I. Introducing Ethiopia  2
II. The operating environment  5
  1. Economic Environment  5
  2. Trade and Investment  6
  3. Infrastructure  10
  4. Financial Services  14
  5. Taxation  15
  6. Human Resource  19
  7. Market  20
III. Areas of opportunity  21
  1. Agriculture  21
  2. Manufacturing  28
  3. Tourism  29
  4. Mining  30
  5. Hydropower  31
  6. Social Services  31
IV. The legal framework  33
  1. Legal and Juridical System  33
  2. Institutional Framework  34
  3. Investment Incentives  37
  4. Export Incentives  39
  5. Remittance of Capital  40
  6. Privatization  41
IV. Appendix  42
  1. Restrictions  42
  2. concluded bilateral  43
  3. Tips for foreign investors  44
  4. Sources of further information  46
  5. Client charter of EIA  48
# Introducing Ethiopia

<table>
<thead>
<tr>
<th><strong>Official name</strong></th>
<th>Federal Democratic Republic of Ethiopia (FDRE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political system</strong></td>
<td>Federal system with multi-party democracy.</td>
</tr>
<tr>
<td><strong>Head of state</strong></td>
<td>President Girma Woldegiorgis</td>
</tr>
<tr>
<td><strong>Head of government</strong></td>
<td>Prime Minister Meles Zenawi</td>
</tr>
<tr>
<td><strong>Capital city</strong></td>
<td>Addis Ababa</td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Ethiopia is situated in the north-eastern part of Africa. It is bordered by South Sudan and the Sudan to the west, Eritrea to the north, Djibouti and Somalia to the east and Kenya to the south, extending 30 to 15° north of the equator and 33° to 48° east of the Greenwich meridian.</td>
</tr>
<tr>
<td><strong>Area</strong></td>
<td>1.14 million square kilometers.</td>
</tr>
<tr>
<td><strong>Arable land</strong></td>
<td>513,000 square kilometers (45%)</td>
</tr>
<tr>
<td><strong>Irrigated land</strong></td>
<td>34,200 square kilometers (3%)</td>
</tr>
</tbody>
</table>

The Ethiopian Constitution was adopted in 1995. The Constitution provides for federal system, which is structurally based on the federal government with nine autonomous regional states and two chartered city administrations.

The FDRE has a parliamentarian form of government with a bicameral parliament which comprises the House of the Peoples’ Representatives and the House of the Federation. The House of the Peoples’ Representatives is the highest authority of the Federal Government.
**Climate**

There are two major seasons encompassing dry and wet seasons. The dry season prevails from October through May. The wet season runs from June to September. Much of Ethiopia has a surprisingly temperate climate by African standards, because of its elevation.

**Topography**

Ethiopia has an elevated central plateau varying in height from 2,000 to 3,000 meters above sea level. In the north and centre of the country, there are some 25 mountains whose peaks reach over 4,000 meters.

The most famous Ethiopian river is the Blue Nile or Abbay, which flows a distance of 1,450 kilometers from its source to join the White Nile at Khartoum.

**Population**

Over 80 million

**Population density**

67.4 per sq. km (2008/09)

**GDP per capita**

USD 420 (2008/09)

**Religion**

Major religions in the country are Christianity and Islam. But there are a number of traditional religions as well. One prominent feature of Ethiopia is religious tolerance that exists among different groups.

**Language**

Ethiopia is a multi-ethnic state with a great variety of languages spoken; out of which 83 have over 200 dialects. Amharic is the working language of the Federal Government. Oromiffa and Tigrigna are other major languages widely spoken in the country. English is widely spoken particularly in business transactions.
**Calendar**

Ethiopia uses the Julian calendar which divides the year into 12 months of 30 days each. The remaining five or six days in a leap year constitute the short 13\(^{th}\) month of “Pagume”. The calendar is seven years behind the Western or Gregorian Calendar, with the Ethiopian New Year falling in the month of September.

**Working hours**

Ethiopia is in the GMT+3 time zone. The government office hours are 8:30 am to 12:30 pm and 1:30 pm to 5:30 pm from Monday through Thursday. Working hours on Fridays are 8:30 am to 11:30 am and 1:30 pm to 5:30 pm.

**Regional States/Adm.**

<table>
<thead>
<tr>
<th>Tigray</th>
<th>Afar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amhara</td>
<td>Oromia</td>
</tr>
<tr>
<td>Somali</td>
<td>Benshangul Gumuz</td>
</tr>
<tr>
<td>S.N.N.P</td>
<td>Gambella</td>
</tr>
<tr>
<td>Harari</td>
<td>Dire Dawa Adm. Council</td>
</tr>
<tr>
<td>Addis Ababa City Adm.</td>
<td></td>
</tr>
</tbody>
</table>

**Main cities/towns**

| Addis Ababa | Mekele |
| Dire Dawa   | Bahir Dar |
| Gonder      | Harar |
| Dessie      | Nazareth |
| Jimma       | Hawassa |

**Currency**

The currency of Ethiopia is based on the decimal system. The units of currency are the Birr and cents. The Birr is divided into 100 cents.
The operating environment

1. Economic Environment

Enormous efforts have been made in major key sectors to achieve Millennium Development Goals (MDGs). As the result, Ethiopian economy witnessed sustainable double digit broad-based growth.

Ethiopia’s economy is based on agriculture, which accounts, in 2009/10, for about 42 percent of the gross domestic product (GDP), 90 percent of foreign currency earnings, and 85% of employment. Generally, the overall economic growth of the country has been highly associated with the performance of the agriculture sector.

Coffee is critical to the Ethiopian economy. It earned US$ 528.3 million in exports in 2009/10. Other important export products include oil seeds, pulses, leather and leather products, meat and meat products, fruits and vegetables, live animals, flowers, chat, and gold.

The industrial sector, which mainly comprises small and medium enterprise, accounts for about 13 percent of GDP. Similarly, the service sector comprised of social services, trade, hotels and restaurants, finance, real estate, and transport and communications, etc. accounts for about 46.1 percent of GDP.

Real GDP grew by an average of 10.4 percent in year 2009/10, which places Ethiopia among the top performing economies in Sub-Saharan Africa despite world economic melt down and global financial crisis. All sectors contributed to this relatively high economic growth. Accordingly, agriculture, industry and services grew by an annual average of 7.6, 10.6 and 13 percents, respectively, during the indicated period. The absolute growth and contributions of the three sectors to the GDP in 2009/10 are shown below.
During 2007/08, 2008/09 and 2009/10, the general annual inflation was 25.3, 36.4 and 2.8 percents respectively. The single digit inflation rate was registered for the first time since 2005/06. The macro-economic policy measures taken by the Government have been effective in reducing inflation and stabilizing price.

At the end of 2009/10, the average marginal exchange rate in the inter-bank foreign exchange market was Birr 13.53 to US$ 1 as compared to Birr 10.42 to US$ 1 in 2008/09.

2. Trade and Investment

2.1. Trade

In order to enhance the export sector, the Government has established the Ethiopia Commodity Exchange (ECX). ECX is a marketplace where buyers and sellers come together to trade, assured of quality, delivery and payment. ECX assures all commodity market players the security they need in the market through providing a secure and reliable end-to-end system for handling, grading, and storing commodities, matching offers and bids for commodity transactions, and a risk-free
payment and goods delivery system to settle transactions, while serving all fairly and efficiently

During 2009/10, total export earnings amounted US$ 2.0 billion which is an increase of US$ 555 million (38.3 percent) compared to 2008/09. Except leather and leather products, the increase in earnings over the period was due to both increase in value and volume.

The coffee-dominated export sector of the country has exhibited high price variations from season to season. These variations are a combined effect of the factors affecting domestic supply and the periodic trends of the global coffee demand and supply situations. Also, the variation can be seen between different varieties and grades of coffee. Some varieties like the Yeirgacheffe and Sidama command considerable premium in the international market. Export receipts were US$ 528.3 million in 2009/10.

Export earnings from oil seeds, the second largest export commodity, went up from US$ 356.1 million in 2008/09 to US$ 358.5 million in 2009/10 due to the increase in the international market prices. In 2009/10, the receipts from the export of pulses, leather and leather products as well as fruits and vegetables were US$ 130.1, US$ 56.4 and US$ 31.5 million respectively.

Earnings from meat and meat products exports rose to US$ 34 million in 2009/10 from US$ 26.6 million in 2008/09 due to higher exports to the Middle East. There was also an increase in earnings from the export of live animals, which reached US$ 90.7 million in 2009/10 due to the better international prices. The receipt obtained from the export of cut flowers was US$ 170.2 million in 2009/10 compared to US$ 130.7 million in 2008/09.

