OVERSEASINFRASTRUCTUREALLIANCE
buildinginfrastructure
worldwide

D&B

INVEST IN
ETHIOPIA

In pursuit of a wise investment destination

Invest in Ethiopia: In Pursuit of a Wise Investment Destination

Published in India by **Dun & Bradstreet Information Services India Pvt Ltd. (D&B)**

Registered Office
ICC Chambers, Saki Vihar Road,
Powai, Mumbai - 400072.
CIN: U74140MH1997PTC107813
Tel: +91 22 6676 5555, 2857 4190 / 92 / 94
Fax: +91 22 2857 2060
Email: eagops@mail.dnb.co.in
URL: www.dnb.co.in

New Delhi Office
1st Floor, Administrative Building,
Block 'E', NSIC - Technical Services Center,
Okhla Industrial Estate Phase - III,
New Delhi - 110020.
Tel: +91 11 41497900/01
Fax: +91 11 41497902

Kolkata Office
166B, S. P. Mukherjee Road,
Merlin Links, Unit 3E, 3rd Floor,
Kolkata - 700026.
Tel: +91 33 24650204
Fax: +91 33 24650205

Chennai Office
New No: 28, Old No: 195,
1st Floor, North Usman Road,
T. Nagar, Chennai - 600017.
Tel: 91 44 28142265/75, 42897602
Fax: +91 44 28142285

Ahmedabad Office
801 – 8th Floor, Shapath V,
Opp. Karnavati Club,
S. G. Highway
Ahmedabad - 380054.
Tel: +91 79 66168058/59

Bengaluru Office
No. 7/2 Gajanana Towers,
1st Floor, Annaswamy Mudaliar Street,
Opp. Ulsoor Lake,
Bengaluru - 560042.
Tel: +91 80 42503500
Fax: +91 80 43503540

Hyderabad Office
504, 5th Floor,
Babukhan's Millennium Centre,
6-3-1099/1100, Somajiguda,
Hyderabad - 500082.
Tel: +91 40 66624102, 66514102
Fax: +91 40 66619358

Research & Analysis	Naina Acharya
	Yogesh Jambhale, Swatti Mathur, Christopher D'souza, Ankit Kemmu
Sales Head	Jayesh Bahadur
Sales Team	Nittin Maheshwari, Pankaj Sharma, Anandita Pongurlekar, Vini Batheja, Tanya Bedi, Rakesh Goyal
Operations Team	Nadeem Kazi, Ankur Singh, Sumit Sakhrani, Rajesh Gupta, Shankar Iyer, Parmeshwar More, Saadat Shaikh, Nikita Sachdev, Prem Kumar
Design Team	Tushar Awate, Sonal Gangnaik, Shilpa Chandoilikar, Mohan Chilvery

DISCLAIMER

This Report is strictly for private circulation and meant for the recipient addressees only. The Report shall not be reproduced, republished, publicly circulated, disclosed or shared with any other party, or copied, modified, redistributed, or otherwise made available to any third party, in any form whatsoever, including by caching, framing or similar means, whether in part or whole, without the prior written consent of authorized representatives of Dun & Bradstreet Information Services India Private Limited ("D&B"). This Report is meant for the purpose of disseminating information for fair use by recipient addressees. D&B provides no advice or endorsement of any kind through this Report. This Report does not constitute any recommendation by D&B to enter into any transaction or follow any course of action. All decisions taken by the recipient addressees must be based solely on the recipient addressees' evaluation of circumstances and objectives. D&B recommends that the recipient addressees independently verify the accuracy of the contents of the Report upon which it intends to rely. D&B thus, expressly disclaims any and all responsibilities and liabilities arising out of the Report or its use by the recipient addresses or any other party.

Copyright © 2014, D&B, All rights reserved.

Invest in Ethiopia: In Pursuit of a Wise Investment Destination
ISBN 978-93-82060-60-4

CONTENTS

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

MESSAGE FROM THE EMBASSY OF ETHIOPIA

The Federal Democratic Republic of Ethiopia Embassy in India in collaboration with the Overseas Infrastructure Alliance (OIA), is pleased to launch the knowledge series, **'Invest in Ethiopia: In Pursuit of a Wise Investment Destination'**. It will be released in three cities, i.e. Pune, Chennai and Bengaluru, with the objective of presenting vast investment opportunities of Ethiopia to potential Indian investors. I am glad that Dun & Bradstreet is the knowledge partner for this campaign who is producing this report on the varied opportunities available in Ethiopia.

Ethiopia and India has a historical relation that dates back many decades. However, the business relation between the two friendly countries has grown only recently with a total trade volume of USD 1 bn and investment capital of USD 5 bn. Currently, there are 632 Indian investments projects in Ethiopia mainly in the areas of agriculture, food processing, textile, leather and leather products, and plastic industries.

Regarding government to government relationship, the two countries are collaborating under the India-Africa forum in which the Indian Government is providing finance and technology transfer to African countries. Under this initiative, Ethiopia is benefiting from the line of credit which is worth USD 1.05 bn for its mega projects, namely; sugar, railway and power sectors. Among the five mega projects India has offered to Africa, the textile cluster to be developed for investors is located in the northern part of Ethiopia. This cluster is expected to emerge as a textile hub for Indian companies who are interested to invest in textile value chain.

With regards to capacity building several students are learning in prestigious Indian universities especially in engineering and science fields under the 'Indian Council for Cultural Relations' and 'Indian Technical and Economic Cooperation Program' and various Ethiopian government sponsorship schemes as well. The Government of Ethiopia has given priority to skills upgradation. Accordingly, a number of institutes in Ethiopia are providing training to the young workforce, especially for the textile, leather, and metal sectors. Therefore, there is ample trained and skilled human resource in the country.

I am certain that the knowledge series, **"Invest in Ethiopia: In Pursuit of a Wise Investment Destination'**, will provide the participants sufficient information about the policies, incentives and the comparative advantages Ethiopia has in its priority sectors. I hope to see more Indian investment in Ethiopia.

H.E. Ambassador Gennet Zewide
Ambassador Extraordinary and Plenipotentiary
Embassy of the Federal Democratic Republic of Ethiopia to India

In pursuit of a wise investment destination

MESSAGE FROM OVERSEAS INFRASTRUCTURE ALLIANCE

Our engagement with Africa started a decade back in Ethiopia which became among one of the first countries where Overseas Infrastructure Alliance (India) Pvt. Ltd. (OIA) started its operations with project in the field of power distribution. Immediately thereafter based on impressive track record our operations got a major boost when OIA was selected and appointed as an EPC contractor by Ethiopian authorities for their mega projects in the sugar projects at FINCHAA and TENDAHO worth over US Dollars 400 million.

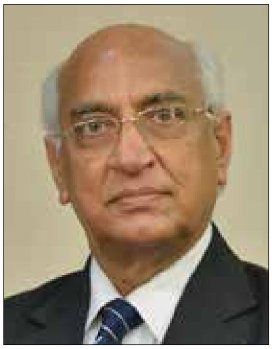
Ethiopian Government through its foreign investor friendly policies has been supporting Indian companies to be partners in its march towards modernization and economic development with an eye on poverty alleviation and improving the lot of the average Ethiopian national. There is tremendous admiration of how India has been tackling this monumental task with impressive performance on the development front with admirable inclusive growth model.

OIA has been proud partners in this journey of Ethiopia forward by contributing towards capacity building, skill development and capacity building. At the same time we have identified ourselves with local issues of vital importance through our initiatives in taking up voluntarily Corporate Social Responsibility (CSR) initiative specifically in the healthcare sector. OIA feels privileged to be the first Indian company to have set up a state-of-the-art eye care hospital in one of the key hospitals in Addis Ababa. This is proving to be a panacea through operations for crucial ailments as cataract, glaucoma and such like. Indeed we feel privileged to leave behind our footprints on the sands of time there.

Based on our own personal experience of operating in the healthy business climate provided by the various Ethiopian agencies, we urge interested Indian companies to take early initiatives to invest in Ethiopia before competition from their peers become intense.

OIA feels proud to be associated as partners with the Embassy of Federal Democratic of Ethiopia in India in this campaign through Dun and Bradstreet to showcase and introduce tremendous investment opportunities in Ethiopia through attractive policies and incentives in priority sectors provided by it.

Wishing the venture success.



Ambassador V.B. Soni
Chairman OIA

MESSAGE FROM DUN & BRADSTREET

Dun and Bradstreet India (D&B India), in association with 'Overseas Infrastructure Alliance' is pleased to launch the knowledge series, **'Invest in Ethiopia: In Pursuit of a Wise Investment Destination'**. The objective of the report is to attract potential Indian investors for investing across various sectors in Ethiopia.

Ethiopia is naturally blessed with abundant natural resources such as vast availability of fertile agricultural land and mineral resources such as gold. It's strategic location .i.e. in the Horn of Africa offers easy accessibility to major export markets such as Europe and the Middle East and acts as a perfect platform for trade and commerce to flourish.

Ethiopia's goods exports has registered a robust CAGR of around 20% during the period FY02 to FY13. The country is a major exporter of coffee and gold, accounting for around 44% share in total exports in FY13. With 18 major agro ecological zones, there exists investment opportunities for coffee and allied products.

Ethiopia features amongst the fastest growing developing countries, not just in Africa but globally as well. Ethiopia registered a robust average GDP growth of around 10.9% p.a. between FY05-FY13, which is well above the African regional average of 5.3% during the same period. Further the country's growth & transformation plan (2010-11/2014-15) has ensured economic stability, thus creating a conducive investment climate.

As per the World Bank, among 47 Sub-Saharan African countries, Ethiopia ranks 14th in terms of ease of doing business. In certain areas such as dealing with construction permits, resolving insolvency, enforcing contracts and getting electricity Ethiopia ranks amongst the top 10 countries in the region. Thus providing ease in operation facilities for construction companies as well as those intending to set-up new units.

India and Ethiopia has a long history of trade relationship. As on 2011, over 400 Indian companies have invested in Ethiopia with an investment to the tune of over USD 4 bn. As of July 2013, India was the second largest contributor to FDI in Ethiopia, after Saudi Arabia, with approved investments running to the tune of close to USD 5 bn. Around, 40% of this investment was in the field of commercial agriculture such as agro-processing and providing farming machinery.

Various lucrative government incentives across sectors make it an ideal destination for business investment. Sectors offering vast investment opportunities include power, textiles, real estate and telecom among others.

This report is intended to serve as a ready reference for potential Indian investors for taking informed decisions. D&B's global footprint will ensure that the report is read by a large audience across the globe. I hope you enjoy reading this report and look forward to receiving your valuable feedback and suggestions.

Kaushal Sampat
President &
Managing Director - India,
Dun & Bradstreet

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

INTRODUCTION

History

Ethiopia, a country located in the sub-Saharan region of Africa, is one of the oldest independent countries in Africa. The Ethiopian civilization dates back over 3,000 years and the country has never been colonized by another country.

From 1700 till the next 100 years there was no central power in Ethiopia. In 1869, it was bought under a single ruler by Emperor Tewodros who brought many of the princes together resulting in the establishment of a centralised rule over the region. This reign of emperor's continued till 1974, till a provisional council of soldiers seized power and installed a government which was socialist in name and military in style. Their regime lasted for about 17 years, until insurrections occurred throughout Ethiopia majorly in the regions of Tigray and Eritrea.

