



UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT




International Chamber of Commerce
The world business organization

AN INVESTMENT GUIDE TO ETHIOPIA

Opportunities and Conditions
July 1999



in association with
PRICEWATERHOUSECOOPERS 

UNCTAD

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The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping thousands of member companies and associations from over 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

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New York and Geneva, 1999**

Note

The term “country” as used in this study also refers, as appropriate, to territories or areas; the designations employed and the presentation of the material do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. In addition, the designations of country groups are intended solely for statistical or analytical convenience and do not necessarily express a judgement about the stage of development reached by a particular country or area in the development process.

All references to dollars (\$) are to United States dollars.

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Overview of the UNCTAD-ICC Investment Guides

The least developed countries (LDCs) face many difficulties in realizing their full potential for economic growth and development. One crucial difficulty lies in a lack of investment, including foreign direct investment (FDI). Just as it has come to be widely recognized that FDI can contribute significantly to development—through the injection of capital, technology, management know-how and market access—the LDCs have found themselves falling further behind. At a time when 37 per cent of global inward FDI (\$464 billion in 1997) goes to developing countries, the share of the LDCs stands at less than one half of 1 per cent.

It was in response to this situation that the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC), following a meeting between the Secretary-General of the United Nations and the international business community in February 1998, launched a joint project on investment guides and capacity-building for least developed countries. The project brings together the development and FDI expertise of UNCTAD and the international business perspective of ICC. It focuses not only on the preparation of investment guides but also on capacity-building and promoting dialogue between investors and Governments. (Few genuine investment guides, as opposed to promotional materials, have been compiled for the LDCs. At the time of publication, there were 261 national investment guides produced by four top international accounting firms—Arthur Anderson, Ernst & Young, KPMG and PricewaterhouseCoopers—of which only five were for LDCs.) We see the project as being concerned above all with the launching of a unique process, of which this guide is a partial product.

One distinctive feature of this process is the involvement of nearly 30 internationally recognized companies as “project champions” (see annex 4). These companies, responding to the invitation of ICC, are participating in project workshops and other consultations and will help disseminate project results. Not only does their asso-

ciation give the project greater credibility in the eyes of potential investors, but their involvement also allows us to draw upon their experience in our assessment of investment conditions.

Another distinctive feature of the process is the two workshops to be held in each participating country. First, they make it possible to carry out consultations that make an important contribution to the resulting guide. Next, they allow us to engage in the investment-related capacity-building that is one of the objectives of the project. Finally, they help us initiate a dialogue between investors and Governments: the Ethiopian Investment Authority announced during the second workshop in Addis Ababa its intention of setting up a business advisory council to help it improve the investment climate and attract more FDI.

This guide to Ethiopia is intended for investors and, like the process that produced it, has some unusual features. The present booklet is intended to offer an overview of Ethiopia as an investment location and broadly describe the current investment climate, including the regulatory environment, where possible in a comparative framework. In an annex, it also offers pointers to where further and more detailed information may be found.

The guide comes with a companion volume which is a more informal publication that describes specific current opportunities for investment, and which is the responsibility of the Ethiopian Investment Authority.

In due course, as the pilot phase of the project involving six countries nears completion, the UNCTAD-ICC guides will be available in an electronic format which will ensure that they are *active guides*, linked to a substantial corporate database which will make it possible to transmit relevant information automatically to likely potential investors.

A great many individuals and institutions have contributed to this project and to the production of this guide. Space forbids us to mention them all but we should at least like to recognize the following: the donors whose financial contributions made the project possible, specifically the Governments of China, Finland, France and Norway and the UNCTAD Trust Fund for Least Developed Countries, which helps promote substantive work by the secretariat on LDC-related issues; the companies that helped us by participating in

the consultations and answering our questions, particularly Agip, Hilton, Marubeni, Myung-sung, Shell and Siemens; the representatives of Ethiopian business and Government who participated in our workshops; Herbert Oberhänsli of Nestlé, who provided invaluable advice and encouragement throughout the process; and Tadewos Harege-Work, our consultant in Ethiopia.