Similarly, the income from chat reached US$ 209.5 million in 2009/10. Gold export also increased from US$ 97.8 million in the year 2008/09 to US$ 281.4 million in 2009/10. The value of major exports in 2009/10 is shown in the following figure.
2.2. Foreign Direct Investment

It is an undeniable fact that Ethiopia has made a considerable progress in economic and social development since 1992 as a result of the implementation of favorable policies and strategies that are instrumental in improving the national economy. The Rural Development Policy and Strategy, the Industrial Development Strategy, and other sectoral policies and strategies have initiated a new push towards creating frameworks conducive to economic and social development.

The Rural Development Policy and Strategy, which is under implementation in the country, underlines that agriculture-led development will bring about fast economic growth, enable its people become beneficiary of economic growth, and lay solid foundation for industrial development.
The Industrial Development Strategy focuses on export manufacturing with priority given to textile and garments, leather and leather products, agro-processing, and small and micro-enterprises.

The Government of Ethiopia, in recognition of the role of the private sector in the economy, has revised the investment law over three times for the last twenty years (1992-2012) to make it more transparent, attractive and competitive. Major positive changes regarding foreign investments have been introduced through Investment Proclamation No.280/2002 and Regulations No.84/2003. As a result of the implementation of the above mentioned policies and strategies, agricultural and industrial production, investment and export trade are growing steadily from year to year both in terms of variety and volume. Export earnings from gold (187.6 percent), fruits and vegetables (160.3 percent), live animals (72.3 percent), chat (51 percent), pulses (43.4 percent), coffee (40.6 percent), flower (30.2 percent), meat (27.8 percent), oil seeds (0.7 percent) and other (23.2 percent) have been increased in 2009/10. The World Bank has also witnessed the double-digit economic growth registered in the last several years. This achievement is the highest among the non-oil producing economies of Africa.

Due to the investment-friendly environment created in the country, the inflow of foreign direct investment (FDI) has been increasing over the last twenty years. Accordingly, out of the total investment projects licensed between 1992-2012, FDI’s share is about 15.71 percent. However, the overall trend of investment in 2009/10 both the total number of projects and capital invested have shown decline.

Ethiopia remains an untapped and unexploited market for investors. China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom, Israel, Canada and the United States are the major sources of FDI.
Ethiopian government has formulated the five year Growth and Transformation Plan (GTP) to carry forward the important strategic directions in maintaining a fast growing economy in all sectors. Accordingly, Ethiopia’s economy is projected to grow at an average growth rate of 11.2 percent.

**3. Infrastructure**

**3.1. Electricity Supply**

Ethiopia has enormous potential for hydropower and geothermal energy generation. Several studies have so far been carried out to identify Ethiopia’s energy potential and to develop short, medium and long-term investment plans for the power sector.

The country’s hydropower potential is estimated at 45,000 MW and the potential for generating electricity from geothermal is about 5,000 MW. The country is also endowed with enormous potentials of other renewable energy sources like solar and wind, particularly in rural areas. Despite such huge resources, the country has so far managed
to utilize merely 1,113 MW of its power generating potential and only about 33 percent of the population has access to electricity. Since the formulation of the last comprehensive power system expansion master plan, the fundamental and unprecedented structural change that have taken place in the economy are now finding their driving force in the power sector.

Ethiopia has around 1,562.2 MW of installed power generating capacity, out of which 1,382.6 MW is generated from hydropower plants. The remaining 179.6 MW comes from diesel and thermal power plants. The construction of new hydropower plants including, Grand Ethiopian Renaissance Dam, will enhance its generating capacity.

### 3.2. Telecommunications

The Ethiopian Telecommunications Corporation (ETC), which is state owned, is the sole telecom service provider in the country. The Corporation provides national and international telecommunications services using satellite, micro-wave digital radio multi access system (DRMAS), VSAT, UHF, VHF, Long Line and HF Radio.

The number of fixed and mobile telephone subscribers has increased by 2 percent and 107.3 percent, respectively, in the last few years. At present, the provision of SIM cards has been leased to private businesses in order to ease accessibility for subscribers. Similarly, internet subscription also grew by 118.6 percent. All regional cities and towns are connected by direct microwave links, and have automatic telephone and cellular phone services. International links are maintained via satellite earth stations and fiber optics, providing telephone, telex, fax, internet, television, digital data transmission, pre-and post-paid cellular phones and coin box services.

Furthermore, the Corporation is currently engaged in a major transformation work including utilization of a wireless technology to benefit all rural kebeles (small and lowest administrative units); improvement of public phone services in both urban and rural areas; and establishment of a swift and reliable customer care and billing center as well as a national network operation centre.
3.3. Water supply

Ethiopia has huge run-off and ground water potential. However, it utilizes a small portion of these resources. Access to safe potable water in urban areas was 88.6 percent in 2008/09. Access to safe potable water in rural areas was about 61.5 percent in the same year. The overall national average of access to potable water supply was to 66.2 percent.

A huge project deemed to satisfy safe water demand in the towns and rural areas was launched by the country’s first five year development plan and presently it is in final year of implementation.

3.4. Road transport

Road plays a vital role in transporting people and goods in Ethiopia. Cognizant of its cardinal role, the Government has identified the road sector as top priority for public investment and remarkable progress has been made in the expansion of the road network in the country.

Addis Ababa, the capital city, is an important regional and international transport hub. The road network radiates from Addis Ababa to regions linking it with important cities, towns, and other economically active centers of the country. International highways also link Addis Ababa and other cities and towns with neighboring countries such as Kenya, Djibouti, Eritrea, Somalia, the Sudan and South Sudan.

In 2008/09, the total road network, excluding community roads, reached 46,812 km, out of which 45 percent are Federal roads and the remaining 55 percent are rural roads with annual growth rate of 5.5 percent.

Based on the classification of the road network, about 21,172 km are in the Federal network, asphalt road constituted 33 percent and gravel road 67 percent.

All-weather rural road grew by 7.1 percent per annum constituting 25,640 km of the total road network in 2008/09. In the same year, the community road, non-engineered road, was 85,767 km.
3.5. Air Transport

Air transport is an important part of Ethiopia’s transport network. Ethiopian Airline, Africa’s World Class Airline, which has gained a very good reputation internationally in its 68 years of active services, provides both domestic and international air transport services. It has an outstanding safety records and is one of the few profitable African airlines.

Ethiopian services include both passenger and cargo transport in its international flights and domestic routes. It also provides training and maintenance services to more than a dozen other African and Middle Eastern airlines. Domestic flight services are provided through 17 destinations across the country.

Ethiopian links the country with over 63 destinations worldwide including Brussels, Frankfurt, London, Paris, Rome, Stockholm, Washington DC, Bahrain, Bangkok, Beijing, Beirut, Dubai, Guangzhou, Hong Kong, Jeddah, Kuwait, Mumbai, Delhi, Riyadh, Sana’a, Tel Aviv, Johannesburg, Nairobi, Lagos, Lusaka, Accra, Dakar and many more big cities in Africa. It is also expanding its international services.

Regarding Ethiopian cargo services, it operates over 40 cargo destinations spread across Africa, Europe, Asia and the Middle East via its hub – Addis Ababa, and another cargo hub at Liege.

In addition to Ethiopian, other airlines have flight schedules from and to Addis Ababa and these include such airlines as Emirates, KLM, Lufthansa, Kenyan and others. The passenger terminal at Bole International Airport in Addis Ababa has new and modern facilities providing efficient services to passengers. Ultra-modern cargo terminal catering to fresh products and a maintenance hangar have also become operational since 2006. This new and modern terminal has the capacity to handle 350,000 tons of cargo per annum. Anticipating the future growth of perishable cargo, Ethiopian has proactively launched an expansion project to construct a new perishable cargo terminal that will be operational within the foreseeable future.
The Ethiopian Government has taken the policy initiatives for the development of the aviation sector in the country. The most significant initiative undertaken by the government is the opening up of air cargo service to foreign investors without any capacity limit and allowing Ethiopian nationals to provide chartered services using aircrafts with a seating capacity of up to 20 passengers.

3.6. Sea Port

In order to ensure efficient, cost effective and reliable import and export movement of cargo to and from the sea ports of neighboring countries, the government has established the Dry Port Service Enterprise. The Enterprise is currently operating two dry ports which are located at Modjo, in the Oromiya Regional State, and at Semera, in Afar Regional State.