In 1989, the Tigrayan People's Liberation front (TPLF) merged with the Amhara and Oromo liberation fronts (EPDM & OPDO) to form the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). Later, the elections for the first Parliament took place in 1995. The new government was formed in August in the same year. At present, the country has a multi-party federal democracy with legislative authority resting with the government. This is headed by an executive Prime Minister elected by the House of Peoples' Representatives, with 547 members, and the House of Federation, with 110 members. Elections are held every five years.

Ethiopia has nine regional states and two administrative cities which are further divided into 800 districts. Addis Ababa, the capital city of Ethiopia was founded in 1887, is a diplomatic hub with over 118 embassies and 40 regional and international organisations. It is also host to the African Union and the United Nations Economic Commission for Africa.

Various ministries existing in Ethiopia include:

- Ministry of Foreign Affairs
- Ministry of Education
- Ministry of Health
- Ministry of Trade and Industry
- Ministry of Finance and Economic Development
- Ministry of Culture and Tourism
- Ministry of Agriculture
- Ministry of Defense
- Minstery of Revenues
- Ministry of Works and Urban Development
- Ministry of Women's Affairs
- Ministry of Information
- Ministry of Justice
- Ministry of Federal Affairs

In pursuit of a wise investment destination

- Ministry of Capacity Building
- Ministry of Transport and Communication
- Ministry of Infrastructure
- Ministry of Water Resource
- Ministry of Mines and Energy
- Ministry of Labour and Social Affairs
- Ministry of Communication and Information Technology
- Ministry of Youth, Sport

More than six decades of diplomatic relations with India

India and Ethiopia first established diplomatic relations at legislation level in 1948, which was further raised to ambassador level in 1952.

India has also provided various incentives in different forms to promote investment in Ethiopia to Indian companies. As per the Ministry of Foreign Affairs, Ethiopia, Indian companies have been increasingly investing in Ethiopia especially in the sectors such as agriculture, engineering plastics, pharmaceuticals and hotels & restaurants. As in 2011, over 400 Indian companies have invested in the country with an investment amounting to over USD 4 bn. The Indian government has also promoted investment in Africa through its Export Import Bank (EXIM Bank), which opened its east Africa regional office in the capital city of Ethiopia in Sept 2010.

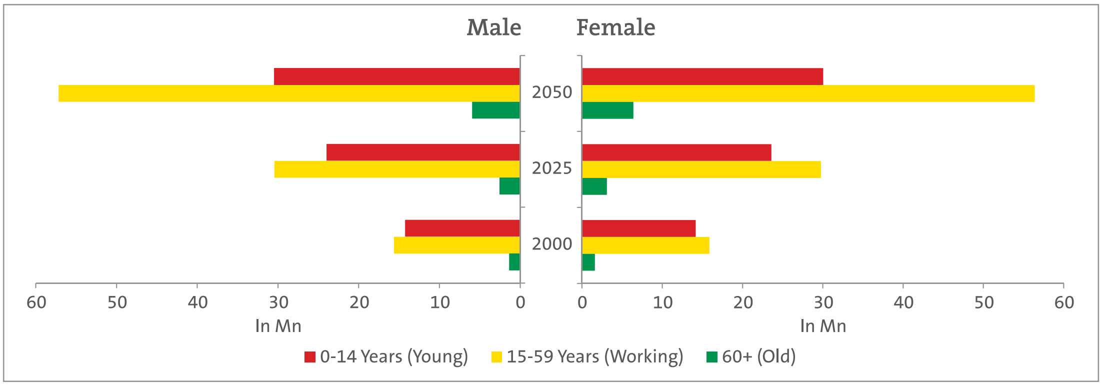
The Indian government has also provided training to many Ethiopians through the Indian Technical and Economic Corporation programme in various fields as well as providing support for capacity building and providing supply of equipment to various institutions.

Demographic Profile

Robust working age group is expected to play an important role in driving the economy

According to the World Bank Ethiopia has a population of about 90 mn with a population showing an annual growth rate of about 2.6% in 2013. According to UN, by 2025 the population within the age group of 15-60 years is expected to reach over 60 mn consisting nearly equal proportions of males and females which is further expected to reach over 100 million by 2050.

Chart 1: Male & Female Population Distribution Forecast



Source: World Aging Population 1950-2050, UN

According to UNDP the average adult (15 years and above) literacy rate for the period 2005-12 stood at around 39%. Further, the literacy rate for the period of 2008-13 among the youth (15-24 years) was 63% in males and 47% in females.

Ethiopia has been ranked at 173 out of 187, in the human development index 2014 by UNDP, but the country has been on a continuous growth path and has gained 2 positions since 2008-13.The poverty levels in the country have been high as per World Bank data 38.7% Ethiopians lived in poverty in FY05 which was reduced by 9.1% over the next five years. By using the growth and transformation plan, the government plans on reducing it further down to 22.2% by FY15.

Ethiopia has significant deposits of minerals including gold, platinum and tantalum. Some of the other available mined minerals include niobium, gemstones, copper, iron ore, coal and soda ash.

There is also availability of construction and industrial related minerals such as marble, granite, limestone, clay, gypsum, silica etc.

The country also has significant opportunities for resources such as natural gas and petroleum in its four major sedimentary basins namely Ogaden, the Gambella, the Blue Nile and the Southern Rift Valley. Hydroelectricity is a major source of power in the country which is generated at several stations of Blue Nile and its tributaries.

Geographic Profile

Accessibility to major export markets such as Middle East & Europe and abundance of natural resources makes Ethiopia a major player on global stage

Ethiopia is landlocked in the northern part of Africa. It is surrounded by Djibouti and Somalia to the east, Eritrea to the north, Sudan to the west, and Kenya to the south. Due to its strategic location i.e. in the Horn of Africa, Ethiopia has easy access to the major ports involved in international trade and puts it in close proximity to the Middle East and Europe.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

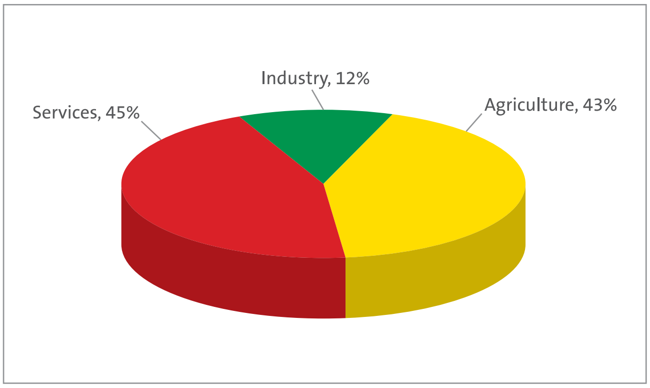
ECONOMIC AND INDUSTRIAL PROFILE

Highlights

- The strategic location of the country gives Ethiopia access to big export markets nearby like Middle East and European countries
- Growth rate has been averaging in double digits for the past few years
- As per the World Bank, workforce availability of Ethiopia stood at over 43 million workers
- The capital city, Addis Ababa, has emerged as a regional hub and houses various key international organizations such as the African Union (AU) and the United Nations Economic Commission for Africa
- Ethiopian products have duty free, quota free access to US and European markets under the African Growth and Opportunities Act (AGOA)

The Ethiopian economy majorly is dominated by agriculture in which coffee accounts for the majority of exports. The government is making consistent efforts to promote sectors such as manufacturing, energy generation, and textiles etc. In FY13, Ethiopia's GDP per capita stood around USD 498, showing a growth of over 6% year on year. Ethiopia has registered a robust GDP growth between FY05-FY13 at an average rate of around 10.9% p.a which is well above the African regional average of 5.3% during the same period.

Chart 2: GDP Contribution by Various Sectors FY13



Source: National Bank of Ethiopia, Annual Report FY13

Agriculture sector contributes significantly to the nation's growth

Ethiopia has climate and soil which suites the requirements for the growth of variety of food crops primarily including cereals, pulses and oil seeds. Various commercial cash crops grown in Ethiopia include coffee, sugarcane, tea, tobacco and spice. Ethiopia also cultivates a variety of fruits, vegetables and flowers which are gaining impetus in the export list of the country.

As per the 2012-13 annual report of the National Bank of Ethiopia the agriculture sector contributed for 42.7% to the GDP. There has been an increase in crop production by 8.2% in 2012-13 which has contributed to 26% of GDP growth and 80% of agricultural growth. This positive development is a result of favourable productive conditions and progressive agricultural development policies. As on 2012-13 the total land under cultivation stood at about 12.3 million hectares.

Key highlights of the agricultural sector in Ethiopia

- Coffee, utilising over 600,000 hectares of land, remains the most important export crop
- Total area covered under tea plantation amounts to 2,700 hectares with a capacity to produce 7,000 tonnes of black tea per annum
- Currently, Ethiopia has about 122,700 hectares of land under spice farming achieving production levels of 244,000 tonnes
- Ethiopia has a presence of 18 major agro ecological zone and 32 subzones.

Why to invest in this sector?

- Adequate conditions for growing wide variety of fruits, vegetables, flowers and spices due to diverse climate zones and longer growing seasons.
- Availability of large workforce
- Although a major section of land is under cultivation, the use of outdated cultivation methods has rendered the land underutilised which provides lot of investment opportunities.
- Ethiopia has a large international client base for products of this industry some major countries buying products from Ethiopia are Netherlands, Germany, Saudi Arabia, Norway, Belgium, UAE, France, Japan and many more.

Developing railway network along with well-established airline network offers ease of access to neighbouring ports

Ethiopian Airlines have been operational since 68 years and have gained a good reputation in the international market. It offers both passenger and cargo transport in its fleet of international and domestic flights.

Ethiopian Airlines links over 63 destinations worldwide and 17 destinations across the country. Some of the international destinations covered by the Ethiopian airlines include Washington DC, Bangkok, Dubai, Hong Kong, Kuwait, Mumbai and many more. In addition to this various other airlines have flights scheduling from Ethiopia including Emirates, KLM, Lufthansa, Turkish and others.

According to the Ethiopian Investment Commission, the Ethiopian government has strategic plans to have a total of 2,395 km of national railway network. For which the government is undertaking repair and widening work of existing network as well as building up new railway lines.

Some of the projects under implementation include, creating a route to the Red Sea port of Djibouti & Addis Ababa and extending connectivity between Addis Ababa-Ijaji-Jimma-Guraferda-Dima which can be further extended to South Sudan. This will facilitate further trade & investment opportunities for the country.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

As per the Ethiopian Investment Commission, Ethiopia Shipping and Logistic Enterprise, a body established by the government to facilitate effective import & export of cargo, is currently managing 2 dry ports which are located at Modjo and Semera. The capital city is also linked with the port of Djibouti and Gulf of Aden by road network.

Please refer to Annexure 1 for more details on restrictions/conditions for investment in various sectors.

Huge availability of workforce at cheaper rate encourages investment in the manufacturing sector

Major manufacturing activities in Ethiopia include production of food, beverages, tobacco, leather, paper, metallic & non-metallic minerals products, textile & garments, cement and chemicals.

Businesses such as textile & garments, leather products, metal & engineering, chemical, pharmaceutical and agro processing are kept under priority areas under growth and transformation plan (2010-11/2014-15). To promote these business activities, various incentives including tax holiday, export incentives, loss carry forward, provision of land at competitive lease price etc. As per national bank of Ethiopia, the manufacturing output has grown by 10.8% and contributed to 4.6% of real GDP growth in FY13.

Why to invest in this sector?

- Availability of large work force at competitive costs
- Abundant domestic supply of some of the raw material required in the manufacturing industry like cotton for textile industry, minerals like iron ore for metal industries, cattle for leather, dairy and food industries etc.