We also want to take the opportunity to say how much we appreciated and benefited from the cooperation of the Ethiopian Investment Authority, and in particular its General Manager, Tadesse Haile, and Deputy General Manager, Abi Woldemeskel. Our thanks are also due to the Permanent Mission of Ethiopia to the United Nations in Geneva, and especially its First Secretary, Mussie Delelegn Arega, who played a facilitating role.

This guide was prepared by PricewaterhouseCoopers (UK) under the direction of an UNCTAD/ICC project team that included Karl P. Sauvant, Anne Miroux, Vishwas P. Govitrikar, Ludger Odenthal and Bartolomeo D'Addario of UNCTAD and Martin Wassell and Hubert Danso of ICC. We should like specifically to note here the substantial contribution to this guide made by the late Chris Tillet of PWC (UK). Mr Tillet was associated with the project from its very inception and played the leading role in both workshops in Ethiopia. We are saddened by his recent tragic death in an accident in his home country and will miss his expertise, vitality and dedication to our common objectives.

We are convinced that this guide effectively demonstrates what cooperation between the private and public sectors can achieve in creating a hospitable climate for FDI. The entire project also gives practical expression to the close working partnership that now exists between the International Chamber of Commerce, as the world's leading business organization, and the United Nations system.



Rubens Ricupero
Secretary-General
UNCTAD



Maria Livanos Cattau
Secretary-General
ICC

I. Introduction

This guide has been prepared by PricewaterhouseCoopers on behalf of the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). It comes with a companion volume which is a more informal publication, prepared under the auspices of the Ethiopian Investment Authority, and which provides a listing of specific investment opportunities.

The purpose of this booklet is to provide a basis from which potential investors to Ethiopia may gain:

- A broad overview of the current investment opportunities and prevailing socio-economic and political conditions of Ethiopia; and
- General guidance on the necessary legal and other issues related to undertaking investment in Ethiopia.

The guide focuses on Ethiopia's emerging role as a location for investment and on the key issues likely to be faced by potential investors. It is intended only to give an initial flavour of the Ethiopian market and to encourage potential investors to take a closer look at investment opportunities in the country.

II. Ethiopia

With a population of 60 million, growing at a rate of 3 per cent per annum, Ethiopia is the second most populous country in sub-Saharan Africa (after Nigeria). Ethiopia is one of the oldest nations in the world and its people have an ancient culture and deep-rooted values. The country has one of the lowest crime rates in Africa. Although the gross national product (GNP) per capita of \$110 per head is low, it is growing, and Ethiopia ranks as the fifth-largest United States export market in sub-Saharan Africa, after South Africa, Nigeria, Angola and Ghana. In 1997, the total GNP at current market prices was about \$6.5 billion.



“The main enemies of the people of Ethiopia are poverty and backwardness. The Government of the Federal Democratic Republic of Ethiopia has put in place a comprehensive programme of peace, democracy and development as cardinal elements of the development policy of the country aimed at eliminating these twin enemies. This is because we know, more than anything else, that from each and every peaceful day Ethiopia is a net beneficiary.”

Melesse ZENAWI
Prime Minister of Ethiopia
May 1998

Economically, the agricultural sector, consisting mostly of small privately owned farms, accounts for about half of the country's gross domestic product (GDP), 80 per cent of its exports, and 85 per cent of total employment. Agri-processing, manufacturing and service industries are all growing in importance.

Ethiopia also has potential as a base for exporters, with flows of goods both into the Middle East and into other parts of Africa increasing significantly in recent years.

Recent analysis by UNCTAD has shown that Africa as a whole has become a profitable region for foreign direct investment (FDI), delivering significantly higher returns on investment than other developing regions in the world for United States corporations (see table 1).

The levels of return on investment by Japanese multinational corporations have also been substantial, outstripping those on investments in Europe, South-East Asia and North America (see table 2).