Addis Ababa, the capital city, is linked by road to the port of Djibouti, at the Gulf of Aden. The port of Barbara in Somaliland and Port Sudan are other external trade routes that provide services for export-import trades of the country. Another potential port accessible to Ethiopia is Mombassa in Kenya.

4. Financial Services

The National Bank of Ethiopia (NBE) is the central bank of the country. Commercial banking functions are performed by the state-owned Commercial Bank of Ethiopia (CBE) and a number of private banks. The CBE and private commercial banks offer savings and checking accounts, short-term loans, foreign-exchange transactions and mail and cable money transfer services. They also participate in equity investments, provide guarantees and perform other commercial banking activities.

The number of banks operating in the country reached sixteen, including three government-owned. These include the two specialized state-owned banks, i.e. the Development Bank of Ethiopia (DBE) and the Construction and Business Bank (CBB). The DBE, with its 32 branches, extends short-, medium- and long-term loans to viable development projects including industrial and agricultural projects.
The CBB, with its 32 branches, provides long-term loans for the construction of plants producing housing construction materials and the construction of private schools, clinics, hospitals, and real estate development. Private banks operating in the capital and other major cities are: Awash, Dashen, Abyssinya, Wegagen, United, Nib, Cooperative Bank of Oromiya, Lion, Buna, Zemen, Abay, Birhan and Addis International Bank.

In 2009/10, net foreign asset of the country stood at Birr 27.9 billion position showing increment of Birr 8 billion (40.4 percent) compared to Birr 19.9 billion in 2008/09.

The number of insurance companies is ten (one is government-owned and the rest private). Private insurance companies existing in the country are Africa, Awash, Nice, United, Global, Nile, Nyala, Nib and Lion.

In addition to banks and insurance companies, micro-finance institutions play an important role in providing credit and saving facilities for micro-enterprises.

5. Taxation

The Ethiopian tax law provides for direct and indirect taxes. The direct taxes are divided into five categories: personal income tax, rental tax, with holding tax, business profit tax and other taxes. The main types of indirect taxes applicable are VAT, customs duty, excise and turn over taxes.

5.1. Direct Taxes

Incomes taxable under Income Tax Proclamation No. 286/2002 (Article 6) include:

- Income from employment (5% - 35%)
- Income from rental of building (10% - 35%)
- Income from business profit – for unincorporated entities (10%-35%); for incorporated ones (30%)
- Income from royalties is at flat rate of 5%
• Income paid for services rendered outside of Ethiopia is at a flat rate of 10%
• Income from games of chances (15%)
• Dividends (10%)
• Income from causal rental of property is 15% (any land, building or movable asset)
• Interest income (5%)
• Gains on transfer of certain investment property (sale or gift):
  ▪ Building for business, factory, office (15%)
  ▪ Shares of companies (30%)
• Income from agricultural activities – based on proclamations issued by regional states.

Personal income tax rates applicable at present are given in Box II.1.

**Box II.1. Personal Income Tax Rates**

<table>
<thead>
<tr>
<th>No.</th>
<th>Employment Income per month</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over Birr</td>
<td>To Birr</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>150</td>
</tr>
<tr>
<td>2</td>
<td>151</td>
<td>650</td>
</tr>
<tr>
<td>3</td>
<td>651</td>
<td>1400</td>
</tr>
<tr>
<td>4</td>
<td>1401</td>
<td>2350</td>
</tr>
<tr>
<td>5</td>
<td>2351</td>
<td>3550</td>
</tr>
<tr>
<td>6</td>
<td>3551</td>
<td>5000</td>
</tr>
<tr>
<td>7</td>
<td>Over 5000</td>
<td></td>
</tr>
</tbody>
</table>

Source: *Income Tax Proclamation No. 286/2002*

Taxable business income of companies is taxed at the rate of 30 percent. Other business taxpayers with business income ranging from ETB 1,801 to ETB 60,000 pay between 10 and 30 percent. Business income more than ETB 60,000 is charged 35 percent. (Box II.2)
Box II.2. Taxable business income tax rates

<table>
<thead>
<tr>
<th>No.</th>
<th>Taxable business income tax rates</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over Birr</td>
<td>To Birr</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>1,800</td>
</tr>
<tr>
<td>2</td>
<td>1,801</td>
<td>7,800</td>
</tr>
<tr>
<td>3</td>
<td>7,801</td>
<td>16,800</td>
</tr>
<tr>
<td>4</td>
<td>16,801</td>
<td>28,200</td>
</tr>
<tr>
<td>5</td>
<td>28,201</td>
<td>42,600</td>
</tr>
<tr>
<td>6</td>
<td>42,601</td>
<td>60,000</td>
</tr>
<tr>
<td>7</td>
<td>Over 60,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Income Tax Proclamation No. 286/2002

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 is taxed in accordance with the provisions of Income Tax Proclamation No. 286/2002 (Article 5.2). However, the following are excluded from the computation of taxable income in accordance with Article 13 of the Income Tax Proclamation No. 286/2002 and Article 13 of the Regulations No. 78/2002:

- 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.
5.2. Indirect Taxes

The value added tax (VAT) replaces the old business tax system of commodity and service taxes including the sales tax and the withholding tax. The VAT rate is 15 percent of the value of every taxable transaction by a registered person and all imports of goods and services other than those exempted. Taxable transactions which shall be charged with zero percent 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 a range of consumer goods, whether produced locally or imported, e.g., alcohol, tobacco, salt, fuel, television sets, cars, carpets and toys. Its rates vary from 10 percent on receivers, garments and textiles of any type and fabrics to 100 percent on perfumes, vehicles above 1,800 cc and alcoholic drinks. It is payable in addition to VAT.

Turn over tax, under the total value of 500,000 Birr, is applicable to pay 2 or 10 percent from annual taxable transactions on goods sold or service rendered locally.

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:

i. Buildings and structures 5%;
ii. Intangible assets 10%;
iii. Computers, information systems, software products and data storage equipment 25%; and
iv. All other business assets including automobiles, buses and minibuses 20%. 
Every investor has a tax obligation and is required to obtain a tax payer identification number ("TIN"). An investor who involves in taxable activity has also 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 a flat rate of 150%.

**COMESA preferential tariffs**

The table below shows special customs tariff rates applicable to goods produced in and imported from Common Market for Eastern and Southern Africa (COMESA) member countries as against the regular customs tariff rate which is applicable to goods produced in and imported from member countries.

<table>
<thead>
<tr>
<th>No</th>
<th>Regular customs tariff rate (in %)</th>
<th>COMESA TARIFF RATE (IN %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>4</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>5</td>
<td>35</td>
<td>31.5</td>
</tr>
</tbody>
</table>

*Source: Ethiopian Revenues and Customs Authority Statistical Bulletin Vol.1. Feb 2011*

**6. Human Resource**

In conformity with the international conventions and other legal commitments, Ethiopia has issued its labor law to ensure that worker-employer relations be governed by the basic principles of rights and obligations with a view to enabling workers and employers maintain industrial peace and work in spirit of harmony and cooperation.

The labor law is believed to be consistent with the investment policy of the country. Foreign investors obtain work permits for their expatriate employees directly from the Ethiopian Investment Agency (EIA). The EIA processes applications of work permits in an hour.

The labor law has fixed nominal hours of work as eight hours a day and thirty-nine hours a week. Work done in excess of these hours is
deemed to be overtime. The maximum number of office closure days in a year is 12. (Appendix 3) The government has strategic intervention to ensure linkage between economic growth and employment. Accordingly, most of the urban dwellers benefitted from the economic growth achieved in the past years. Urban unemployment declined from 26.3 percent in 2002/03 to 18.9 percent in 2009/10.

Ethiopia has abundant supply of skilled workers in the various fields at internationally competitive rates.

Wages and salaries vary depending on the size of enterprise, type of profession and level of skill required. They are determined by agreement between the employer and the employee. Generally, the cost of labor in Ethiopia is low by African standard.

Labor disputes in Ethiopia are resolved through the application of the law, collective agreements, work rules, and employment contracts.

7. Market

Ethiopia has a large population and thus potentially one of the largest domestic markets in Africa. Beyond the domestic market, by virtue of its membership to the Common Market for Eastern and Southern Africa (COMESA) embracing 19 countries with a population of 400 million, Ethiopia enjoys preferential market access to these countries. Ethiopia’s proximity to the Middle East also offers potential market opportunities.