Huge unexploited mineral reserves along with incentives offer huge opportunity for investment

Ethiopia has availability of various mineral resources including both metallic and non-metallic. Minerals which are majorly exported are gold and tantalum. Large scale gold mining operation at Lega Dembi and Sakaro is under process which has capacity of about 5 tons of gold p.a. Ethiopia also has huge potential for petroleum and natural gas resources as well.

Why invest in this sector?

- Availability of proven reserves of natural resources which remain underutilized.
- Availability of fair and clear mining legislation with various incentives for investors

Huge demand for power from various sectors offers immense potential for expanding generating capacity

As per National Bank of Ethiopia's estimate, the country's electricity generation for FY13 was 7.6bn kWh growing by 20.6% as compared to its preceding year. Hydro power is the major source of electricity contributing to over 90% to the countries energy needs. The liberalisation of the power sector allows private investors to generate, transmit, sell, import or export electricity. Ethiopia has a great potential for hydro electrical power which is estimated at 45,000 MW.

The nine major rivers and their tributaries running through the country are suitable for hydroelectricity production. It also has a large potential for geothermal power generation from three discovered gas fields called Calub, Hilala and Genale gas fields in the Ogaden Basin in the south-eastern part of the country. The total gas capacity of these fields is estimated at 4.6 Tcf of gas.

Why invest in this sector?

- Great potential for development of renewable source of power like hydroelectricity
- As per National Bank of Ethiopia, the geothermal electricity potential is around 10,000 MW

Rich ancient history and availability of flora fauna gives immense opportunity for the tourism sector

Ethiopia has various aspects which make it an attractive tourist destination such as rich & unique cultural heritage, variety of flora & fauna and various archaeological sites. These aspects give it a great potential for cultural & educational tourism, safaris, water sports, desert trekking, mountain climbing etc.

According to the Ministry of Culture and Tourism the numbers of visitors coming to Ethiopia have increased by 10% each year. Factors such as development in terms of infrastructure, logistics, and stay arrangements will help Ethiopia immensely in attracting tourists, thus increasing the foreign exchange earnings from tourism.

Why invest in this sector?

- Great opportunity for hotel, lodges and restaurant business.
- Opportunities are also present for tour operations in the country.

Infrastructure Zones are being developed to facilitate private player investment

The government of Ethiopia has been playing an active role in developing the domestic infrastructure in order to sustain the economic development as well as promote private investment. To encourage and facilitate investment in the manufacturing sector, industrial zones are being developed both by the government and the private sectors.

Through the industrial zone development program, the Government intends to create favourable condition for private sector investment in priority industries. Currently, there is a plan to set up 12 industrial zones in the country among which two are completed and two are under construction. The table below outlines the projects under development

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

Indutrial zones development

No.	Name of Industrial Zone	Area in Hectares	Location	Developer	Status
1	Addis	87	Within Addis Ababa	N.A.	
2	Bole Lemi	324	15 Km east to A.A	Government	Construction in progress
3	Sandafa	1,460	39 km north to A.A	Ethio-Turkish (ppp)	Phase one: 100 hectares
4	Eastern	200	37 km east to A.A	Chinese	Phase one: 200 hectares
5	Kilinto	243	20 km east to A.A	Government	Planned
6	Kombolcha	1,123	376 km N. East to A.A	Ethio-Eshet (Israeli Co.) (PPP)	Planned
7	Dire Dawa	1,051	515 km East to A.A	Government	Planned
8	Hawasa	1,000	275 km South to A.A	Government	Planned
9	Bahir Dar	1,000	563 km to A.A	N.A.	Planned
10	Gonder	1,000	738 km to A.A	N.A.	Planned
11	Mekele	1,000	783 km to A.A	N.A.	Planned
12	Jimma	1,000	346 km to A.A	N.A.	Planned

Source: Embassy of the Federal Democratic Republic of Ethiopia

**Addis Ababa (A.A) is the capital city of Ethiopia.*

Note: The lease price is USD 1/m2/6 months for 5 years and for the next 5 years USD 1.25. This refers only to Bole Lemi Industry zone that is being in progress of construction and where leasing to investors has already been underway for manufacturing of export targeted products in areas like textile and leather.

Several roads & highways expansion projects are underway

As per the National Bank of Ethiopia, in FY13 the total road network of Ethiopia reached 85,966 km of which 25,756 km is National, 32,582 km is rural road network and 27,628 are districts road. The national roads showed a growth of about 5% while the rural road showed a growth of 3.3%. There was a huge growth in the district road development which increased from 6,983 km to 27,628 km showing a growth of about 295%. The high growth was achieved due to government's plan to connect each kebele, the lowest level of elected administration, to the main road in line with woreda (district) road program during growth and transformation period.

Growth of road network

Year	Road Length* (Km)	Growth (%)
FY06	39,477	6.6
FY07	42,429	7.5
FY08	44,359	4.5
FY09	46,812	5.5
FY10	48,793	4.2
FY11	53,997	10.7
FY12	63,083	16.8
FY13	85,966	36.2

Source: National Bank of Ethiopia

**District road length is not included till FY11*

At the end of FY13 the road density was 78.2 km per 1,000 sq.km which grew form 57.3 km previous year. Projects have been initiated which are financed by international organisations and government to develop road network linking Addis Ababa to Jimma, Awassa, Adigrat and Djibouti.

Why invest in this sector?

- The government's plans for improving road linkages within the country. Private players are also being welcomed for investment in various forms like construction work or export of construction machinery, chemicals, and building materials as well as consultancy and supervision services.

Low telecom connections with huge population base offer favourable opportunity for investment

Ethio Telecom, promoted by the government of Ethiopia, is the sole provider of telecommunication services in the country. The numbers of fixed line subscribers are expected to increase from 1 mn in FY10 to 3.05 mn at the end of FY15. During the same period, mobile phone subscribers are expected to increase from 6.52 mn to 40 mn while the numbers of internet users are expected to grow from 187,000 to 3.69 mn. As per the Ethiopian Investment Commission, as on FY13 the number of people using mobile services has reached over 23 mn showing 37.7 % growth as compared to last year. The fixed line subscriber's base has shown a slight decrease of 1.8 % reaching the level of 790,168 while the internet subscriber's base increased from 221,542 to 4.4 mn within a year.

Why to invest in this sector?

- As the number of telecom connections in Ethiopia is still low considering a population base of about 90 mn, it provides huge opportunities for investment. Further, as investment in this sector is allowed only in the form of joint venture with the government, private players can collaborate with the government and tap the market.

Education sector of Ethiopia's growing economy offers potential for international investment

Education of people is an integral part for any countries development and growth. In Ethiopia the education sector has been improving in both quality and coverage. As per the Ethiopian Investment Commission in FY13 primary education enrolment grew by 3% and has reached a level of 17.5 mn. At present 30,534 primary schools are present in the country showing a growth of 3.6%. The secondary school segment has also show a development of 7.6% in FY13 with 1,812 schools as compared to previous year.

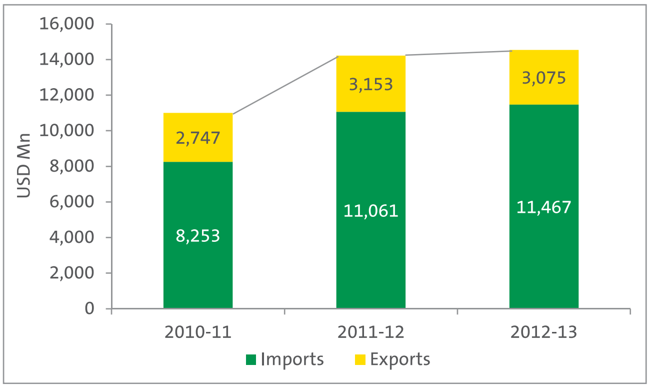
Why invest in this sector?

- With the government's thrust on improving the level and quality of education and improving the skill-sets of the people, private investors can invest in the areas of setting up educational institutions, training centres and research institutes.

TRADE & INVESTMENT

Ethiopia has always been a net importer of goods and services. However, the gap between imports and exports has been widening since around 2000. As per the World Bank, the trade deficit has consistently hovered around 16-22% of Ethiopia's GDP. This is directly related to the country's need for capital equipment for construction and industry, which is generally the norm in any economy during a phase of rapid modernisation.

Chart 3: Trend in Foreign Trade



Source: NBE Annual Reports

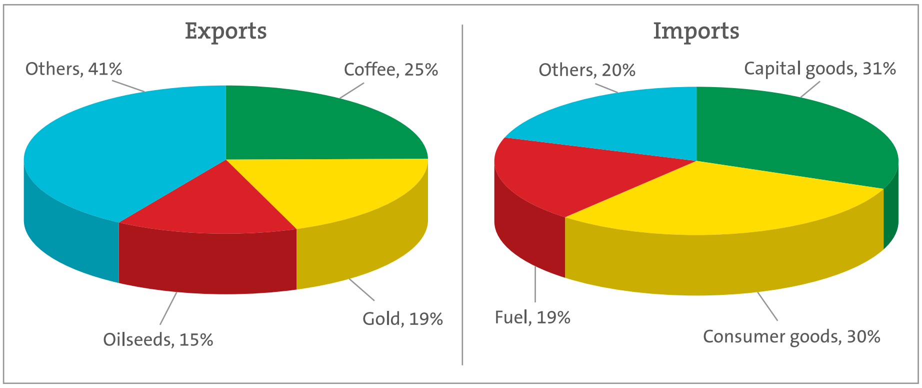
Coffee and gold are major export items; capital goods are major import items

As per the World Bank's 3rd Ethiopia Economic Update Report – June 2014, Ethiopia's goods exports have grown at an average annual growth rate of about 20%, resulting in a doubling of exports every four years since FY02. Consequently, Ethiopia features among the fastest-growing developing countries, not just in Africa but globally. The handsome growth rate can be attributed to a surge in the price of Ethiopia's major export commodities including coffee and gold.

As per the data furnished by the NBE, Ethiopia's exports in FY13 stood at USD 3.1 bn. As per the data furnished by the Ethiopian Investment Commission, coffee garnered exports worth USD 745.1 mn in FY13. Gold earned USD 584.4 mn. Oil seeds (USD 437.1 mn), flowers (USD 197 mn) pulses (USD 232.5 mn), live animals (USD 160 mn), and leather and leather products (USD 120.6 mn) are other major items of export.

On the other hand, Ethiopia's imports in FY13 stood at USD 11.5 bn. This reflected a 3.7% rise vis-à-vis the preceding year. The major constituents of the country's imports bill are capital good, consumer goods, fuel, semi-finished goods and raw materials.