TABLE 1
Rates of return^a on USI in Africa^b and selected regions 1994-1997 (%)

Region	1994	1995	1996	1997
Africa Total	24.6	35.3	34.2	25.3
—Primary	23.9	34.2	36.9	-
—Manufacturing	30.0	42.8	21.3	-
—Tertiary	21.7	21.6	23.1	-
—Other	44.1	35.0	17.4	-
Asia	18.4	20.2	19.3	16.2
Latin America	15.3	13.1	12.8	12.5

Source: UNCTAD, *Foreign Direct Investment in Africa: Performance and Potential, 1999*, table 3.

^a The rate of return is calculated as the net income of US foreign affiliates in a given year divided by the average of beginning-of-year and end-of-year FDI stock.

^b The Africa Total figures exclude South Africa. Figures for sectors include South Africa. For further information, see UNCTAD, *Foreign Direct Investment in Africa: Performance and Potential, 1999*, UNCTAD/ITE/IIT/Misc. 15.

TABLE 2
**Profitability^a of foreign affiliates of
 Japanese TNCs by selected host region 1995**

<i>Region</i>	<i>Percentage</i>
Africa	5.7
South and South-East Asia	2.9
Europe	0.8
Latin America and the Caribbean	7.7
North America	1.1
Pacific	1.9
West Asia	12.6
World	1.9

Source: Based on UNCTAD, *Foreign Direct Investment in Africa: Performance and Potential, 1999*, figure 6.

^a Current income divided by sales.

“Our company has long-established business relations with Ethiopia, especially in providing the agricultural estates with quality inputs for their production. As private distribution is gaining in importance, we are assisting local private distributors in their efforts to bring the products closer to small-scale farmers. The first business results in private distribution are encouraging and new opportunities have been created.”

Rudolf Guyer, Head of BI Africa, Novartis

Despite this track record, Ethiopia—as is the case with Africa generally—has secured only modest levels of FDI compared to developing countries elsewhere in the world. The recent policy reforms and the introduction of a liberal investment code have opened the way for Ethiopia to attract substantially more foreign investment in the future. The key factors relevant to inward investment in Ethiopia are described in table 3 below:

TABLE 3

Ethiopia at a glance: key factors for foreign investors

<i>Strengths</i>	<i>Opportunities</i>
<ul style="list-style-type: none"> • One-stop shop for new investment approvals • Domestic market of 60 million people • Liberalization of the economy • Strong growth record in recent years • Fiscal stability and low inflation • Democratic national Government • Tax incentives • High employer satisfaction with labour as compared to the rest of Africa • Membership of the Lomé Convention 	<ul style="list-style-type: none"> • State privatization programmes • Infrastructure development, including telecommunications • Agriculture and related businesses • Mining and resource development • Manufacturing • Tourism • Access to other regional markets
<i>Weaknesses</i>	<i>Threats</i>
<ul style="list-style-type: none"> • Landlocked area with weak communications/infrastructure • High level of illiteracy • One of the lowest telephone densities in the world • Less than 4% of population currently supplied with electricity and only 25% with access to safe water • Low purchasing power of population 	<ul style="list-style-type: none"> • Continuing war with Eritrea • Increased competition from other nations in Africa • Slow take-up of privatization opportunities • Failure to resolve some compensation claims arising from the period of the military Government

Message from Mr. Y. Ishimaru, Corporate Vice-President, Director, Chief Executive for Europe and Africa, Marubeni Corporation, Japan Managing Director, Marubeni Europe plc:

“Ethiopia is a land of rich potential, not least of which is the high calibre of its human resources and its Government’s determination for the economy to flourish. Having opened our Addis Ababa office over forty years ago, we have many years’ experience in Ethiopia and well understand the need for sustained

effort and a realistic long-term perspective in doing business there. We remain firmly committed to the country and believe that, given continued determination, Ethiopia will realise its goal of ‘Agricultural Development-Led Industrialization’. We look forward to contributing to the nation’s bright future.”