The country also qualifies for preferential access to European Union market under the EU’s Everything-But-Arms (EBA) initiative and to USA markets under the African Growth and Opportunities Act (AGOA) and the Generalized System of Preference (GSP). Thus, most Ethiopian products can enter into these markets quota and duty free. Furthermore, a broad range of manufactured goods from Ethiopia are entitled to preferential access under the Generalized System of Preference (GSP) in USA, most countries of the EU and other developed countries. No quota restrictions are placed on Ethiopian exports falling under the 4800 products currently eligible for GSP treatment.
Areas of opportunity

Ethiopia’s economy is still young with a vast untapped resources and a range of investment opportunities. The country has comparative advantages in textile and garments, agriculture, agro-processing, and leather and leather products.

The areas, with most promising potential for investment in the country today are agriculture, agro-processing, textile and garment, leather and leather products, sugar, cement, chemical and pharmaceutical industry, tourism, mining and hydropower. The ongoing privatization program also offers enormous investment opportunities to private investors, particularly in the agricultural, manufacturing, hotel and tourism sectors.

Thus, this chapter briefly describes the main areas of investment opportunities in the country.

1. Agriculture

Ethiopia is endowed with abundant agricultural resources. With altitudes ranging from 148 meters below sea level to 4,620 meters above it, the country has 18 major and 49 sub agro-ecological zones, each with its own agricultural and biological potential. Thus the country possesses one of the largest and most diverse genetic resources in the world.

Ethiopia has the soils and climate required for the production of a variety of food crops. The major food crops grown are cereals, pulses and oil seeds. A broad range of fruits and vegetables and cut flowers are fast-growing exports. Coffee, cotton, tobacco, sugarcane, tea and spices are the main commercial cash crops grown in Ethiopia.

1.1. Coffee

Ethiopia is one of Africa’s leading producers of Coffee Arabica. The word “coffee” is said to come from Kaffa, a region where coffee has long been a wild crop. The country produces some of the best Arabica
coffee in the world. Coffee remains the most important export crop, utilizing over 600,000 hectares under cultivation. In 2010, the country could produce 341,000 tons of coffee which was 81.3 percent of the target. The largest of these areas lie in south and western highlands of the country. Ethiopia has more genetic diversity among its coffee varieties than any other country.

In Ethiopia, coffee grows in almost all regions. The suitable climatic condition varies from the semi-savanna climate of the Gambella plain (500 m.a.s.l.) to the continuously wet highland forest zone of the south west (2200 m.a.s.l.). Coffee grows in the Ethiopian highlands ranging from 1500 to 2100 meters above sea level. The ideal soil for the crop is slightly acidic with a PH of 4.5-6.5. It requires annual rainfall ranging from 1500-2500mm with balanced distribution.

1.2. Tea

Ethiopian tea is some of the best quality tea in the world. In fact, tea from Ethiopia has won acclaim for its taste and aroma. The total area covered by tea plantation in Ethiopia is 2700 ha. Ethiopia produces only black tea type. But it has a potential to grow for all types of tea. Currently, it has a capacity to produce 7000 tons of black tea per annum. The annual tea consumption of the country is about 5000 tones. The quality of tea mainly depends on climatic conditions, the type of soil upon which the plant grows and the method of processing. In Ethiopia, tea is mostly grown in the highland dense forest regions.

1.3. Maize

Maize is an important crop in Ethiopia. It is grown in the mid highland areas of the country. There are huge tracts of land in all regions suitable for maize farming. Maize is mainly produced in SNNPR and Oromia regions where there are about 1.77 million hectares under cultivation.

1.4. Wheat and Barley

Wheat and barley are mostly grown in the highlands and mid highland areas of the country mainly in Oromia (Bale and Arsi Zones) and some parts of Amhara (North Gondar and North Shewa) Regions.
Wheat and barley are the main cereal crops in the country with about 1,095,436 and 1,398,215 hectares under cultivation, respectively. This land is owned by small holder farmers. The potential for the private sector in agro-processing and out growers’ scheme of development is significant. It offers excellent opportunities for production of wheat under irrigation in the Afar, Gambella, SNNPR and Somali Regions.

1.5. Rice

Rice can suitably grow in many parts of the country. The predominant potential areas are:

- West central highlands of Amhara Region (Fogera, Gonder Zuria, Dembia, Takusa and Achefer);
- North west lowland areas of Amhara and Benshangul Regions (Jawi, Pawi, Metema and Dangur);
- Gambella regional state (Abobo and Etang Woredas)
- South and south west lowlands of SNNPR (Beralee, Weyito, Omorate, Gura Ferda and Menit);
- Somali Region (Gode);
- South western highlands of Oromia Region (Illuababora, East and West Wellega and Jimma Zones).

1.6. Oil Seeds

A variety of oil seeds are grown in Ethiopia. The oil seeds produced are supplied both for the local and international markets. Rapeseed, linseed, groundnut, sunflower, niger seed and cotton seed serve as raw materials for the domestic edible oil industry. Some oil seeds, including peanuts and sesame, are important export crops. Favorable agro-ecological conditions exist for the production and processing of oil seeds in Humera, Metema, Jawi, Chewaqa and Mankush.

1.7. Horticulture

With diverse agro-climatic zones, the long growing season and the availability of water for irrigation, most fruits and vegetables can grow well in Ethiopia. The Ethiopian Government encourages companies with experience in agro-processing to invest in this sector.
Currently, fruits and vegetables cultivation is carried out on about 152,600 hectares. The country can only produce 12.8 million quintals. Among the major fruits mango, banana, papaya, avocado, citrus, grape, and pineapple are the most common tropical and sub-tropical types cultivated. While pear and plum are emerging temperate fruits in the country. Commercial floriculture is still a relatively new industry in Ethiopia but it has emerged as a major non-traditional export sector. The rose industry has undergone successful development over the period 1998–2009.

Ethiopia is now the second largest flower exporting country in Africa. It is also an ideal location for highland and low land world class flowers. The flower industry is one of the fastest growing sub sectors in the country.

Currently, a total of about 1,200 hectares of land in Ethiopia is covered by more than 80 flower growers who came from Netherlands, India and Israel including local investors. Ethiopia exports its cut flower to Netherlands, France, Germany, Italy, Canada, Norway, Sweden, UK, Middle East, and other EU countries.

1.8. Spices

The major spices cultivated in Ethiopia are ginger, hot pepper, fenugreek, turmeric, coriander, cummins, cardamoms, corianders and black pepper. Currently, there are nearly 122,700 ha under spice farming. Spice production reached 244,000 tonnes per year. The potential areas for the cultivation of spice are Amhara and Oromiya, SNNP and Gambella regions. The total potential for low land spice farming is estimated to be 200,000ha.

1.9. Cotton

Cotton is an important crop in Ethiopia. There is a huge potential for cotton cultivation in the country especially in Awash valley where large-scale cultivation under irrigation is found. Other potential areas for cotton cultivation are found in South Omo (Omorate), north western part of the country (Humera, Metema, Quara, Belles Valley), Gambella, Tekezze valley, Dabus Valley and Wabeshebelle watershed
area. Cotton production is well integrated into the rest of the economy with a large number of textile and garment factories relying on domestically produced cotton. Opportunities for the production and processing of cotton in Ethiopia are thus significant.

1.10. Pulses

Cultivation of pulses like beans, peas, chickpeas, lentils, soybeans, etc. is also common in Ethiopia. Cultivation is carried out in both the highland and lowland areas of the country mainly by peasant farmers. Currently, the country exports a large quantity of pulses to the international market. There are also a number of factories that process pulses in the country.

1.11. Rubber and Palm Tree Plantation

Ethiopia has the potential for the production of rubber and palm oil.

Rubber is grown under large scale commercial production in hot tropical and sub tropical humid climatic zones. Moderate acidic or acidic soil is suitable to grow rubber. Therefore, in south-western part of Ethiopia these agro-climatic conditions exist for the production of rubber at commercial scale.

Palm tree is a perennial tree. It gives a higher yield of oil per unit area than any other oil seed crops. The plant can be grown in tropical and sub-tropical hot and humid climatic conditions. It can also grow in a wide range of tropical soils. But many of the soils used for the crop should have a pH of 4-6.

Cultivation of palm tree can either be carried out under irrigation or using natural rainfall. Many areas in the south-western part of Ethiopia have both the required soil and climatic conditions to grow palm oil in large scale.

1.12 Sugarcane Plantation

Sugar production in Ethiopia started long ago by a Dutch Company developing sugarcane plantation in the upper reaches of the Awash basin, 100km southeast of the capital, opening up the potential of the
country. The climate and soil types in the country have both proven to be highly conducive for sugar cane growth and productivity.