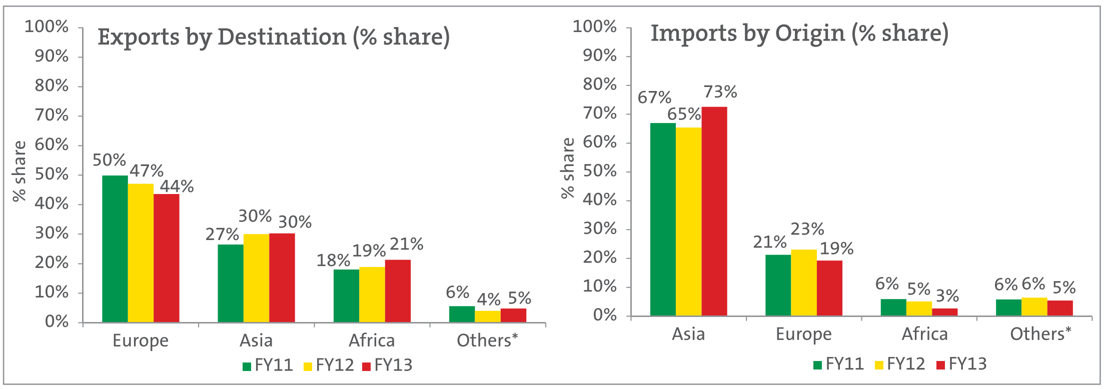
Chart 4: Composition of Exports & Imports in FY13 (% share)



Source: NBE Annual Report 2012-13

The country's major export destinations are Europe (more than 40%) with Switzerland, Germany and the Netherlands leading, Asia (30.3%) with China being the largest export market , and Africa (about 21.3%), of electric materials, clothing, textiles and rubber products. Petroleum products were the major imports from Saudi Arabia, alone accounting for 73.3% of Ethiopia's total petroleum import bill in FY13.

Chart 5: Exports by Destination & Imports by Origin (% share)



Source: NBE Annual Reports

Note: Others - America & Oceania*

which major export destinations are Somalia, Sudan and Djibouti.

About 72.6% of the country's total imports in FY13 originated from Asia. The three top suppliers among Asian countries were China, Saudi Arabia and India, which accounted for 31.3%, 14.3% and 12.7% respectively of the total import bills. The major imports from China included machinery & aircraft materials, metal & metal manufacturing, road motor vehicles,

Pharmaceutical products constitute 16.1% of India's exports to Ethiopia

India's exports to Ethiopia in FY14 amounted to USD 816.9 mn. The major constituents of this exports list include pharmaceutical products, (16.1% of total exports), iron and steel (14.4%), and nuclear reactors, boilers, machinery, mechanical appliances, and parts thereof (10.6%). On the other hand, India's imports from Ethiopia in

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

FY14 stood at USD 28.4 mn. Almost 50% of this list is composed of edible vegetables, roots and tubers. Raw hides, skins and leather account for another 23.5%. Oilseeds, coffee, spices and ores are other major items India imports from Ethiopia.

In comparison to the trade relations with the African continent, India's bilateral trade with Ethiopia is currently very nominal. India's bilateral trade with Ethiopia in FY14 accounted for a minuscule 1.2% of the total trade with the African continent. This proved to be nominally better In comparison to 2009-10 where the India's bilateral trade with Ethiopia stood at merely 0.6%.

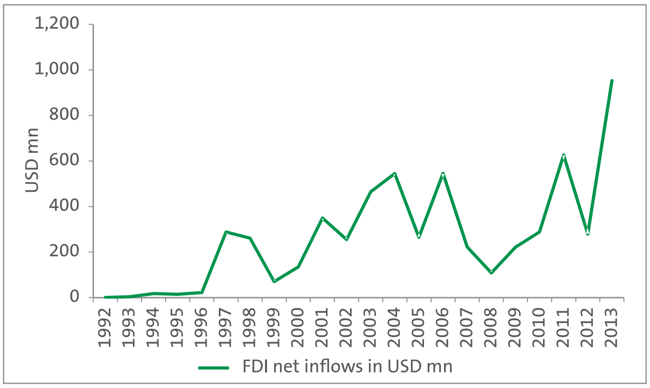
India holds the second largest share of FDI in Ethiopia

Ethiopia was able to make considerable progress in economic and social development since 1992. This was largely due to the implementation of favourable policies and strategies like the Rural Development Policy and Strategy (RDPS), the Industrial Development Strategy (IDS), among others. The RDPS stresses on the belief that agriculture-led development can help expedite overall economic growth and can lay a solid foundation for industrial development. On the other hand, the IDS focuses on export manufacturing, with priority given to textile and garments, leather & leather products, agro-processing, and small and micro-enterprises (SMEs).

Over the years, the investment environment in Ethiopia has been increasingly relaxed to make it more and more investment-friendly. Accordingly, the inflow of foreign direct investment (FDI) in the country shows a rising trend in the past two decades. Data furnished by the World Bank shows that the net inflows of FDI (new investment inflows less disinvestment, in current USD terms) rose from a mere USD 0.2 mn in 1992 to USD 953 mn by 2013, reflecting a CAGR of a whopping 49.7% over the said period.

As per the Ethiopian Investment Guide 2014 prepared by the Ethiopian Investment Commission, FDI accounted for close to 16% of the

Chart 6: FDI inflows in Ethiopia in USD million



Source: UNCTAD

total investment projects licensed between 1992 and 2012. Floriculture, horticulture, textile, and leather are the sectors that have attracted the most FDI.

As of July 2013, India was the second largest contributor to FDI in Ethiopia, after Saudi Arabia, with approved investments running to the tune of close to USD 5 bn. Approximately 40% of this investment was in the field of commercial agriculture.

Conditions/Restrictions on Investment

With respect to investment, there are certain sectors that are reserved exclusively for the government, while some are open for investment only for domestic investors or Ethiopian nationals like banking, insurance, broadcasting, etc.

Some areas are such wherein investors can participate only in joint venture with the government, like production of arms and ammunition and telecommunication services.

On the other hand, there are certain sectors that are open for investment by foreign investors. These include sectors within manufacturing, agriculture, information & communications technology (ICT), generation, transmission and supply of electrical energy, hotel & tourism, construction, real estate, education, health and publishing, among others. Please refer to Annexure 1 for conditions/restrictions with respect to investment in Ethiopia.

There are certain areas that have been made eligible for exemptions in terms of customs duty, so as to encourage investment. As per the Ethiopian Investment Commission, as of November 2014, Ethiopia had signed Bilateral Investment Promotion and Protection Treaties with 30 countries and double taxation avoidance treaties with 18 countries. Certain areas of investment have been made eligible for exemption of income tax, so as to promote the industries. Please refer to Annexure 2 for investments eligible for exemption of income tax and customs duty.

Foreign investors are required to secure an investment permit from the EIC and/or relevant government bodies. Also, investors are required to allocate minimum capital of USD 200,000 for a wholly foreign owned single investment project, USD 150,000 for a joint investment with a domestic investor, USD 100,000 for a wholly-owned technical consultancy, and USD 50,000 for a joint investment in a technical consultancy.

Support services for FDI

In order to ease the process for enhancing FDI, the government has set up one-stop shop services. These include setting up of 28 outlets to facilitate licensing and registration services in a relatively short time frame, for approval of duty free import of capital goods for manufacturing investment ventures, complaint redressal by executing officials, and even entertainment of services beyond the juridical capacity of the EIC by the Investment Board.

Apart from this, it also facilitates the execution of investors' requests for land required for investment projects, including execution of investors' requests for residence permits, execution of investors' requests for approval of environmental impact assessment studies conducted on their investment projects, execution of investors' requests to acquire water, power and telecom services, and provision of other pre and post approval services.

Institutional Support for Investment Activities is provided by the following bodies:-

- Ethiopian Investment Commission (EIC)
- Ministry of Industry through:
  - Ethiopian Textile Industry Development Institute (TIDI)
  - Ethiopian Leather Industry Development Institute (LIDI)
  - Metal Industry Development Institute (MIDI); and
  - Food and Pharmaceutical Industry Dev. Institute (PIDI), etc.
- Ministry of Foreign Affairs
- Ministry of Agriculture, through:
  - Ethiopian Horticulture Development Agency
  - Agricultural Investment Land Administration Agency

FINANCIAL SECTOR

Ethiopia's financial system is largely bank-centric. The National Bank of Ethiopia (NBE) is the central bank, while commercial banking functions are performed by the state-owned Central Bank of Ethiopia (CBE) and other private banks. Over the years, the number of privately-owned financial institutions and their share of total assets have reflected a rising trend. As of today, there are 19 banks operating, with three of them being government-owned. The commercial banks offer services like savings and current accounts (also known as checking accounts), short-term loans, foreign-exchange transactions, and mail and cable money transfer services. Apart from this, they also engage in equity investments and provide guarantees, etc.

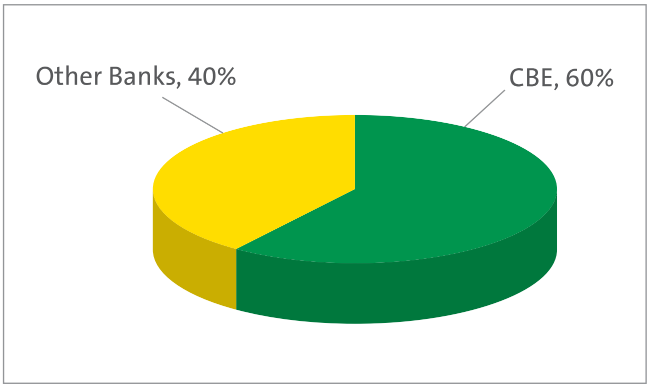
The NBE's role is to regulate the supply, availability and cost of money and credit in the Ethiopian economy. Their core responsibilities include

- Managing and administering international reserves,
- Licensing and supervising banks
- Holding reserves of commercial banks and lending to them
- Supervising loans of commercial banks and regulating interest rates,
- Issuing paper money and coins, and fixing and controlling foreign exchange rates.
- Acting as an intermediary on behalf of the Ethiopian government.
- Setting limits on gold and foreign exchange assets used in foreign exchange deals
- Setting limits on the net foreign exchange position
- Setting limits on the terms and amount of external indebtedness of banks and other financial institutions,
- Making short and long-term refinancing facilities available to banks and other financial institutions.

The country has two specialised state-owned banks. The Development Bank of Ethiopia (DBE) extends short, medium and long term loans to viable development projects, largely pertaining to the industrial and agricultural sectors. The Construction and Business Bank (CBB) provides long term loans towards the construction of plants, production of housing construction materials, construction of private schools, clinics, hospitals and real estate development.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

Chart 7: Share in total banking business (deposits & advances) in Ethiopia



Source: African Development Bank (AFDB)
Note: The figures are an approximation

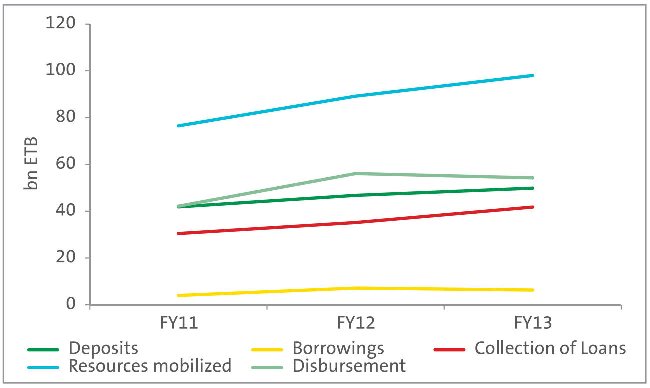
Bank penetration and resource mobilization sees upswing

As per the Annual Report 2012-13 of the NBE, the number of branches of all banks in Ethiopia increased to 1,724 in FY13 from 1,289 in the preceding year. Consequently, the number of bank branches per 100,000 people in the country improved from 1.6 to 2 in FY13.

