs duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods.
- Bonded factory and manufacturing warehouse schemes: producers not eligible for voucher schemes but having been licensed for bonded factory and manufacturing warehouse schemes are entitled to operate such factories or warehouses to import raw materials duty free.
- Exporters are allowed to retain and deposit in a bank account up to 20 per cent of their foreign exchange earnings for future use in the operation of their enterprises, and no export price control is imposed by the National Bank of Ethiopia.

- Exporters can benefit from the export credit guarantee scheme presently in place in order to ensure an exporter receives payment for goods shipped overseas, in the event the customer defaults, reducing the risk of exporters' business and allowing it to keep competitive prices.

## Remittance of capital

A foreign investor has the right to make the following remittances out of Ethiopia in convertible foreign currency:

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



## Loss carried forward

Business enterprises that suffer losses during the income tax exemption period can carry forward such losses, following the expiry of the income tax exemption period, for half of the tax exemption period.

## TAXATION

### Tax system

The Ethiopian tax system comprises direct and indirect taxes. Direct taxes include personal income tax, rental tax, withholding tax and corporation tax, among others. The main types of indirect taxes are value added tax (VAT), customs duty, excise and turn over taxes. The main taxes are summarized in the table below.

**Table 6: Tax rate**

<b>Corporate income tax</b>	30%
<b>Turn over tax</b>	2% and 10%
<b>Excise tax</b>	10% up to 100%
<b>Customs duties</b>	0% up to 35%
<b>Income tax from employment</b>	0% up to 35%
<b>Withholding tax</b>	2%
<b>VAT</b>	15%
<b>Export tax</b>	0% (with exception of hides and skins-150%)
<b>Royalty tax</b>	5%
<b>Dividend tax</b>	10%

### Corporate income tax

Business income tax is charged on all income of an entity having a permanent establishment in Ethiopia. An administrative branch, factory, workshop, mine, quarry or any other place for the exploitation of natural resources, or a building site or place where construction and/or assembly works are carried out, is considered as a permanent establishment. Income tax applies to residents with respect to their worldwide income, and non-residents with respect to their Ethiopian-sourced income.

In the case of a corporate person, the latter is considered a resident when any of the three conditions below are present:

- o If the principal office is located in Ethiopia;
- o If the effective management of the company is in Ethiopia; or
- o If the company is registered by the Ministry of Trade and Industry.

**Table 7: Taxable business income tax rates**

<b>Taxable business income/Birr</b>	<b>Tax rate (%)</b>
0-1,800	Exempt
1,801-7,800	10
7,801-16,800	15
16,801-28,200	20
28,201-42,600	25
42,601-60,000	30
Over 60,000	35

Source: Income Tax Proclamation No. 286/2002

### Taxable employment income

Both foreigners working in Ethiopia and Ethiopian citizens are subject to personal income tax. Income tax is levied on any income derived from employment, including any payments or gains in cash or in kind.

**Table 8: Employment income tax rate**

<b>Employment monthly income (Birr)</b>	<b>Tax rate (%)</b>
The first 150	Exempt
151-650	10
651-1,400	15
1,401-2,350	20
2,351-3,550	25
3,551-5,000	30
Over 5,000	35

Source: Ethiopian Revenues and Customs Authority

### Transaction taxes

#### Value-added tax

VAT is charged, under the Value-Added Tax Proclamation on the supply of goods and services by registered

persons, and on import of goods and services into Ethiopia, in addition to services performed by a non-resident (not registered for VAT in Ethiopia) who performs services for a resident in Ethiopia. The rate of VAT is 15 per cent.

### **Turnover tax**

Turnover tax is charged under the Turnover Tax Proclamation and at a rate of 2 per cent on the supply of goods and services relating to contractors, grain mills, tractors and combine harvesters, and at a rate of 10 per cent on other services. Turnover tax is payable on goods and services supplied by persons who are not registered for VAT.

### **Excise tax**

Excise tax is payable on certain goods specified under the Schedule to the Excise Tax Proclamation, when imported and when produced locally. The excise tax rate varies from 10 to 100 per cent of the cost of production, or CIF (“cost-insurance-freight”) as the case may be.

### **Deductible expenses**

In the determination of business income subject to tax in Ethiopia, deductions will be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business, provided that the expenses can be proven by the taxpayer and subject to the limitations specified by the Income Tax Proclamation No. 286/2002.

In the determination of taxable business income, the owner of the business assets may deduct depreciation of business assets.