Various pre-feasibility and feasibility studies of sugar projects have indicated that many potential sites at the main river basins are suitable for sugar cane plantation. These include 303,500 hectares of already identified suitable net areas in 7 sites. However, the total area developed for the production of sugar cane in the country is only about 8% of the total identified suitable areas. Experiences of existing sugar factories show that because of the suitable soil, adequate water and conducive climate, an average sugar cane production per hectare per month of the land under irrigation is very high as compared to other countries (i.e. 9-11 tons against 6-8 tons). This makes Ethiopia a very attractive location for private investors to invest in the production and processing of sugar cane.

1.13 Other Agricultural Products

A huge opportunity exists for the production of sugar, jatropha, castor bean for the domestic as well as the export market.

The country has also huge potential for large-scale plantation to produce jatropha and castor bean in marginal soil.

The estimated potential areas for the cultivation of the above mentioned agricultural products in all regional states of the country are presented in the following table.

**Box III.1. Potential Areas for Farming**

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of farming</th>
<th>Area (ha)</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rice</td>
<td>280,000</td>
<td>SNNP, Oromiya, Amhara, Benshangul Gumuz, and Somali</td>
</tr>
<tr>
<td>2</td>
<td>Maize</td>
<td>1,400,000</td>
<td>SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella and Somali</td>
</tr>
<tr>
<td>3</td>
<td>Horticulture</td>
<td>763,300</td>
<td>SNNP, Oromiya, Amhara and Dire Dawa</td>
</tr>
<tr>
<td>4</td>
<td>Coffee</td>
<td>426,000</td>
<td>SNNP, Oromiya, Amhara and Gambella</td>
</tr>
</tbody>
</table>
5 Tea 150,000 SNNP, Oromiya, Amhara and Gambella
6 Cotton 3,000,810 Tigray, SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella, Afar and Somali
7 Oil crops 1,601,323 Tigray, SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella, Afar and Somali
8 Pulse 3,274,469 Tigray, SNNP, Oromiya, Amhara, and Benshangul Gumuz
9 Rubber 200,000 SNNP and Gambella
10 Palm oil 450,000 SNNP, Oromiya and Gambella

**Total 11,545,902**

*Source: Ministry of Agriculture*

### 1.14 Livestock Farming, Fishery and Apiculture

Considerable opportunities exist for investments in rearing, breeding and fattening of livestock as well as in fresh water fishery development and the production of honey and beeswax.

The livestock population of Ethiopia is first in Africa and tenth in the world. The sub-sector has large resources, which include 50.88 million cattle, 25.98 million sheep, 21.80 million goats and 42.05 million poultry. Opportunities are also available in ostrich, civet cat and crocodile farming. Ethiopia’s potential for fishery development is limited to its freshwaters of most of the lakes that are located close to urban areas. The total fish catch potential from these waters is estimated at 40,000 tonnes per year. However, there is also an opportunity for investment in the construction of aquaculture to produce fresh water fish for local and international markets.

The current annual production of honey and beeswax of the country is estimated at 43.7 thousand tonnes and 3,600 tonnes, respectively. This provides a high investment opportunity in all aspects of the development of this untapped sub-sector in the production, collection, processing and marketing of honey and beeswax. In relation to this, the demand for the bee queen is growing rapidly providing an additional opportunity for investment.
1.15 Forestry and Related Activities

Potential activities for private investors in commercial forestry include the production and marketing of gum and incense, large-scale plantations for timber, the establishment of integrated forest-based industries such as pulp, and paper and chipboard.

2. Manufacturing

The manufacturing sector contributed about 13 percent to GDP growth in 2009/10. The major manufacturing activities are in the production of food, beverages, tobacco, textiles and garments, leather goods, paper, metallic and non-metallic mineral products, cement and chemicals. Under Growth and Transformation Plan (2010/11-2014/15) of the country, production of textile and garments, leather products, cement industry, metal and engineering, chemical, pharmaceuticals and agro-processing are priority areas for investment. Thus there are ample manufacturing opportunities for prospective investors in the following areas:

i. Textiles and clothing: Spinning, weaving and finishing of textile fabrics and the production of garments;

ii. Food and beverage products: Processing and preserving of meat products, fish and fish products, and fruits and vegetables; integrated production and processing of dairy products; manufacture of starch and starch products; processing of animal feed and processing and bottling of mineral water; sugar production; brewing and wine-making, etc.;

iii. Tannery and leather goods: Tanning of hides and skins up to finished level; manufacture of luggage items, handbags, saddle and harness items, footwear and garments, and integrated tanning and manufacturing;

iv. Glass and ceramic: Tableware and sanitary ware, sheet glass and containers;

v. Chemicals and chemical products: Manufacture of basic chemicals based on local raw materials, including fertilizer, soda ash, rubber, PVC granules from ethyl alcohol; manufacture of caustic soda and chlorine-based chemicals; carbon and activated carbon; precipitated calcium carbonate; ballpoint ink; and tallow for soap;
vi. Drugs and pharmaceuticals: Manufacture of pharmaceutical, medicinal, chemical and botanical products in the form of tablets, capsules, syrups and injectables;
vii. Paper and paper products: Pulp from indigenous raw materials, paper and paper products;
viii. Plastic products: High-pressure pipes, pipe fittings, shower hoods, wash basins, insulating fittings, light fittings, office and school supplies, and fittings for furniture;
ix. Building materials: Manufacture of cement, lime, gypsum, marble, granite, limestone, ceramics, roofing tiles, corrugated sheets, tubes, pipes and fittings.

3. Tourism

Ethiopia has much to offer to international tourists. It has a unique historical and cultural heritage, magnificent scenery, a surprisingly cool climate, rich flora and fauna, important archaeological sites and hospitable people. The northern tourist circuit known as the “Historic Route” comprises the most important tourist sites in country.

Ethiopia’s wealth of tourism attractions gives it great potential for cultural and educational tourism, photo safaris, hunting safaris, bird watching, water sports including river rafting, desert trekking, mountain climbing and ecotourism. Health tourism, on the account of the cool climate and numerous hot springs, is an additional type of tourism with great potential. Tour operators have shown considerable growth in recent years.

Conference tourism, long aided by the presence of a number of international organizations in Addis Ababa including the African Union(AU) and the Economic Commission for Africa(ECA).

The stock of hotel rooms in the country has increased sharply over the last few years. While some tourist accommodation is already available at all the major attractions, improvement as well as new construction is taking place.

The tourism industry is growing as a result of Government commitment to provide an enabling environment. Enormous opportunities exist for tourism investment in eco-tourism, specialized international restaurants and tour operation.
Potential foreign investors can take full advantage of these opportunities through direct investments or joint-ventures with Ethiopians. Opportunities also exist in this sector in the construction of star-designated hotels and lodges all over the country.

Ethiopia is truly a land of contrasts and extremes; a land of remote and wild places with a wide range of potential tourist attractions, which have not yet been fully exploited.

**4. Mining**

Ethiopia offers excellent opportunities for mineral prospecting and development. Geological studies have identified a favorable geological environment hosting a wide variety of mineral resources.

According to the Ministry of Mines, Ethiopia has a substantial deposit of gold, tantalum, platinum, nickel, potash and soda ash. Among construction and industrial minerals are marble, granite, limestone, clay, gypsum, gemstone, iron ore, coal, copper, silica, diatomite, etc. Geothermal energy resource also exists in good quantity. With regard to fossil energy resources, there are significant opportunities for oil and natural gas exploration and development in the major sedimentary basins, namely the Ogden, the Gambella, the Blue Nile and the Southern Rift Valley.

Steps are being taken to improve the situation, including the creation of an environment conducive to private, local and foreign investment. While there is no restriction on private investors in developing any type of mineral resource, the greatest potential is in gold and rare metals, petroleum, precious and base metals, industrial minerals and dimension stones (marble and granite). Prospecting, exploration and mining licenses have been issued to foreign mining companies with an aggregate capital of ETB 11.7 billion in 2008/09. Of the total capital, Birr 509.6 million was injected into the petroleum project alone. Regarding percentage share of exported minerals by type, tantalite concentrate accounts (98 %), followed by gold (1.7%) and rough gemstones (0.3%)

The Ministry of Mines is responsible for the processing of license application, regulation of the mineral operations and the promotion of
investment opportunities in the mining sector. The Mineral Operations Department is the focal point in the Ministry for the receipt of mining license application of a foreign investor. The regional governments are authorized to issue mining license for local investors.