Government Commitment

There has been a major positive change over the past six or seven years in the Government’s attitude towards private investment in general and foreign investment in particular. The Government recognizes the vital role foreign investment can play in the national economic development process, especially by bringing capital, technology and know-how into the country and by strengthening linkages and promoting regional development. The Ethiopian Investment Authority (EIA) has been established to provide a one-stop shop to facilitate entry of foreign investors. In order to encourage, promote and expand foreign investment, the Ethiopian Government has also undertaken a wide range of economic reform programmes with two main agendas—to shift from a command to a market economy and progressively to place the Ethiopian economy under the rigorous discipline of international competition.

Over the period 1992/1993 to 1998/1999 the EIA approved 163 foreign investment projects, of which 21 have become operational and 49 are under implementation. These have included the five-star Sheraton Addis Hotel, a major brewery investment by a French firm, British investments in shoe manufacturing and United States investments in edible oils and bottling. The largest privatization investment (some \$172 million) to date, the Lega Dembi Gold Mine, was by a Saudi investor. The main business sectors in which Ethiopia is seeking foreign investment are:

- Manufacturing industries (including food, beverages, chemicals and pharmaceuticals, plastics, metallic and non-metallic products, paper products, leather and leather products, textiles and garments);
- Agriculture, including agribusiness and processing for exports;
- Real-estate development;

- Education and health services;
- Grade 1 construction contracting;
- Mining and quarrying of gold, marble and granite; and
- Engineering and management consultancy.

The Government is keen to develop and broaden this foreign investment base and the rest of this guide provides an overview of investment opportunities, current economic conditions and the steps required to make an investment in Ethiopia.

III. Investment Opportunities

This section offers a general description of the main areas in which opportunities exist. For a listing of specific opportunities, the reader should consult the companion volume to this guide, prepared by the Ethiopian Investment Authority.

Ethiopia's comparative advantage lies primarily in its abundant, low-cost, disciplined and trainable labour force, the size of its domestic market, and the numerous river basins affording great potential for irrigation and hydropower generation.

Key opportunities for potential investors exist in the following areas:

- State privatization programmes;
- Agriculture;
- Agribusinesses and processing;
- Mining and resource development;
- Infrastructure development;
- Manufacturing; and
- Tourism.

Privatization

The Government initiated a privatization programme in 1995/1996. So far over 170 enterprises and units have been privatized. Most of the smaller enterprises and units were sold to domestic investors, whilst a number of the larger enterprises have been acquired by foreign investors. These include a gold mine, Coca-Cola and Pepsi Cola bottling companies, a brewery, meat processing and canning plants, and a tannery. Over the coming three years the Government plans to privatize a further 120 enterprises. Most of these

enterprises are large and the Government is keen to encourage further participation by foreign investors in the privatization programme.

Agriculture

Ethiopia is endowed with abundant agricultural resources. It is characterized by diverse physical features that allow the country to be divided into 18 major agro-ecological zones and 62 sub-zones, each with its own physical and biological potential. Given this diversity, there are major agricultural investment opportunities in the cultivation of cash crops and horticultural products.

Cash Crops

Coffee, cotton, tea, sugar, spices, oil seeds and tobacco are among the major commercial crops grown in Ethiopia and provide significant opportunities for investment. Ethiopia produces some of the best coffee in the world: the sector involves almost a quarter of the population and is the single most important foreign-exchange earner for the economy.

Ethiopia also grows cotton in large-scale irrigated farms and in small-scale operations. 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. Cotton is also currently exported in small quantities.

Tea is another product with significant investment potential. Ethiopia produces good-quality tea but not currently in large quantities. Interest in and demand for Ethiopian tea is growing rapidly in North America.

Horticulture

Ethiopia's climate and proximity to Saudi Arabia and to Europe and other markets provide opportunities for investment in cut flowers and high-value fruit and vegetable production. A number of cut-flower and horticultural enterprises have started exporting successfully over the past few years.

Irrigated agriculture

Irrigated agriculture is an area of investment potential as the country has abundant water resources. There are nine major river basins and a significant number of large lakes in the Rift Valley. Based on present information, the total potentially irrigable land in Ethiopia is about 3.5 million hectares. To date, only about 160,000 hectares (some 4 per cent of the potentially irrigable land) have been developed (*Source: Ministry of Planning and Economic Development, Government of Ethiopia, 1993*).