The Annual Report 2012-13 of the NBE shows that the total resource mobilized by the Ethiopian banking system in FY13 by way of deposits, loan recoveries and new borrowings increased by 9.9% to ETB 98 bn. About 63% of this was mobilized by public sector banks. Backed by branch expansion activity; the outstanding value of deposits of Ethiopian banks in FY13 jumped by 26.6% to ETB 237.1 bn. The rise is largely attributed to a 26-29% rise in the outstanding value of demand and saving deposits. Raising funds through borrowing was not a major source of resource mobilization in FY13, with the amount of new borrowings reflecting a 12.5% decrease during the year. On the other hand, loan collection by the banking system stood at ETB 41.8 bn, translating into an 18.8% rise vis-à-vis FY12.

Ethiopian banks disbursed ETB 54.3 bn to various economic sectors in FY13, which translates into a 3.3% decrease in fresh loan disbursements. Of the total new loans disbursed, close to 62% was provided by public

Chart 8: Resource mobilization and disbursement activities of Ethiopian banks



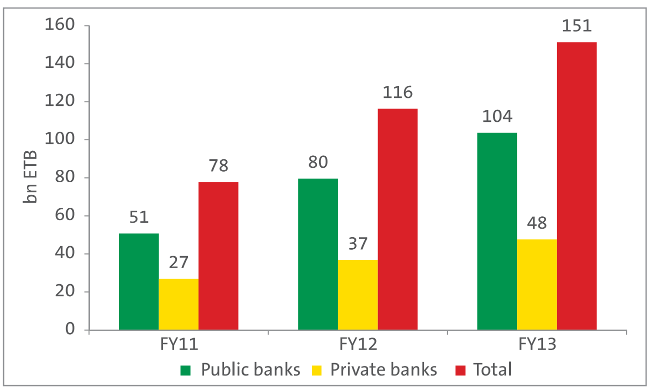
Source: NBE's Annual Report 2012-13

banks. The ratio of private banks' new loan disbursements to their total outstanding deposits at the end of FY13 stood at 27.4%, while for public banks it was 20.7%.

Production sector slowly gaining prominence for economic development

With respect to sectoral allocation of loans, 35.6% was allocated to industries, followed by agriculture (17.9%) and domestic trade (15.3%). The share of the new loan disbursement to the production sector (agriculture, industry and housing & construction) rose from 63.8% to 65.1% in FY13, reflecting a shift from trade and other short term loans towards the production sector.

Chart9: Outstanding credit of Ethiopian banks



Source: NBE's Annual Report 2012-13

Data furnished by the NBE shows that the total outstanding credit of Ethiopian banks rose by 30.1% to ETB 151.3 bn at the end of June 2013. Sectorial distribution of outstanding loans indicated that credit to industry accounted for 32.2%, followed by international trade (18.2%) and agriculture (11%). Outstanding claims on the private sector (including co-operatives) stood at ETB 94.8 bn, representing 62.7% of the total outstanding value.

Ethiopia's banking system is adequately capitalized

The banking system is expanding with a robust growth in deposits, and these deposits in-turn have been allocated towards development activities. As per the IMF Country Report on Ethiopia, October 2014, around 80% of the bank financing was channelled towards infrastructure investments, industry, international trade, and housing & construction.

Banks are well-capitalized and profitable. The system-wide capital adequacy ratio stood at a comfortable 17.5% as on 31st March 2014, well above the required 8% threshold. Return on assets and return on equity were also decent, at 3.1% and 44.6%, respectively. The high level of profitability can partly be attributed to limited competition in the banking sector in Ethiopia. Banks' non-performing assets (NPAs) as at the end of March 2014 stood at less than 3% of banks' total lending.

Private players dominate the insurance sector

Ethiopia has 15 insurance companies, of which one is government-owned. As per the Annual Report 2012-13 of NBE, the number of branches of insurance

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

companies reached 275 following the opening of 32 additional branches during the year. In terms of placement, 53.8% of insurance company branches were located in Addis Ababa, reflecting a high concentration of the business in the capital city. The total capital of insurance companies as at the year ended June 2013 stood at ETB 1.5 bn. The lone public-sector insurance company alone accounted for 25.3% of the total capital of insurance companies.

Microfinance institutions show healthy growth; yet penetration level is low

As at the end of FY13, there were 31 microfinance institutions (MFIs) operating in Ethiopia. In FY13, their total capital and total assets increased by 20.8% and 3% to ETB 4.5 bn and ETB 17.7 bn, respectively. Deposit mobilization of MFIs during the year rose handsomely, increasing by 39.6% to ETB 7.6 bn. Their credit provision capabilities also rose by a sharp 37.6% indicating their expanded outreach.

The four largest MFI in the country accounted for 75.5% of the total capital, 83.4% of the savings, 81.9% of the credit and 80.9% of the total assets of all MFIs taken together at the end of FY13, reflecting low levels of competition in the industry.

Ethiopia's microfinance sector is relatively well organised, and is critical for financial inclusion. It caters to rural and low-income groups and to small and medium enterprises. It is also a major source of finance to farmers. Nevertheless, microfinance institutions still cater to only around 3 million Ethiopians, representing merely around 4% of the country's unbanked population. Microfinance institutions, with the support of NGOs and other stakeholders, are working at various levels to provide financial education and create financial awareness amongst poor households.

Corporate bond market is a critical element of the financial system

Ethiopia is the only country featuring among the world's 15 most populated countries, that does not have a stock market. However, it has a functional treasury bill market. In fact, Ethiopia's treasury bill market is the only regular market where securities are transacted on a weekly basis. There is no secondary market for the security. However, government bonds are occasionally issued to finance government expenditure and/or to absorb excess liquidity in the banking system. As per the NBE's Annual Report for 2012-13, non-banking institutions accounted for 86.8% of the total outstanding treasury bills in FY13.

On April 4, 2011, NBE introduced the NBE bill market, to mobilize resources from private banks for financing priority sectors.

In the recent years, following the strong growth in economic activities and real income, there was a strong demand for corporate bonds. Consequently, corporate bond holdings of the CBE increased to ETB 79.5 bn in FY13 from ETB 61.8 bn a year ago. The largest issuer of such bonds is the Ethiopian Electric Power Corporation (EEPCO) which issued 81.9% corporate bonds as on the year ended June 2013. The country's credit information systems and collateral & bankruptcy laws have played an important role in facilitating credit. The credit information systems facilitate the lenders' rights to view potential borrower's financial history, so as to help them assess risk. Aided by sound collateral laws, businesses are able to use their assets, especially movable property, as security to raise finance.

As per the International Bank for Reconstruction and Development/ World Bank's 'Ease of Doing Business 2015 Report' on Ethiopia, globally, the country stands at 165 in the ranking of 189 economies in terms of the ease of getting credit. Currently, Ethiopia lags behind other sub-Saharan African (SSA) countries in terms of financial access. Foreign investment in the banking and insurance sectors are currently not allowed. However, the growth in the economy and rising financial inclusion has led to significant developments.

In February 2010, Ethiopia was among 8 countries that were blacklisted by the Financial Action Task Force (FATF) for strategic deficiencies with respect to co-operation in countering money-laundering and terrorism financing. Over time, Ethiopia significantly upgraded its anti-money laundering (AML) system and has taken huge leaps in combating the financing of terrorism (CFT) regime, and as a result, was excluded from the backlist in October 2014.

In July 2014, the Ethiopian government sought the Indian banking sector's engagement in the country's financial sector to cater to the rising demand for finance. Other financial sectors also received a boost. During the same year, the National Bank of Ethiopia (NBE) allowed local and foreign private companies to participate in the capital goods leasing business. These initiatives augur well for the finance sector in Ethiopia.

COMPETITIVE BUSINESS LANDSCAPE OF ETHIOPIA

The World Bank's Doing Business 2015 data shows Ethiopia to be ranked 132nd out of 189 countries in the World, in terms of ease of doing business. Interestingly, it stands ahead of India (ranked 142nd) in this respect. Some other countries that Ethiopia ranks ahead of are Kenya, Nigeria, Bangladesh and Sudan, among others. Ethiopia ranks 28th in the world when it comes to dealing with construction permits. Among 47 Sub-Saharan African countries, Ethiopia ranks 14th in terms of ease of doing business. There are certain aspects in which Ethiopia ranks among the top 10 countries in the region - dealing with construction permits, resolving insolvency, enforcing contracts, and getting electricity.

The table below shows the rankings for the top 15 countries from among 47 countries in the sub-Saharan African region:-

Ease of Doing Business Rankings 2015: Top 15 Sub-Saharan African Countries

Economy	Mauritius	South Africa	Rwanda	Ghana	Botswana	Seychelles	Namibia	Swaziland	Zambia	Cabo Verde	Mozambique	Lesotho	Tanzania	Ethiopia	Kenya
Ease of Doing Business Rank	28	43	46	70	74	85	88	110	111	122	127	128	131	132	136
Starting a Business	3	7	15	12	26	18	28	25	8	9	13	14	17	33	24
Dealing with Construction Permits	26	4	5	23	17	7	1	8	21	25	16	36	41	2	19
Getting Electricity	1	27	4	6	11	16	5	22	14	18	29	13	9	8	23
Registering Property	14	13	1	2	5	9	41	23	31	6	15	10	20	16	25
Getting Credit	3	5	1	3	7	40	7	7	2	10	18	32	32	38	15
Protecting Minority Investors	2	1	18	3	14	3	8	16	7	43	11	14	30	38	20
Paying Taxes	1	2	3	13	6	4	10	7	9	11	19	17	26	18	14
Trading Across Borders	1	5	33	11	26	2	17	13	41	6	14	22	18	35	25
Enforcing Contracts	2	4	9	16	8	18	7	41	17	1	38	20	3	6	25
Resolving Insolvency	2	1	13	35	3	4	7	6	10	39	16	22	15	5	28

Source: The International Bank for Reconstruction and Development/World Bank – Doing Business 2015

As per the World Economic Forum's Global Competitiveness Report, Ethiopia ranks 118th out of 144 countries on the Global Competitiveness Index 2014-15. This reflects an improvement from the previous year's rank of 127. An improvement in its labour market, largely in terms of women's participation in the labour force, and flexibility in wage determination, among others, helped lift the country's rank by nine places. Global Competitiveness is measured on the basis of 12 pillars (aspects).

Selected indicators of GCI Rankings

Major Indicators	Rank		
Government and Infrastructure	**2012-13**	**2013-14**	**2014-15**
Transparency of government policymaking	129	126	125
Quality of overall infrastructure	100	112	115
Quality of electricity supply	112	115	118
Country credit rating	135	140	135
Quality of the education system	85	108	74
Goods market efficiency			
Intensity of local competition	139	133	113
Effectiveness of anti-monopoly policy	129	131	91
Effect of taxation on incentives to invest	N.A	111	111
No. procedures to start a business	29	104	106
No. days to start a business	43	70	75
Prevalence of foreign ownership	135	134	132
Business impact of rules on FDI	114	105	94
Labor market efficiency			
Flexibility of wage determination	93	102	74
Hiring and firing practices	81	99	78
Effect of taxation on incentives to work	N.A	113	106
Country capacity to retain talent	N.A	113	88
Financial market development			
Availability of financial services	137	133	117
Affordability of financial services	130	125	112
Financing through local equity market	85	95	98
Ease of access to loans	133	124	123
Soundness of banks	105	98	102
Business sophistication			
Local supplier quantity	126	124	116
Local supplier quality	136	131	116
Nature of competitive advantage	137	136	140
Production process sophistication	137	136	126
Extent of marketing	133	138	132
Innovation			
Capacity for innovation	133	141	134
Quality of scientific research institutions	99	108	106
Gov't procurement of advanced tech products	59	61	52
Availability of scientists and engineers	132	136	117

Source: World Economic Forum – Global Competitiveness Report 2014-15

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

STARTING A BUSINESS IN ETHIOPIA

This section deals with the steps involved in starting a business in Ethiopia. Foreign investors can

a) either set up a new company in Ethiopia, or

b) set up a branch of an existing company, or

c) set up an associated company or a subsidiary of a company already incorporated in Ethiopia. They might also seek to expand or upgrade an existing enterprise.