5. Hydropower

The potential of Ethiopia’s renewable and nonrenewable energy resources is large, with the economically feasible hydropower potential estimated at 45,000 MW. It has large potential for geothermal energy generation. Nine of its major rivers are suitable for hydroelectric power generation. The private sector can participate in electricity generation from any source and without any capacity limit. Transmission and supply of electrical energy through the Integrated National Grid System is, however, exclusively reserved for the Government. But, private investors, both foreign and domestic, are allowed to operate an off-grid transmission and distribution of electricity.

Moreover, private investors are highly encouraged to engage in generating electricity in bulk and reach an agreement of power purchase with the Ethiopian Electric Power Corporation (EEPCO), a public enterprise, for transmission and supply of electricity through the grid system.

6. Social Services

Social services are other potential areas for FDI in Ethiopia. Potential foreign or local investors can take full advantage of these opportunities through direct investments or joint-ventures with Ethiopians.

6.1. Health Services

Health services are areas where investment opportunities exist. Accordingly, opportunities for investment are in the following areas:

- General and specialized clinics;
- General and specialized hospitals;
- Clinical laboratory; and
- Diagnostic centers;

Health services coverage, which is an indicator of access of the population to health facilities, has increased. However, health service
facilities in the country, in general, are not yet adequate as compared to an international standard.

6.2. Educational Services

Ethiopia aspires to attract internationally reputable educational institutions, universities and training centers. The following areas are some of the opportunities for investors:

- Kindergarten and nursery;
- Primary and secondary schools;
- Science and technology colleges/ universities;
- Colleges for business and marketing;
- Schools for medical science;
- ITC institutions;
- Vocational training centers; and
- Training centre for hospitality industry.

The Government designed quality improvement package and is under the process of implementation with a view to enhancing the quality of education in the country.

6.3. Information technology and communication technology

Investors are also encouraged to invest in lucrative information and communication technology development (ITC) that can deliver great returns.

6.4. Construction Services

Ethiopia has extensive opportunities in the construction industry, particularly in the construction of roads, residential, commercial and industrial buildings, including low-cost housing. Aware of the crucial role the road sector plays in the development of the national economy, the Government has given special attention to the development of the country’s road network. A wide range of opportunities exist for investors in the following areas:

- General Contractor Grade One (GC1);
- Building Contractor Grade One (BC1);
- Road Contractor Grade One (RC1);
- Specialized Contractor Grade One (GC1);
- Water well drilling; and
- Construction machinery and equipment rental services.
1. Legal and Juridical System

The constitution is the supreme law, overriding all other legislation in the country. The legal system depends on codified laws, including civil, penal, civil procedure, penal procedure, commercial and maritime codes.

All proclaimed laws are published in official gazettes (Negarit Gazeta). In administering justice, courts are directed by internationally accepted principles of justice as well as by the laws of the FDRE. The practice of law is reserved for Ethiopians. However, foreign nationals have the right to appear in courts as witnesses. In such cases, the foreigner is allowed to communicate through a court-appointed translator.

The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia. The constitution, in accordance with Article 40, ensures the right of every citizen to the ownership of private property, including the right to acquire, use and dispose of such property. The Investment Proclamation (2002) gives also a foreign investor the right to own a dwelling house and other immovable property necessary for his investment.

The government may expropriate property for public interest, strictly according to the law and only after making adequate compensation. The Investment Proclamation (2002) guarantees investors against measures of expropriation or nationalization, and specifies advance payment of compensation “corresponding to the prevailing market value” of a private property earmarked for expropriation or nationalization for public interest.

Ethiopia is a member of the World Intellectual Property Organization (WIPO) and the Multilateral Investment Guarantee Agency (MIGA). Furthermore, Ethiopia has concluded bilateral investment treaties (BITs) and double taxation treaties (DTTs) with a number of countries. (Appendix 2)
2. Institutional Framework


The Ethiopian Investment Agency (EIA) is an autonomous government institution accountable to the Investment Board. The Board is chaired by the Minister of Industry. The EIA is headed by a director general who is also member of the Board.

The EIA has restructured itself recently with a view to promoting more FDI and improving the services it renders to investors.

The major activities of the EIA and the one-stop-shop services it renders to foreign investors are the following:

- promoting the country’s investment opportunities and conditions to foreign and domestic investors;
- issuing investment permits, work permits, trade registration certificates and business licenses;
- 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; and
- assisting investors in the acquisition of land, utilities, etc., and providing other pre and post-approval services to investors.

2.1. Registration

The minimum capital required of a foreign investor is US$ 100 thousand per project. However, if a foreign investor invests in partnership with domestic investor(s), the minimum capital required of him is US$ 60 thousand per project.
The minimum entry capital required of a foreign investor investing in areas of engineering, architectural or other technical consultancy services, accounting and audit services, project studies or business and management consultancy services is US$ 50 thousand where the ownership fully foreign owned, and US$ 25 thousand where the investment is made jointly with domestic partner(s). A foreign investor reinvesting his profits or dividends or exporting of at least 75 percent of his outputs is not required to allocate a minimum capital.

An individual investor may also invest as a sole proprietor, with full equity ownership. Areas open for joint-venture investment with the Government are the manufacture of weapons and ammunition and telecommunication services. Otherwise, the law encourages joint ventures with Ethiopian individuals and companies. Investment can also be effected through business organization incorporated in Ethiopia or locally registered branch companies, public enterprises and cooperatives established in accordance with the relevant laws. (Investment areas reserved for the government and other domestic investors are listed in Appendix I.)

As the requirement, a foreign investor should obtain investment permit first by submitting a properly filled application form with the required documents.(All services of EIA, delivery time and required fee for each service are listed in Appendix 5)

**Commercial Registration of company**

Where the application is to establish as a new local viable venture in Ethiopia, the applicant is required to submit the following documents.

- An application form signed by agent of the company;
- A photocopy of agent’s power of attorney;
- A draft memorandum and articles of associations;
- Copy of each share holders valid passport or identity card or photocopy of a certificate evidencing a domestic investor status;
- In case of non share company, a bank statement showing that the company’s capital to be contributed in cash is deposited in a blocked account and proper documents related
to contribution in kind (Proclamation No. 686/2010); and

- In case of share Company, a bank statement showing that at least one fourth of par value of the subscribed shares of the company is deposited in a blocked account (Proclamation No. 686/2010).

**Commercial Registration of a branch company**

Where the application is to establish as a branch company in Ethiopia, the applicant is required to submit the following documents.

- legal certificate of incorporation in the country of origin;
- notarized document of the memorandum and article of association;
- a decision stating the organization’s intent to invest in Ethiopia, together with the amount of capital allocated for the purpose; and
- power of attorney to the appointed agent in Ethiopia.

Upon receiving in full the authenticated documents listed above together with properly filled investment application form, the investment permit and company registration certificate will be issued within 4 hours.

The Main Department for Immigration and Nationality Affairs issues a residence permit to a foreign investor, upon the submission of his investment permit. A foreign investor, who is a share holder of a company or a branch company and an expatriate staff who has a work permit, are also entitled to a residence permit.

**2.2. Land Allocation**

In Ethiopia, land is public property. Individuals, companies and other organizations have only use right of land. There are two broad classifications of land for rent or lease purposes: rural land and urban land.

Rural land is rented mainly for agriculture. Currently, there are nearly 11.55 million ha of potential land for farming (Box III.1). The rental price of rural land is generally low. There is strong commitment from
the government to avail the country’s fertile land for investment. The Ministry of Agriculture has given the responsibility of providing technical support for private investors investing in agriculture. The support ranges from providing land above 5000 ha, information, technical support, and facilitation of other public services.

Urban land is divided into land for industrial use and land for other activities. Industrial land is given much attention by the government and a number of industrial zones with the necessary infrastructural facilities (roads, electricity, water, telephone) are established in the major cities and towns in order to support the country’s drive for rapid industrialization. Industrial land in industrial zones is allocated to investors at fixed prices. Land for export-oriented industries is generally available at concessionary rate.

The Ethiopian Investment Agency (EIA) has the mandate to facilitate the allocation of land for FDI projects throughout the country. Urban land for other activities is available on an auction basis. The auction prices vary, depending on demand.

The lease and rental prices of urban and rural land vary according to location, type of investment and class of land. The land cannot be mortgaged or sold, but the lease or rental value of land and the fixed assets thereon may be mortgaged or transferred to a third party.