Livestock

Ethiopia has a long tradition in processing and exporting leather and leather products. It has the largest cattle population in Africa and the tenth-largest in the world. It has a proven export potential for live animals and livestock products. Private investors are encouraged to participate in commercial breeding as well as the production of meat, milk, eggs and animal feed, and the manufacture of leather products.

Fishing

Ethiopia's extensive inland rivers and lakes contain substantial proven reserves of fish and other aquatic resources. The potential annual freshwater fish production is estimated at about 45,000 tons, of which only 20 per cent are exploited at present. Foreign investment is required for the development of the sector to finance the installation of fishing equipment, cold storage and transport facilities, and processing capacities.

Apiculture

Ethiopia is the largest honey-producing country in Africa and the fourth-largest beeswax-producing country in the world. There are around 10 million bee colonies and over 800 honey source plants in the country. The annual honey and beeswax production is estimated at 25,000 tons and 3,200 tons respectively. This area of agricultural activity is currently underdeveloped and has the potential

for commercial exploitation, including through exports in the region, especially to the Middle Eastern market.

Forestry

Undertaking a sound forest development programme, with the participation of private investors, has become imperative to reverse previous deforestation. 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 chip-board, and the establishment of rubber plantations.

Agribusiness

Agricultural development is the top priority of the Government and the country has witnessed sizeable growth in agricultural productivity over the last two to three years.

With increasing commercialization of the sector, there are growing demands by manufacturing industries for inputs of agricultural products and for the provision of all-round support services such as the maintenance of tractors, harvesters and other agricultural equipment such as grain silos, cold storage and transport. The Agricultural Development-Led Industrialization strategy adopted by the Government facilitates the incentive structure needed to promote foreign investment in agribusiness.

Food Processing

Given the primary focus of the Ethiopian economy on agriculture, the diversity of crops and agricultural products, increasing agricultural productivity and a domestic market of about 60 million people, processing offers large-scale investment opportunities.

Mining

Geological studies have identified a favourable geological environment hosting a wide variety of mineral resources. Initial

explorations have confirmed the existence of deposits of gold, platinum, tantalite, soda ash and phosphate rock. Petroleum and other metallic, industrial and chemical minerals have also been identified.

Despite these discoveries, mineral development remains limited, contributing only one per cent to the national economy. Steps have been 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 licences have been issued to foreign mining companies from Canada, Italy, Saudi Arabia and the United States. A Saudi company has acquired, through the privatization programme, the only primary gold mine in the country.

Infrastructure

Power

The potential of Ethiopia's renewable and non-renewable energy resources is vast. Currently, less than 4 per cent of the population is supplied with electricity. From this low base, domestic demand for electricity is growing on average at 10 per cent per year.

With a view to expanding energy supply, the Government has recently revised the legal and regulatory framework for power generation, transmission and distribution, and foreign investors are now particularly sought to set up hydroelectric power plants. Arrangements may be made with the Ethiopian Electric Power Corporation (EETPCO) for bulk sales of electric power for transmission and distribution.

EETPCO currently operates two large-scale (100 MW and over) and a number of small-scale hydroelectric power plants and supplies power mainly through an interconnected system of transmission lines (230 kV, 132 kV, and 66 kV) and distribution networks (15 kV, 380 V and 220 V).

Telecommunications

The telephone density in Ethiopia per head of population is among the lowest in the world, with less than one per cent of the population having access to a telephone.

Recognizing that the development of an extensive network of telecommunication services is imperative, the Government has now liberalized the sector, allowing foreign investors to participate in telecommunication activities jointly with the Government. The Ethiopian Telecommunications Agency is entrusted with the task of regulating the sector.

Opportunities exist in expanding and upgrading central exchanges (mostly digital) and transmission networks (currently relying on microwave and satellite links) as well as in providing wired and wireless access to the highly scattered Ethiopian towns and communities. A mobile system has recently been introduced in Addis Ababa.