## **INVESTMENT LEGAL FRAMEWORK**

### **Investment procedures**

Foreign investors who invest in Ethiopia for the first time must apply for an investment permit with the licensing authorities. Under the new registration process, the application documents are simpler, one-stop shop services and the time required for issuing an investment certificate is shortened.

### **Licensing authorities**

The investment permit for a foreign investment project in Ethiopia can be granted through either of the following processes:

- Application for an investment permit by a foreign investor shall be made to the Ethiopian Investment Commission.
- Foreign investors intending to buy an existing enterprise in order to operate it as it stands or to buy shares of an existing enterprise shall obtain prior approval from the Ministry of Trade.

### **Post-licensing procedure**

An investment permit shall be renewed every year until the investor commences the marketing of his products or services. An investment permit may not be transferred to another person without prior written approval of the appropriate investment organ.

### **Acquisition of land**

In Ethiopia, land is public property. Individuals, companies and other organizations have the right to use the land. There are two broad classifications of land for rent or lease purposes: 1) rural land; and 2) urban land. Rural land is rented mainly for agriculture. Urban land is divided into land for industrial use and land for other activities. Industrial land has received much attention by the Government and a number of industrial zones with the necessary infrastructure facilities (roads, electricity, water, communications, etc.) were established in major cities and towns in an effort to accelerate industrialization. Industrial land in industrial zones is allocated to investors at fixed prices. The periods of payment of urban land-lease prices vary from region to region and depend on the type of investment activity.

The Ethiopian Investment Commission is mandated to facilitate the allocation of land for FDI projects throughout the country. The lease and rental prices of urban and rural land vary according to location, type of investment and class of land. Land cannot be mortgaged or sold, but the lease or rental value of land and the fixed assets thereon may be mortgaged or transferred to a third party.

## Rental and lease prices

The rental prices of rural land for agriculture are set based on the development level of the zones and distance from all-weather roads. Accordingly, the minimum and maximum annual rental charges for one hectare of rural land are 70.40 and Birr 135.00 (Oromia), Birr 178 and 498 (Amhara), and Birr 36 and 117 (SNNR), respectively.

**Table 9: Land lease and rental price by region**

Regions*	Urban land lease price for industry (Birr/m <sup>2</sup> / year)	Rural land rental price( Birr/ hectare/year)
Oromia	4 to 6.50	70.40 to 135
Amhara	3 to 60	178 to 498
Tigray	0.50 to 0.75	-
SNNP		36 to 117
Benishan-gul-Gumuz	48 to 133	-

Source: Ethiopian Investment Commission, 2015

Note: Land lease and rental prices are not available for all regions.

## MISCELLANEOUS

### Intellectual property

Ethiopia is a member of the World Intellectual Property Organization. The Ethiopian Intellectual Property Rights Office, established in 2003, is responsible for the administration of patents, trademarks, copyrights, and other intellectual property policy and legal issues. Patents are protected for 10 to 15 years, with an additional five years of protection if there is proof that they are properly utilized. Industrial designs are protected for five years, with two possible five year extensions. Once registered, trademarks have to be renewed every seven years.

### International agreements

Ethiopia has concluded bilateral investment treaties (BITs) and Double Taxation Treaties (DTTs) with a number of countries.

- o **BIT:** Algeria, Austria, Belgium, Luxembourg, China, Denmark, Egypt, Equatorial Guinea, Finland, France, Germany, India, Iran, Israel, Italy, Kuwait, Libya, Malaysia, Netherlands, Nigeria, Russian Federation, South Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, and Yemen.
- o **DTT:** China, Czech Republic, Iran, Israel, South Africa, Tunisia, Turkey, and United Kingdom.
- o Everything but Arms Agreement (EBA) with the European Union.

Ethiopia is also member of COMESA (Common market for Eastern and Southern Africa) and a beneficiary of the African Growth and Opportunity Act (AGOA) export scheme. COMESA is the largest regional economic organization in Africa, with 19 member states and a population of about 390 million. It has a free trade area, with 19 member states, and launched a customs union in 2009. AGOA is the cornerstone of U.S. economic engagement with the countries of sub-Saharan Africa. It gives duty-free access to the U.S. market and eligible countries can export products, including value-added manufactured items such as textiles, to the United States.

### Investment guarantees

Ethiopia is a member of the Multilateral Investment Guarantee Agency, a World Bank affiliate and a signatory to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

## CONTACT POINTS

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