3. Investment Incentives

3.1. Fiscal

The Council of Ministers Regulations No.84/2003, as amended in 2008, specifies the areas of investment eligible for investment incentives.

a) Custom Duty

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following customs duty exemptions are provided for investors (both domestic and foreign) engaged in eligible new enterprises or expansion projects such as agriculture, manufacturing, agro-industries, construction contracting, etc.
• 100% exemption from the payment of customs duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment and construction materials;

• Spare parts worth up to 15% of the total value of the imported investment capital goods, provided that the goods are also exempt from the payment of customs duties;

• An investor granted with a customs duty exemption will be allowed to import capital goods duty free any time during the operational phase of his enterprise; and

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

b) Income Tax Exemption

If an investor engaged in new manufacturing, agro-processing, the production of agricultural products and investment areas of information and communication technology (ICT) development:

• Exports 50 percent his products or services, or supplies 75 percent of his products or services as production or service input to an exporter will be exempted from income tax for 5 years. Under special circumstances, the Board may grant income tax exemption up to 7 years and the Council of Ministers may pass a decision to grant income tax exemption for more than 7 years;

• Exports less than 50 percent of his products or services, or supplies his products or services only to the domestic market will be exempted from payment of income tax for 2 years; and

• Exports, through the expansion or upgrading of his existing enterprise, at least 50 percent of his products or services and increases, in value, his products or services by over 25 percent will be exempted from income tax for 2 years.

For each case mentioned above, the length of the tax exemption period may be extended for one additional year when the investment
is made in relatively under-developed regions of the country. However, investors who export hides and skins after processing below crust level are not eligible for income tax exemption.

Investors who invest in priority areas (textile and garments, leather products, agro-processing, etc.) to produce mainly export products will be provided land necessary for their investment at reduced lease rates.

3.2. Non-fiscal

The non-fiscal incentives given to all exporters are the following:

- Investors who invest to produce export products will be allowed to import machinery and equipment necessary for their investment projects through suppliers credit;
- Investors who invest in areas of agriculture, manufacturing and agro-industry will be eligible to obtain loan up to 70 percent of their investment capital from the Development Bank of Ethiopia (DBE) if their investment is sound to be feasible; and
- The Government of Ethiopia will cover up to 30 percent of the cost of infrastructure (access road, water supply, electric and telephone lines) for investors investing in industrial zone development.

3.3. Loss carry forward

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

4. Export Incentives

4.1. Fiscal

The fiscal incentives given to all exporters are the following:

- With the exception of few products (e.g. Semi-processed hides and skins-150%), no export tax is levied on export products of Ethiopia;
• Duty Drawback Scheme: It offers investors an exemption from the payment of customs duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods. Duties and other taxes paid are drawn back 100 percent at the time of the export of the finished goods;

• Voucher Scheme: A voucher is a printed document having monetary value which is used in lieu of duties and taxes payable on imported raw materials. The beneficiaries of the voucher scheme are also exporters; and

• Bonded Manufacturing Warehouse Scheme: Producers not eligible for voucher scheme but having licensed for bonded are entitled to operate such warehouse in importing of raw materials duty free.

4.2. Non-fiscal

The non-fiscal incentives given to all exporters are the following:

• Exporters are allowed to retain and deposit in a bank account up to 20 percent of their foreign exchange export earnings for future use in the operation of their enterprises and no export price control is imposed by the National Bank of Ethiopia;

• Franco valuta import of raw materials are allowed for enterprises engaged in export processing; and

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

5. Remittance of Capital

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

• profits and dividends;

• principals and interest payments on external loans;
payments related to technology transfer agreements;
proceeds from the sale or liquidation of an enterprise; and
proceeds from the sale or transfer of shares or partial ownership of an enterprise to a domestic investor.

6. Privatization

The privatization program offers enormous opportunities to both private foreign and domestic investors particularly in the agriculture, manufacturing and hotel and tourism sectors. State-owned enterprises are privatized through competitive bidding. The Ethiopian Privatization and Public Enterprises Supervising Agency (EPPESA) is the responsible organ for executing the privatization program of the country. Currently, the Agency applies different modalities such as equity, joint venture, lease and management contract to privatize state-owned enterprises.

All interested investors are invited to participate in a bid through official announcement on radio, television and in newspapers when transferring public enterprises to the private sector. Eligible buyers are required to fill out and submit a tender document to the Agency. The Agency will notify a winner and handover an enterprise to the buyer after signing a sale agreement. With regard to minimum capital requirement and incentives in case of expansion or upgrading, the investment law also applies to enterprises to be privatized.
Appendix

Restrictions

The following areas are reserved for domestic investors:

1. Areas exclusively reserved for the Government:
   - Postal services except courier services;
   - Transmission and supply of electrical energy through the Integrated National Grid System; and
   - Passenger air transport services using aircraft with a capacity of more than 20 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, hides and skins bought from the market, and live sheep, goats and cattle not raised or fattened by the investor;
   - Import trade (excluding LPG, bitumen and, upon approval from the Council of Ministers, material inputs for export products);
   - Retail trade and brokerage; and
   - 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 and pastries for the domestic market;
   - Barber shops, beauty saloons, and provision of smith, workshops and tailoring services except by garment factories;
   - Building maintenance and repair and maintenance of vehicles;
   - Car-hire and taxi-cab transport services;
   - Commercial road transport and inland water transport;
   - Construction companies excluding those designated as Grade 1;
   - Customs clearance;
   - Grinding mills;
   - Hotels (excluding star-designated hotels), motels, pensions, tea rooms, coffee shops, bars, night clubs and restaurants (excluding international and specialized restaurants);
   - Museums, theatres and cinema hall operations;
   - Printing industries;
   - Saw milling and timber-making;
   - Tanning of hides and skins up to crust level; and
   - Travel agency, trade auxiliary and ticket selling services.

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 to 20 passengers; and
   - Forwarding and shipping agency services.
## Appendix

Ethiopia has concluded bilateral investment and double taxation avoidance treaties with the following countries:

### 30 Bilateral Investment Treaties (BITs)

1994 – 2009

<table>
<thead>
<tr>
<th>BITs</th>
<th>BITs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Kuwait</td>
</tr>
<tr>
<td>Austria</td>
<td>Libya</td>
</tr>
<tr>
<td>Belgium and Luxemburg</td>
<td>Malaysia</td>
</tr>
<tr>
<td>China</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Denmark</td>
<td>Russia</td>
</tr>
<tr>
<td>Djibouti</td>
<td>South Africa</td>
</tr>
<tr>
<td>Egypt</td>
<td>Spain</td>
</tr>
<tr>
<td>Equatorial Guinea</td>
<td>Sudan</td>
</tr>
<tr>
<td>Finland</td>
<td>Sweden</td>
</tr>
<tr>
<td>France</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Germany</td>
<td>Tunisia</td>
</tr>
<tr>
<td>India</td>
<td>Turkey</td>
</tr>
<tr>
<td>Iran</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Israel</td>
<td>USA</td>
</tr>
<tr>
<td>Italy</td>
<td>Yemen</td>
</tr>
</tbody>
</table>

### 12 Double Taxation Avoidance Treaties (DTTs)

1996– 2008

<table>
<thead>
<tr>
<th>DTTs</th>
<th>DTTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Romania</td>
</tr>
<tr>
<td>Check Republic</td>
<td>Russia</td>
</tr>
<tr>
<td>France</td>
<td>South African</td>
</tr>
<tr>
<td>Israel</td>
<td>Tunisia</td>
</tr>
<tr>
<td>Italy</td>
<td>Turkey</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Yemen</td>
</tr>
</tbody>
</table>
Appendix

Tips for foreign investors

Health requirements

Prior to entry, all foreign visitors should be in possession of valid health certificate for yellow fever. Vaccination against cholera is also required for any person who has visited or a cholera-infected area within 6 days prior to arrival in Ethiopia.

Visa and immigration requirements

Visas are required for all foreign visitors to Ethiopia, with the exception of nationals of Kenya and the Sudan. Visas may be obtained at Ethiopia’s diplomatic missions overseas. However, nationals of 33 countries are now allowed to receive their tourist visas on arrival in Ethiopia. The list includes Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Republic of Korea, Kuwait, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Russian Federation, South Africa, Spain, Sweden, Switzerland, Taiwan, United Kingdom and United States.