Health and Education

Health and education offer good potential for foreign investment. Foreign investors from the Middle East and the United States are setting up a university, following American curricula, with Ethiopian investors. A Saudi investor is providing a modern hospital and clinic in Addis Ababa. The Government has committed itself to addressing the prevailing health problems in the country by formulating a 20-year health development strategy which will be implemented through a series of five-year programmes.

Manufacturing

The manufacturing sector currently constitutes only a small portion of the economy, contributing about 6.5 per cent of GDP (*Source*: Ministry of Economic Development and Planning). Light manufacturing and agro-processing dominate, with the food, beverage and tobacco processing industries being the most prominent groups in terms of gross value of production.

Between 1992 and 1998, a total of 66 new (foreign) industrial projects were approved and supported by the EIA. At least 10 of these projects, including a tannery, a soap manufacturing factory, a brewery, a bottling factory, a plastic packaging plant and an incandescent lamp factory, have already started production.

High labour content activities such as electronic assembly and low-cost, low-value consumer goods (toys, basic appliances, garments, footwear, etc.) have long been the staple of low-wage developing countries. The macroeconomic environment, including the exchange rate regime, adds to Ethiopia's competitiveness in these products.

Tourism

The unique mix of natural, historical, cultural, archaeological and anthropological attractions marks out Ethiopia as potentially a key tourist destination in Africa.

With the liberalization of the economy, tourism is now growing steadily. Tourist arrivals in 1997 numbered 115,000. Although the stock of hotel rooms in the country and the number of travel agencies and tour operators have also increased over the last few years, there is still a general lack of tourist infrastructure.

Foreign investors are thus required for the expansion of the tourist infrastructure in the most important tourist destinations, which include the northern historic route, the Rift Valley, Omo National Park, Harar and the northern mountains.

Specific Business Investment Opportunities

The EIA maintains a schedule of specific business investment opportunities in Ethiopia for foreign investors. Potential inward investors are invited to contact the EIA to obtain further information (see annex 3).

IV. Investment Conditions

Ethiopia's Political Environment

After a protracted civil war, the Soviet-supported military Government, known as the Dergue, was ousted in 1991 and a broad-based transitional Government was established. Elections were held in 1995 and new elections are due in 2000.

The new constitution, adopted in late 1994, made Ethiopia a federal democratic republic. The federation is made up of nine regions and two chartered cities. The chartered cities are Addis Ababa, which is the seat of the federal Government, and Dire Dawa, in the eastern part of the country.

The federal Government is headed by a President and a Prime Minister. The latter, together with his cabinet (Council of Ministers), exercises full executive powers. The regions, which make up the federation, also have their own respective regional Governments. Each regional Government has a head of the regional state, and bureaux, which are set up along the lines of federal ministries.

The legislature consists of a Council of Representatives and a Council of Federation. The Council of Representatives is the law-making organ of the Republic. The Council of Federation is entrusted with the task of interpreting the federal constitution. Each regional state has its own legislative council. The Council of Representatives elects both the President and the Prime Minister.

Ethiopia is currently at war with Eritrea. This conflict has, however, been relatively localized and is confined to the far north-east of the country.

Business Climate and Attitudes to Investment

The Ethiopian Government is committed to the development of a free market economy.

Significant steps have been taken to transform the economy from a centrally planned command structure to a market-based economy, through the introduction of liberalization, deregulation and demonopolization measures.

The privatization of State-owned enterprises is under way. Taxes have been significantly lowered and the tax system streamlined, and the labour market has been liberalized. These measures have created an environment conducive to private-sector growth.

Since 1992, the Government has undertaken a series of reforms, and broad macroeconomic stability has been achieved. The Government wishes to increase the volume of foreign investment across a wide part of the economy.

There was a general view amongst investors interviewed during the preparation of this guide that Ethiopia is largely free from the culture of corruption that serves as a barrier to investment in certain other locations. Government policies on exchange rates and on average tariffs are generally considered advantageous by investors. However, further financial liberalization (particularly in the foreign exchange regime) is still felt to be necessary.