Each of these options entails certain documentation work, which are as listed below:-

Commercial Registration of a Company

A foreign investor seeking to set up a new establishment in Ethiopia needs to submit an application form for the commercial registration of the company, duly signed by an agent of the company. This form should be accompanied by the following:-

- Clearance from the EIC with regard to the name of the entity
- Photocopy of the aforementioned agent's Power of Attorney
- Copy of the entity's Memorandum & Articles of Association
- Copy of shareholders' valid passport or identity card or copy of a certificate showing evidence of domestic investor status
- Tax Identification Number (TIN)
- Authenticated office lease agreement or title deed
- In case of a non-share entity, a bank statement showing that the company's capital to be contributed in cash is deposited in a bank account, and other appropriate documents related to contribution in kind; and
- In case of an entity with shares, a bank statement showing that at least one-fourths of the par value of the subscribed shares of the company has been deposited in a bank account.

Commercial Registration of an existing company's branch within Ethiopia

Setting up and registering an overseas branch of an existing business in Ethiopia requires the applicant to submit an application form with the following documents:-

- Legal certificate of incorporation in the country of origin
- Notarized document of the Memorandum and Articles of Association
- A statement on the part of the entity, stating the organisation's intent to invest in Ethiopia, along with the

amount of capital allocated for the purpose

- Photocopy of the Power of Attorney given to the company's appointed agent in Ethiopia, along with two of his/her passport-sized photographs
- Tax Identification Number (TIN)
- An authenticated office lease agreement or title deed

The EIC will issue an investment permit and company registration certificate to the applicant within 3 hours of submission of these authenticated documents along with the properly filled investment application form, provided all documents are in order and proper in all respects.

Investment by a Business Organisation Incorporated in Ethiopia

In case foreign investment is sought to be made in terms of setting up a new associate company or subsidiary by a business organisation that is incorporated in Ethiopia, the applicant is required to submit an application form, duly signed by the company's agent, accompanied with the following:-

- Photocopy of agent's Power of Attorney
- Clearance issued by the EIC with respect to the name of the new company
- Photocopy of the Memorandum & Articles of Association
- Copy of each shareholder's valid passport or identity card or photocopy of the certificate to prove domestic investor status; and
- A photocopy of the investing company's Memorandum & Articles of Association, or similar documents of the parent company, the legal certificate of incorporation in Ethiopia, and an authenticated resolution stating the organisation's intent to invest in Ethiopia.

Expansion or Upgradation of an Existing Enterprise

A foreign investor applicant seeking to expand or upgrade an existing enterprise needs to furnish an application form, duly signed by an agent, along with the following documents:-

- Photocopy of agent's Power of Attorney
- Where the applicant is a sole proprietor, a photocopy of his/her valid passport or identity card or photocopy of the certificate to prove domestic investor status, and two passport size photographs
- Where the applicant is a business company, a photocopy of its Memorandum & Articles of Association, and two passport size photographs of its General Manager
- A photocopy of each shareholder's valid passport or identity card or photocopy of the certificate to prove domestic investor status
- In case a business organisation is an investor in the company, a photocopy of the investing company's Memorandum & Articles of Association, or similar documents of the parent company, the legal certificate of incorporation in Ethiopia, and an authenticated resolution stating the organisation's intent to invest in Ethiopia.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

- A photocopy of a valid business license of the existing enterprise; and
- A photocopy of the project feasibility study.

The Main Department for Immigration and Nationality Affairs issues a residence permit to foreign investors, upon the submission of the investment permit. Foreign investors who are shareholders of a company or a branch company, and an expatriate staff who has a work permit are also entitled to receive a residence permit.

Allocation of land

In Ethiopia, land is public property, which means that all land is owned by the government and individuals, companies and other organisations can only seek the right to use land. Land can be taken on rent or lease. There two broad classifications of land for this purpose – rural and urban land.

Rural land is leased out largely for agricultural purposes. The rentals thereon are generally low. Since the government is committed towards encouraging investment in agriculture, the Ministry of Agriculture has been given the responsibility to provide technical support to private investors, which can be in terms of providing land admeasuring above 5,000 hectares, providing information, technical support, and other public services.

Urban land is in turn divided into two categories – land for industrial use and land for other activities. With respect to industrial land, a number of industrial zones, with necessary infrastructure facilities like roads, power, water, telecommunication, etc. have been set up in major cities and towns to support rapid industrialization. Such industrial land is leased out at fixed prices. However, land for export-oriented industries is generally made available at concessional rates, as an incentive for exports. The mandate to facilitate allocation of land for FDI projects vests with the EIC.

With respect to urban land for uses other than industrial use, land is made available on an auction basis. The auction prices depend on demand for such land.

Lease and rental prices of land, whether rural or urban, also depend on the location, type of investment and class of land. Land cannot be mortgaged or sold. However, the lease or rental value of land and the fixed assets thereon may be mortgaged or transferred to a third party.

REGULATORY FRAMEWORK

The Constitution of Ethiopia, which is the supreme law of the Federal Democratic Republic of Ethiopia (FDRE), came into force in August 1995. It was drawn up by the Constituent Assembly elected in June 1995. In Ethiopia, the Constitution is the supreme law, overriding all other legislation in the country. Apart from the constitution, Ethiopia's legal system depends on civil codes, penal codes, civil procedure codes, a penal procedure, and commercial and maritime codes.

All Federal laws are published in an official gazette called 'Negarit Gazeta'. For the purpose of administering justice, courts refer to internationally accepted principles of justice and the laws of the FDRE. Practice of law is a right exclusively reserved for Ethiopians. However, foreign nationals are allowed to appear in courts as witnesses and to communicate through a court-appointed translator for this purpose.

The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia. Article 40 of the Constitution ensures the right of every citizen to own private property and the right to acquire, use and dispose of such property.

The Investment Proclamation (2002) accords foreign investors the right to own immovable property for investment. It guarantees investors against measures of expropriation or nationalization. In order to safeguard the interests of investors in the event of a private property that needs to be expropriated or nationalized in public interest, the advance payment of appropriate compensation corresponding with the prevailing market rate is specified.

Ethiopia is a member of the World Intellectual Property Organisation (WIPO) which aims to promote innovation and creativity for the economic, social and cultural development of all countries, through a balanced and effective international intellectual property system. It is also a part of the Multilateral Investment Guarantee Agency (MIGA), which strives to find amicable solutions to foreign investment disputes and helps governments apply appropriate principles of international law. MIGA acts as a neutral third-party facilitator that brings governments and foreign investors together to settle disputes amicably, without the need for formal arbitration or litigation.

In pursuit of a wise investment destination

Ethiopia has bilateral investment treaties and double taxation treaties with a number of countries.

Institutional Framework

The Investment Proclamation of 2002, as amended in 2003, and the Regulations on Investment Incentives and Investment Areas Reserved for Domestic Investors of 2003, as amended in 2008, constitutes the main legal framework for both foreign and domestic investment in Ethiopia.

The Proclamation was enacted with a view to encourage and promote the role of the private sector in the economic development of the country, to widen the scope of participation of foreign investors in the development of economy, and to create a transparent and efficient system of investment administration.

The Proclamation and the Regulation mainly provides for the following:-

- capital requirements for foreign investors
- areas of investment reserved for the government or joint investment with the government, reserved for domestic investors and open for foreign investors; and
- areas of investment eligible for investment incentives as well as the type and extent of entitlement to such incentives

The Ethiopian Investment Commission (EIC) is an autonomous government institution accountable to the country's Investment Board, which is chaired by the Prime Minister. A Commissioner, who is also a member of the Board, heads the EIC. The EIC is structured to promote FDI and to improve the services it renders to investors.

The major activities of the EIC and the one-stop shop services it renders to foreign investors are as follows:-

- Promoting investment opportunities and conditions in the country to foreign and domestic investors
- Issuing investment permits, work permits, trade registration certificates and business licenses
- Notarizing Memorandum and Articles of Association, and amendments
- Issuing commercial registration certificates, and effecting renewal, amendment, replacement or cancellation thereof
- Issuing work permits, and effecting renewal, replacement, suspension or cancellation thereof
- Grading construction contractors
- Registering technology transfer agreements and export-oriented non-equity-based foreign enterprise collaborations with domestic investors
- Negotiating and, upon government approval, signing bilateral investment promotion and protection treaties with other countries
- Advising the Government on policy measures needed to create an attractive investment climate for investors
- Assisting investors in the acquisition of land, utilities, etc.
- Processing loan and residence permit applications

- Securing approvals of environmental impact assessment (EIA) studies for investment projects; and
- Issuance of tax identification numbers (TIN).

Human Resources

The first formal labour law was formed in Ethiopia in the year 1963 in form of “Labour Relations Proclamation No. 210/1963”. The labour law continued to undergo various changes until the labour proclamation No. 42/1993 was developed which had a more market oriented approach. Foreign investor need to obtain work permits for expatriate employees from the Ethiopian investment commission during the implementation phase of their projects. The wages are variable as per the size of enterprise and the type of the profession as well as the skill requirement for the job.

General features of the labour policy

- Working hours are 8 hours a day, 48 hours a week
- Over time only permissible 2 hours a day, 20 hours a month
- Minimum age of young workers is set at 14 years
- Minimum 14 days of paid leave to be provided
- Ethiopia has 12 public holidays as described by law
- Labour dispute are resolved through application of law, collective agreements, work rules and employment contracts.

Competitive advantage

- Ethiopia’s minimum wage is among the lowest in Africa, with only 5 countries - Burundi, Uganda, Egypt, Gambia and Malawi - having lower minimum wages
- Generally, private sector monthly salaries for university graduates range from USD 150 to USD 200, while construction sector monthly wages range from USD 60 for daily labourers to USD 300 for a foreman
- In the textile industry wages in Ethiopia are about a fifth of China’s and half of Vietnam’s.
- Average Ethiopian salaries in leather factories are USD 35 per month.

TAXATION

The Ethiopian tax regime has Direct and Indirect Taxes. The Direct Taxes are divided into five categories, namely personal income tax, rental tax, withholding tax, corporation tax and other taxes (including taxes on income from rent of patent and copyright, tax on income from lottery winnings, tax on income from shares in company, etc. Indirect taxes include Value Added Tax (VAT), customs duty, excise and turnover taxes.

Direct taxes

Direct taxes pertain to taxes levied on the income earned by both, individuals as well as businesses.

For the purpose of taxation, individuals include both residents as well as non-residents who are deemed to be residents by virtue of having spent certain duration of time within Ethiopia.

An individual foreigner, who lives in Ethiopia for more than 183 days in a period of twelve calendar months, whether continuously or intermittently, is regarded as being resident for the entire tax period, and his/her income is subject to tax as per rates prescribed in accordance with income tax rules. However, the following are excluded from the purview of taxable income:-

- Medical treatment;
- Transportation allowance;
- Hardship allowance;
- Reimbursement of travelling expenses incurred on duty;
- Per Diem and travelling expenses on joining and completion of employment, provided that such payments are made pursuant to specific provisions of the contract;
- Board members' and board secretaries' allowances; the income of persons employed for domestic duties;
- The contribution of the employer and the employee to the retirement or provident fund and all forms of benefits contributed by employers that do not exceed 15% of monthly salary; and
- Payments made to a person as compensation in relation to injuries suffered by that person or the death of another person.