Public holidays

Public holidays are celebrated according to the Ethiopian (Julian) Calendar which consists of the following:
### September 2011– September 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Public holidays</th>
<th>Days</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 12</td>
<td>Ethiopian New Year</td>
<td>1</td>
<td>National holiday</td>
</tr>
<tr>
<td>September 28</td>
<td>The Finding of the True Cross (Meskel)</td>
<td>1</td>
<td>Christian holiday</td>
</tr>
<tr>
<td>November 6</td>
<td>Id Al Adaha (Arafa)</td>
<td>1</td>
<td>Muslim holiday</td>
</tr>
<tr>
<td>January 8</td>
<td>Ethiopian Christmas</td>
<td>1</td>
<td>Christian holiday</td>
</tr>
<tr>
<td>January 20</td>
<td>Ethiopian Epiphany</td>
<td>1</td>
<td>Christian holiday</td>
</tr>
<tr>
<td>February 3</td>
<td>Prophet Mohamed’s Birthday (Maulid)</td>
<td>1</td>
<td>Muslim holiday</td>
</tr>
<tr>
<td>March 2</td>
<td>Victory of Adwa</td>
<td>1</td>
<td>National holiday</td>
</tr>
<tr>
<td>April 14</td>
<td>Ethiopian Good Friday</td>
<td>1</td>
<td>Christian holiday</td>
</tr>
<tr>
<td>April 16</td>
<td>Ethiopian Easter</td>
<td>1</td>
<td>Christian holiday</td>
</tr>
<tr>
<td>May 1</td>
<td>International Labor Day</td>
<td>1</td>
<td>National holiday</td>
</tr>
<tr>
<td>May 5</td>
<td>Patriots’ Victory Day</td>
<td>1</td>
<td>National holiday</td>
</tr>
<tr>
<td>May 28</td>
<td>Downfall of the Derg</td>
<td>1</td>
<td>National holiday</td>
</tr>
<tr>
<td>August 19</td>
<td>Id Al Fater (Ramadan)</td>
<td>1</td>
<td>Muslim holiday</td>
</tr>
</tbody>
</table>

The maximum number of office closure days in a year is 12 instead of 13, since Easter always falls on Sunday.

### Normal business hours

#### Government

Government offices work 39 hours in a week. Office hours extend from 8.30 a.m. to 5.30 p.m. (lunch break from 12.30 p.m. to 1.30 p.m.) Monday through Thursday and from 11.30 a.m. to 1.30 p.m. on Friday.

#### Banks

Most banks are open from 8 a.m. to 4 p.m., including lunch hours, Monday through Friday. Most banks are also open on Saturday from 8 a.m. to 12 noon.

#### Shops

Most shops are open up to 6 p.m., Monday through Saturday. Some shops, particularly supermarkets, are open on Sundays and public holidays.
Sources of further information

Ethiopian Investment Agency
Addis Ababa
P.O. Box 2313
Tel: +251-11-551 0033
Fax: +251-11-551 4396
E-mail: ethiopian.invest@ethionet.et

Public sector

Ministry of Industry
Addis Ababa
P.O. Box 5641
Tel: +251-11-551 8025-29
Fax: + 251-11-551 4288

Ministry of Foreign Affairs
Addis Ababa
P.O. Box 393
Tel: +251-11-551 7345
Fax: +251-11-551 4300/ 551 1244
E-mail: mfa.addis@telecom.net.et

Ministry of Agriculture
Addis Ababa
P.O. Box 62347
Tel: + 251-11-551 8040/ 551 7354
Fax: +251-11-551 1543
E-mail: vmoasc@ethionet.et

Ministry of Mines
Addis Ababa
P.O. Box 486
Tel: +251-11-646 3166
Fax: +251-11-646 3364
E-mail: information@mom.gov.et

Ethiopian Revenue and Customs Authority
Addis Ababa
P.O. Box 2559
Tel: +251-11-466 7666
Fax: + 251-11-466 8244
E-mail: erca@ethionet.et

Ministry of Trade
Addis Ababa
P.O. Box 704
Tel: +251-11-551 8025
Fax: +251-11-551 5411

Ministry of Culture and Tourism
Addis Ababa
P.O. Box 1907
Tel: +251-11-515 6711
Fax: +251-11-551 2889
E-mail: tour-com@ethionet.et

Ministry of Finance & Economic Development
Addis Ababa
P.O. Box 1905
Tel: +251-11-155 2400
Fax: +251-11-156 0124

Ministry of Labor & Social Affairs
Addis Ababa
P.O. Box 2056
Tel: +251-11-551 7080
Fax: +251-11-551 8396
E-mail: molsa.comt@ethionet.et

Ethiopian Telecommunication Corporation
Addis Ababa
P.O. Box 1047
Tel: 251-11-551 0500
Fax: 251-11-551 5777
E-mail: etc.commun@ethionet.et
National Bank of Ethiopia  
Addis Ababa  
P.O. Box 5550  
Tel: +251-11-551 7430  
Fax: +251-1-551 4588  
E-mail: nbe.excd@ethionet.et

Ethiopian Electrical Power Corporation  
Addis Ababa  
P.O. Box 1233  
Tel: 251-11-155 0811  
Fax: 251-11-155 2345  
E-mail: eelpa@ethionet.et

Ethiopian Privatization and Public Enterprise Supervising Agency  
Addis Ababa  
P.O. Box: 517  
Tel: +251-11-552 1834  
Fax: +251-11-551 3955  
E-mail: pesa.et@ethionet.et

Central Statistical Agency  
Addis Ababa  
P.O. Box 1143  
Tel: 251-11-155 3011  
Fax: 251-11-155 0334  
E-mail: csa@ethionet.et

Environmental Protection Authority  
Addis Ababa  
P.O. Box 12760  
Tel: +251-11-646 5007  
Fax: +251-11-646 4882  
E-mail: esid@ethionet.et

Private sector

Ethiopian Chamber of Commerce and Sectoral Associations  
Addis Ababa  
P.O. Box 517  
Tel: 251-11-551 8240  
Fax: 251-11-551 7699  
E-mail: etchamb@ethionet.et

Ethiopian Horticulture Producer Exporters Association (EHPEA)  
P.O. Box  
Tel: 251-11-663 6750/663 6751  
Fax: 251-11-663 6753  
E-mail: ehpea@ethionet.et

Addis Ababa Chamber of Commerce and Sectoral Associations  
P.O. Box 2458  
Tel: 251-11-552 8120  
Fax: 251-11-551 1479  
E-mail: aachamber1@ethionet.et

Ethiopian Leather Industries Association (ELIA)  
P.O. Box 12898  
Tel: +251-11-515 6144  
Fax: +251-11-550 8935  
E-mail: elia@elia.org.et
### V Appendix

**Client charter of EIA**

<table>
<thead>
<tr>
<th>No.</th>
<th>Type of services</th>
<th>Delivery time</th>
<th>Fee/BIRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Issuance of investment permit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>New investment</td>
<td>4 hours</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>Expansion investment</td>
<td>4 hours</td>
<td>300</td>
</tr>
<tr>
<td>2.</td>
<td>Renewal of investment permit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>New investment</td>
<td>1 hour</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>Expansion investment</td>
<td>1 hour</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Substitution of lost or damaged of investment permit</td>
<td>1 hour</td>
<td>100</td>
</tr>
<tr>
<td>4.</td>
<td>Issuance of commercial registration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Principal</td>
<td>4 hours</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Summary</td>
<td>4 hours</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>Issuance of business license</td>
<td>4 hours</td>
<td>80</td>
</tr>
<tr>
<td>6.</td>
<td>Issuance of work permit</td>
<td>1 hour</td>
<td>600</td>
</tr>
<tr>
<td>7.</td>
<td>Notarization of memorandum of association and articles of association</td>
<td>4 hours</td>
<td>600</td>
</tr>
<tr>
<td>8.</td>
<td>Investment permit amendment/change</td>
<td>3 hours</td>
<td>100</td>
</tr>
<tr>
<td>9.</td>
<td>Construction contractor grading</td>
<td>2 hours</td>
<td>-</td>
</tr>
<tr>
<td>10.</td>
<td>Investment permit revocation</td>
<td>2 hours</td>
<td>-</td>
</tr>
<tr>
<td>11.</td>
<td>Registration of technology transfer agreement</td>
<td>2 hours</td>
<td>200</td>
</tr>
<tr>
<td>12.</td>
<td>Issuance of domestic status certificate to a foreign nationals permanently residing in Ethiopia considered for domestic investor</td>
<td>1 hour</td>
<td>100</td>
</tr>
</tbody>
</table>

*1 USD = 17.8393 ETB (As of May 6, 2012)*