Economy

The Ethiopian economy remains heavily dependent on agriculture, which accounts for about 50 per cent of GDP. An estimated 85 per cent of the population gains its livelihood directly or indirectly from agricultural production. Coffee exports account for more than 65 per cent of foreign exchange earnings, while hides and skins are the second key foreign exchange earners. Key sectors of expertise in manufacturing are food processing, textiles and garments, engineering and metal goods.

The Ethiopian Government's economic strategy is based on Agricultural Development-Led Industrialization, supported by an

Economic Reform Programme developed in cooperation with the World Bank and the International Monetary Fund (IMF) in 1992, and on a series of structural adjustment programmes since then.

Major gains have been made from the reform programme, particularly as a result of liberalization, low inflation, fiscal discipline and low Government borrowing, infrastructure improvement and the growth of the private sector.

As indicated in table 4, since the introduction of the reform programme, Ethiopia has registered an average annual growth rate of over 6 per cent. As the economy is highly dependent on rain-fed agriculture, economic performance depends to a significant extent on the weather.

Ethiopia has traditionally been a low-inflation country, except during the last few years of the civil war. Inflation has recently been held at below 5 per cent and interest rates kept at positive but reasonable levels.

Since 1995/1996, a countrywide consumer price index has been introduced. The inflation rate was 2.2 per cent in 1996/1997 and -0.1 per cent in 1997/1998 (*Source*: National Bank of Ethiopia). Price stability is a cornerstone of the reform programme.

Consistent with the economic reform programme, the Government has been shifting its role from one of active participation in productive and service sectors to one of creating an enabling environment for the private sector and providing regulatory oversight.

The Government is still active, however, in many sectors including manufacturing, transport and construction. In telecommunications, and power and water supply, the Government enjoys de facto monopolistic positions. The privatization programme under way will reduce the Government's direct role in the economy. The Government has recently enacted a policy to encourage private-sector participation in power and telecommunications.

TABLE 4

Ethiopia's economic performance 1992-1997

Average GDP growth p.a.	6.4% ^a
Average change in private sector GDP p.a.	21% ^b
Increase in exports	32.5% ^c

Sources:^a Ministry of Economic Development and Cooperation, Government of Ethiopia.^b The Economist Intelligence Unit Country Profile: Ethiopia 1998-1999.^c *International Financial Services Yearbook 1998*.

Trade and exports are a major contributor to GDP (41 per cent) and have been actively promoted and supported by the Government.

In 1993, the Government harmonized customs duties and reduced the maximum import duty to 80 per cent. Automated customs processing was introduced in 1995. The import tariff schedule was reformed in January 1996 and again in January 1997, which lowered customs duties on many import items. The maximum custom duty has now been lowered to 40 per cent.

Government policies on exchange rates and on average tariffs are generally considered advantageous by both investors and key agencies.

Total foreign debt as of June 1998 (excluding debt to the Russian Federation) was \$4.1 billion and debt to the Russian Federation worth 3.4 billion roubles, most of which was long-term, publicly guaranteed debt (*Source:* Planning and Research Department of Ministry of Finance, Panorama of Major Financial and Economic Development, April-June 1998). Debt service was 1.6 per cent of GNP and 9.5 per cent of exports of goods and services (*Source:* World Bank, *World Development Indicators*, 1999, table 4.19).

Official development assistance (ODA) in 1997 totalled \$636.6 million. Of bilateral ODA commitments, the largest portion was allocated to social infrastructure and services, followed by food aid and production sectors, primarily agriculture (*Source:* OECD, *Geographical Distribution of Financial Flows to Aid Recipients*, 1999).

Investment Track Record

Foreign investment tripled in Ethiopia between 1996 and 1997, albeit from a low base. Considering the levels of investment in other African countries, however, Ethiopia remains a relatively untapped and unexploited market for investors. In 1997, foreign investment levels reached \$178 million, compared to \$250 million in Uganda and the United Republic of Tanzania, countries with much smaller populations.