Accordingly, individuals are taxed for income from employment, rental income, income from business profit, royalties, income for services rendered outside Ethiopia, income from games of chance, dividend income, interest income, capital gains on transfer of properties, agricultural activities and inheritances & donations. Please refer to the Annexure 3 for applicable tax rates.

With respect to tax on business income, 'business' or 'Trade' is defined to include any industrial, commercial, professional or vocational activity, or any other activity recognised as trade by the Commercial Code of Ethiopia, and which is carried out with the purpose of earning profit.

Taxable business income of companies is taxed at the rate of 30%. Other business taxpayers, with business income ranging from Ethiopian Birr (ETB) 1,801 to ETB 60,000 pay between 10 and 30%. Business income exceeding ETB 60,000 is taxed at 35%. For tax rates on business income, please refer to Annexure 3.

Indirect taxes

The Value Added Tax (VAT) system, which came into effect on July 4, 2002, replaced the old business tax system of commodity and service taxes including the sales tax and the withholding tax. The VAT rate is 15% of the value of every taxable transaction by a registered person and all imports of goods and services other than those exempted. Transactions that are otherwise taxable, but which shall not be taxed are export of goods or services to the extent provided in the regulations. The rendering of transportation or other services directly connected with international transport of goods or passengers as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights.

Excise Tax is payable on selected consumer goods and luxury goods, whether produced locally or imported. Apart from this, it is also imposed on products that are considered hazardous to health or responsible for social evils, as a prohibitory measure. Some of the items falling within the scope of excise tax are alcohol, tobacco, salt, fuel, television sets, cars, carpets and toys. Rates vary from 10% on receivers, garments and textiles of any type and fabrics to as high as 100% on perfumes, vehicles above 1,800 cc and alcoholic drinks. It is payable in addition to VAT. The timeframe for payment of excise tax for imported goods is the time of clearing the goods from the customs area, and for locally produced goods it is within 30 days from the date of production thereof.

Turnover Tax is an equalization tax imposed on persons not registered for value-added tax to fulfil their obligations, and also to enhance fairness in commercial relations and to complete the coverage of the tax system. Due to administrative feasibility considerations, the registration of persons under the value-added tax regime is restricted to those with annual transactions to the tune of more than ETB 500,000. The rate of turnover tax is 2% on goods sold locally and 10% on others.

All income from domestic or foreign sources is taxed whether it is obtained as remuneration, profit or gains, from employment, business activities or any activity which brings income to the beneficiary.

For depreciation allowance, assets are categorized into different classes. The categories and rates of depreciation are:

OVERSEASINFRASTRUCTUREALLIANCE buildinginfrastructure worldwide
D&B
INVEST IN ETHIOPIA
In pursuit of a wise investment destination

- Buildings and structures 5%
- Intangible assets 10%
- Computers, information systems, software products and data storage equipment 25%
- All other business assets including automobiles, buses and minibuses 20%

Every investor has a tax obligation and is required to obtain a tax payer identify caution number (TIN). An investor involved in taxable activity also has an obligation to register for VAT.

Export Tax is levied on raw and semi-processed hides and skins, and wet-blue cow hide, pickled sheep skins with wet-blue sheep and wet blue goat skins at flat rate of 150%.

Stamp duty is payable on a broad class of legal instruments, such as:

- On Memorandum & Articles of Association
- Upon first execution – ETB 350
- Upon any subsequent execution – ETB 100
- Contracts, agreements and memoranda – ETB 5
- Security deeds – 1% on the value of the deed
- Contract of employment initial stage – 1% of a month's salary
- Registration of title to property – 2% of the value

Customs duty is payable on imports by all persons and entities without duty-free privileges. A harmonised system of classification of goods exists. The rate of customs duty ranges from 0% to 35%.

The Common Market for East and South Africa (COMESA) is a free trade area with 20 member states, formed in 1994 to replace the former Preferential Trade Area (PTA) which had existed from the earlier days of 1981. The COMESA Agreement was initiated as a targeted preferential trade zone with the eventual aim of establishing a free trade area among member countries for it to develop into a customs union and eventually into a common market within Africa. Ethiopia is a non-FTA member of the COMESA, and applies a 10% reduction of the customs duties applicable on imports from COMESA members.

According to the Ethiopian legal system, any tax imposed is appealable. This gives any tax payer the Right to Appeal and to submit an appeal on a tax decision rendered by the Tax Authority.

Double Taxation Avoidance Agreement between India and Ethiopia

In May 2011, India signed a Double Taxation Avoidance Agreement (DTAA) with Ethiopia for the avoidance of double taxation and for the prevention of fiscal evasion with respect to taxes on income. The agreement provides that business profits will be taxable in the source state if the activities of an enterprise constitute a permanent establishment (for example, a branch, factory, etc.) in the source state. Profits of a construction, assembly or installation projects will be taxed in the source state if the project continues in that state for a period exceeding 183 days.

Further, the DTAA mentions that profits derived from the operation of ships or aircraft in international traffic shall be taxable in the country of residence of the said enterprise. Dividend, interest, royalties and fees for technical services income, however, will be taxed in both countries. Nevertheless, the maximum rate of tax to be charged in the country of source will not exceed 7.5% for dividend income and 10% for income in terms of interest, royalties and fees for technical services. Capital gains from the scale of shares will be taxable in the country of source.

Furthermore, the DTAA also incorporates provisions for effective exchange of information and assistance in collection of taxes between tax authorities of the two countries in line with internationally accepted standards, so as to ensure that the benefits of the Agreement are availed only by the genuine residents of the two countries. It seeks to provide tax stability to the residents of both countries, to facilitate mutual economic cooperation, as well as stimulate the flow of investment, technology and services between both countries.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

INVESTMENT INCENTIVES

Multi-lateral incentives to encourage private sector participation

The private sector investment in Ethiopia began as early as around 1900 during the reign of emperor Menelik II. However, later, under the rule of the socialist military government the private industries faced various challenges mainly due the policy framework being highly against the private sector. Later when the new government took over during the early 1990's the previous policies were deregulated and privatisation of public ownerships was announced. The government has continued to privatise various government owned entities many of which were nationalised during the military rule earlier.

After adopting the Five year growth and transformation plan, which aimed at making the Ethiopian economy more industry dependent, the investment in the private sector began to gain momentum. Currently the private sector is majorly engaged in the commercial and service sector.

At present, about 80% of the Ethiopian workforce is involved in agriculture and by utilising the high presence of skilled labour in this sector the government wants to expand the investment in the agribusiness. The policy framework developed for the same is also very supportive. The government agenda is to develop high value and large scale crops where ever possible

The government also intends to attract investors by providing various incentives in the priority export sector textiles/garments, leather, horticulture/floriculture and agro-processing. Private investment would be provided in the power sector in terms of engineering services in the areas of wind, solar, geothermal, biomass (municipal landfills, organic waste) as well as hydropower.

Ethiopia has also witnessed a positive growth in the segment of micro & small enterprise (MSE). As per the National Bank of Ethiopia, in FY13, more than 77,000 new MSEs have been opened which are providing employment to more than a million people.

Privatisation & Public Enterprise Supervising Agency (PPESA)

The Ethiopian government established an autonomous body with the task of privatising, guiding, supporting and controlling state owned enterprises to generate an environment of competitiveness and to increase profitability at the same time helping with the implementation of the country's growth and development strategy.

Some incentives provided by the government

- New investors involved in manufacturing, agro-processing activities, or the production of certain agricultural products and exporting at least 50% of their products or supplying at least 75% of their product to an exporter as production inputs are exempted from income tax for five years
- The Government of Ethiopia has established a special loan fund through the Development Bank of Ethiopia (DBE) and made available land at low lease rates for priority export areas such as floriculture, leather goods, textiles and garments, and agro-processing related products
- Investors are allowed to import duty free capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion of an existing enterprise
- The Ministry of Agriculture's (MOA) Agricultural Investment Support Directorate offers grace periods of up to seven years on land rents

Customs Duty

To encourage private investment and promote the inflow of foreign capital and technology, the Government of Ethiopia has granted the following customs duty incentives to both domestic and foreign investors. Eligible enterprises include new enterprises or companies engaged in expansion projects in sectors such as manufacturing, agriculture, agro-industries, generation, transmission and supply of power, information and communication technology development, tourism, construction contracting, education and training, star designated hotel, specialised restaurants, architectural and engineering consultancy works, technical testing and analysis, capital goods leasing and importation of LPG and bitumen. Mentioned below are some sops offered to such enterprises:-

- An exemption of 100% from the payment of import customs duties and other taxes levied on imports is granted to an investor to import all investment capital goods. These could include plant machinery and equipment, construction materials, as well as spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced locally in comparable quantity, quality and price
- An investor granted 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 buys capital goods or construction materials from local manufacturing industries shall be refunded the customs duty paid for raw materials or components used as inputs for the production of such goods

In pursuit of a wise investment destination

- 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

However, some investment areas such as hotels (other than star designated), whole sale, retail and import trade, maintenance service, etc. are not eligible for exemption from customs duty.

Income Tax

An investor who is involved in new manufacturing, agro-processing, production of agricultural products, generation, transmission and supply of power, and information communication technology development is entitled to certain income tax exemptions for certain number of years. The tenure of tax exemptions is longer if the investment is done in a location other than the capital city or a Special Economic Zone. Moreover, if the investment is done in smaller towns/rural areas, then the investor is entitled to an income tax deduction of 30% for three consecutive years, over and above the income exemption enjoyed in larger cities.

Investors expanding or upgrading their existing enterprises resulting in an increase in volume by at least 50% of attainable production, or additional service rendering capacity, or introducing a new production or service rendering line which is at least 100% of the existing enterprise are entitled to the aforementioned income tax exemption.

An investor's business involving exports of at least 60% of production or service output, or supply of the same as raw material to an exporter is eligible for exemption from payment of income tax for additional 2 years.

Non-Fiscal Incentives

Investors investing in the production of export oriented goods are allowed to import machinery and equipment necessary for their investment projects, through suppliers' credit.

Carrying Forward of Losses

Business enterprises suffering losses during the duration of income tax exemption are allowed to carry forward such losses even after the lapsing of such income tax exemption period, for a maximum of five years.

Export Incentives

Fiscal

With the exception of a few products, exports are not taxed.

Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export oriented goods. In accordance with the Proclamation No. 249/2001, three duty incentive schemes are available for exporters - Duty Draw-Back Scheme, Voucher Scheme and Bonded Factory and Manufacturing Warehouse Scheme. The duty drawback scheme offers investors exemption from customs duty and other taxes levied on imported and locally purchase raw materials used in the production of export goods. The voucher scheme involves a printed document called a 'voucher' which has monetary value and which is used in lieu of duties and taxes on imported raw materials. The Bonded Factory and Manufacturing Warehouse Scheme entitle duty free imports for those who have licenses to operate factories or warehouses used for importing export oriented raw materials.

Non-Fiscal

Exporters are allowed to retain and deposit upto 20% of their foreign exchange earnings in a bank account for future use, without any export price control being imposed thereon by the NBE.

Franco valuta import (wherein license is issued to import goods without need to use foreign exchange) of raw materials is allowed for enterprises engaged in export processing.

Exporters can benefit from the export credit guarantee scheme, which ensures that an exporter receives payment for goods shipped overseas in the eventuality of a debtor defaulting.

Remittance of Capital

Foreign investors are allowed to make the following remittances out of Ethiopia in terms of convertible foreign currency:-

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

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

CHALLENGES TO INVESTMENT IN ETHIOPIA

There are a few challenges that investment activity in Ethiopia could face. One of them is the existence of barriers to trade in terms of high tariffs. For instance, as per the information provided by the office of the United States Trade Representative, the average applied rate of import duty in Ethiopia stood as high as 17.3% in 2010. High tariffs are applied to protect certain local industries, including the textile and leather industries. Ad valorem duties can be as high as 35%. The levy of surtaxes (in the nature of a surcharge) also raises tax liabilities. Luxury items are subject to high taxes. The IMF states that trade barriers are more pronounced in Ethiopia than in other countries in the sub-Saharan African region. Ethiopia has not negotiated preferential trade arrangements with regional trading partners, thereby facing relatively higher tariffs in exports to nearby countries like Kenya, Uganda, and Tanzania. Agricultural imports into the country face higher barriers as compared to non-agricultural exports.

Certain non-tariff barriers also exist. The country has a history of banning exports of certain commodities, like cereals, cotton, raw and semi-processed hides and skins, etc. to shore up domestic supplies for local industries and to thereby promote exports of value-added products emanating therefrom. Apart from this, importers are required to apply for import permits, and to apply for letters of credit before orders can be placed. Certain restrictions exist on payments and transfers incidental to international transactions.

As per the US Department of State, sometimes, the NBE experiences low reserves of hard currency, which hinders foreign exchange transactions. Hence, businesses are required to apply for foreign exchange for imports a minimum of six to nine months in advance of their intended importing needs.

Tax rates in Ethiopia change very frequently. Hence, it is possible that an assessee is not familiar with the tax system; he/she might be working with redundant information and therefore might end up paying higher taxes, or pay lower taxes and the penalty that might arise.

Coverage of infrastructure, especially logistics, is also a major challenge in the country. As per the Annual Report 2012-13 of the National Bank of Ethiopia (NBE), the road density in the country stood at just over 78 km per 1000 sq km of area. Ethiopia is landlocked and relies on sea access from the port of Djibouti, which is one of the most expensive ports in the world.

Although labour is very cheap in Ethiopia, with just over 40% literacy in the country, lack of skilled labour is a challenge. The language barrier can also be a challenge for foreign investors.

RECENT DEVELOPMENTS

- Tapping sovereign bond market. Ethiopia has started taking steps for raising money to sustain and increase the high pace development in the country. The country has started tapping the sovereign bond market with an aim to raise USD 1 bn with a 10 year bond, while launching international road shows for the same
- Fitch gives Ethiopia's foreign and local currency Issuer Default Ratings a 'B' rating with 'Stable Outlook': In May 2014, Ethiopia received its first international credit rating, when the Fitch rating agency assigned the country a long term foreign and local currency Issuer Default Debt Rating (IDR) a rating of "B" with 'Stable Outlook'. This put the country at par with Kenya and Uganda. The key drivers for this rating were Ethiopia's impressive improvement over several years, the level of development, governance indicators, and comparison with regional peers, commodities prices, the commitment of government, and the growth in the agricultural, industry and services sectors. In November 2014, Fitch affirmed the same rating for the country. Fitch's outlook on Ethiopia's GDP growth prospects was also positive, with the agency expecting the country's real GDP to grow by 9% in 2014 and 8% in 2015. The rating agency reckoned that Ethiopia could sustain its growth over the medium-term with the help of its large, untapped resources, including large hydro-electric potential.
- Ethiopia expected to join WTO by 2015: Ethiopia is expected to join World Trade Organization (WTO), the decision is expected to be finalized by the third quarter of 2015. With WTO lowering the bar for worlds least developed countries to join the global trading hub, new members can now open lesser sectors, liberalize lesser types of transactions and only open up their markets as their economies develop
- Ethiopia, WB, ADB Sign USD 176 million loan: The Ethiopian government has signed a USD 176 mn loan and grant with world bank and the African Development Bank. The Ethiopian government is expected to expand the opening of projects such as Pastoral Livelihoods Resilience Project and One Water Supply, Sanitation and Hygiene Program (WASH) program
- Huge investment expected in the development of the power sector: USD 20 bn is expected to be invested by government of Ethiopia for developing the power sector. The country plans to launch 10-12 new power projects. The government is planning to develop an additional generation capacity of about 10,000 MW by 2020.

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

ANNEXURES

Annexure 1

Investment areas open for foreign investment

The following areas are open for foreign investors

1. Manufacturing
   - Food industry
   - Beverage industry
   - Textile and textile products industry
   - Leather and leather products industry
   - Wood products industry
   - Paper and paper products industry
   - Chemical and chemical products industry
   - Basic pharmaceutical products and pharmaceutical preparation industry
   - Rubber and plastic products industry
   - Other non-metallic mineral products industry
   - Basic metal industry
   - Fabrication metal products industry
   - Computer, electronic and optical products industry
   - Machinery and equipment industry
   - Integrated manufacturing with agriculture
   - Vehicles, trailers and semi-trailers industry
   - Manufacturing of office and household furniture
   - Manufacturing of other equipment's (jewellery and related articles, musical instruments, sports equipment's, games & toys and similar products)

2. Agriculture
   - Crop production
   - Animal production
   - Mixed (crop and animal) farming
   - Forestry

3. ICT

4. Generation, transmission and supply of electricity

5. Hotel and tourism
   - Star designated hotels/ including resort hotels/ motels, lodges and restaurants
   - Grade one tour operator

6. Grade one construction contracting (including water well drilling and drilling for mineral exploration)

7. Real estate development

8. Education and training
   - Secondary and higher education by construction of own building
   - Technical and vocational training

services including sports

9. Health

- Hospital service by construction of own building

10. Architecture and engineering works and related technical services, technical testing and analysis

11. Publishing

12. Import trade

- Import of LNG and bitumen

13. Export trade

- Export trade excluding raw coffee, chat, oil seed, pulses, precious minerals, natural forestry products, hides and skins brought from market and live sheep, goats, camels, equines and cattle not raised by investor

14. Whole sale trade

- Supply of petroleum and its by products as well as whole sale of own products

Areas reserved for domestic investors

1. Areas exclusively reserved for government

- Postal service expect courier service
- Transmission and supply of electricity through the international grid system
- Passenger air transport services using aircraft with capacity of more than 50 passengers

2. Areas reserved for joint-venture investment with the government:

- Production of weapons and ammunition;
- Telecommunication services.

3. Areas exclusively reserved for domestic investors:

A. Trade

- Export of raw coffee, chat, oil seeds, pulses, precious minerals, natural forestry, hides and skins bought from the market, and live sheep, goats and cattle not raised or fattened by the investor
- Import trade (excluding LPG and bitumen)
- Wholesale trade (excluding supply of petroleum and its by-products as well as wholesale trade by foreign investors of their locally produced products).

B. Others

- Bakery products ice cream and cakes
- Finishing of fabric, yarn, wrap & weft, apparel and other textile products by bleaching dyeing, shrinking, sanforizing, mercerizing or dressing
- Manufacturing of cement
- Manufacturing of clay and cement products
- Building maintenance and repair and maintenance of vehicles;
- Tour operator below grade 1
- Construction, water well and mining exploration drilling companies below grade 1
- Kindergarten, elementary and junior secondary education by construction of own building

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

- Diagnostic centre service by constructing own building
- Clinical service by constructing own building
- Capital goods leasing (does not include leasing of motor vehicles)
- Printing industries
- Manufacturing of plastic shopping bags
- Manufacturing of corrugated metal sheets for roofing and nails.

4. Areas exclusively reserved for Ethiopian nationals:

- Banking, insurance, micro-credit and saving services;
- Broadcasting services;
- Domestic air transport services using aircraft with a seating capacity of up to520 passengers
- Packaging, forwarding and shipping agency services.

Annexure 2

Areas of Investment eligible for Exemption of capital goods and construction material from custom duty (Foreign Investors)

1. Manufacturing

- Food industry
- Beverage industry
- Textile and textile products industry
- Leather and leather products industry
- Wood products industry
- Paper and paper products industry
- Chemical and chemical products industry
- Basic pharmaceutical products and pharmaceutical preparation industry
- Rubber and plastic products industry
- Other non-metallic mineral products industry
- Basic metal industry
- Fabrication metal products industry
- Computer, electronic and optical products industry
- Machinery and equipment industry
- Integrated manufacturing with agriculture
- Vehicles, trailers and semi-trailers industry
- Manufacturing of office and household furniture
- Manufacturing of other equipment's

2. Agriculture

- Crop production
- Animal production
- Mixed (crop and animal) farming
- Forestry

3. ICT

4. Generation, transmission and supply of electricity

5. Hotel and tourism

- Star designated hotels/ including resort hotels/ motels, lodges and restaurants
- Grade one tour operator

6. Construction contracting

- Construction contracting, water

well and mineral exploration drilling grade one

7. Education and training

- Secondary and higher education by construction of own building
- Technical and vocational training services including sports

8. Health services

- Hospital service by construction of own building

9. Architecture and engineering works and related technical services, technical testing and analysis

10. Import trade

- Import of LNG and bitumen

Supply of petroleum and its by products as well as whole sale of own products

Areas of Investment eligible for income tax exemption

Areas of Investment		Addis Ababa and Special Zone of Oromia Surrounding Addis Ababa	Other Areas
Manufacturing	Food industry	1 up to 5 years	2 up to 6 years
	Beverage industry	1 up to 3 years	2 up to 4 years
	Textile and textile products industry	2 up to 5 years	3 up to 6 years
	Leather and leather products industry	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 preparation industry	4 and 5 years	5 and 6 years
	Rubber and plastic products industry	1 and 4 years	2 and 5 years
	Other non-metallic mineral products industry	1 and 4 years	2 and 5 years
	Basic metal industry	3 to 5 years	4 to 6 years
	Fabrication metal products industry	1and 3 years	2 and 4 years
	Electric Product Industry	2 and 4 years	4 and 5 years
	Machinery and equipment industry	5 years	6 years
	Vehicles, trailers and semi-trailers industry	2 up to 5 years	3 up to 6 years
	Manufacturing of office and household furniture	1 and 4 years	2 and 5 years
	Manufacturing of other equipment's (jewellery and related articles, musical instruments, sports equipment's, games & toys and similar products)	1 year	2 years
	Integrated manufacturing with agriculture	4 years	5 years

INVEST IN ETHIOPIA
In pursuit of a wise investment destination

Agriculture	Crop production	2 and 3 years	3 and 4 years
	Animal production	2 and 3 years	3 and 4 years
	Mixed (crop and animal) farming	3 years	4 years
	Forestry	8 years	9 years
ICT		4 years	5 years
Generation, transmission and supply of electricity		4 years	5 years

Annexure 3

Income Tax Rates

Monthly Employment Income (Birr)	Income Tax Payable (%)
UP to 150	Exempt threshold
151-650	10
651-1400	15
1401-2350	20
2351-355	25
3551-500	30
Above 5000	35

Taxable Business Income other than that of Ju¬ridical Persons

Taxable Business Income (per year)	Income Tax Payable (%)
Up to 1,800	Exempt threshold
1,801--7,800	10
7,801--6,800	15
16,801--28,200	20
28,201--42,600	25
42,601--60,000	30
Over 60,000	35