As illustrated in tables 5 and 6, over the period from July 1992 to July 1998 a total of 163 foreign-sponsored projects were approved. France, Germany, Italy and the United Kingdom (from Europe), Saudi Arabia (from the Middle East), South Korea (from the Far East) and the United States are currently the main sources of foreign investment in Ethiopia. The number of foreign investment approvals has shown an increasing trend in recent years, especially since 1996. A high proportion of the projects involve joint investments with domestic investors.

TABLE 5

Foreign investment projects by sector 1992-1998

<i>Sector</i>	<i>Number of projects</i>	<i>Approvals of investment (\$ million)</i>	<i>Percentage (by investment)</i>
Agriculture	17	340	24
Manufacturing	72	452	32
Construction	22	142	10
Education and Health	23	92	7
Others	29	370	27
Total	163	1 396	100

Source: Ethiopian Investment Authority.

An indicative list of the current foreign investors in Ethiopia is given in annex 1.

TABLE 6
Foreign investment projects by region of origin 1992-1998

<i>Home country/region</i>	<i>Number of projects</i>	<i>Percentage</i>
Europe	63	39
Middle East	49	30
North America	21	13
Asia	15	9
Others	15	9
Total	163	100

Source: Ethiopian Investment Authority.

A key factor in the growth of foreign investment has been the increase in investor confidence in Ethiopia's protection regime for investors. As outlined in table 7, this is evident in the survey of investors in Africa by the World Economic Forum and the Harvard Institute for International Development, which ranked Ethiopia seventh (together with Burkina Faso) out of 20 countries in terms of investor protection.

Limitations on Foreign Investment

In an effort to stimulate the indigenous economy, the Ethiopian Government has reserved some sectors (see annex 2) for domestic investors only. These primarily concern service industry developments and some small-scale manufacturing activities.

All other areas are open to foreign investors except the defence industries and telecommunication services, where they may invest only jointly with the Government. Foreign investors may also acquire existing local firms in sectors open for foreign investment.

There is no local content requirement, although investors are encouraged to use domestic resources in their manufacturing processes as much as possible. A technology transfer agreement may be entered into between the parent company and the local company/subsidiary. Such agreements have to be submitted to the EIA together with the initial applications for approval.

TABLE 7
FDI protection regimes in Africa 1997

<i>Country</i>	<i>Ranking of FDI protection regime</i>
Tunisia	6.43 (1)
Morocco	5.88 (2)
Namibia	5.61 (3)
Egypt	5.59 (4)
Côte d'Ivoire	5.25 (5)
United Republic of Tanzania	5.23 (6)
Burkina Faso	5.20 (7)
<i>Ethiopia</i>	5.20 (7)
Mauritius	5.13 (9)
Uganda	4.96 (10)
Ghana	4.94 (11)
Cameroon	4.92 (12)
Kenya	4.72 (13)
Mozambique	4.68 (14)
Zambia	4.46 (15)
Zimbabwe	4.15 (16)
Botswana	4.00 (17)
Nigeria	4.00 (18)
Malawi	3.95 (19)
South Africa	3.70 (20)

Source: World Economic Forum and Harvard Institute for International Development, *The Africa Competitiveness Report, 1998*, table 1.12.

NOTE: The investors in the particular countries were asked to give evaluations between 1 and 7 (1: strongly disagree and 7: strongly agree) to the following statement: "Investment protection schemes are readily available for most foreign investors."

Export Markets

Over the last two years there has been a significant increase in interest in Ethiopia as a location for export-oriented investment stimulated by the country's relatively low operational cost base, economic stability and fiscal discipline, and the quality of the labour force.

Ethiopia's strategic location in the Horn of Africa has created an opportunity to establish strong ties with the countries of the Middle East and Europe. Over 50 per cent of Ethiopian exports, which include coffee, meat and livestock, oilseeds and pulses, hides and skins and cut flowers, are marketed in these areas.

TABLE 8
Exports,^a 1991-1996 (millions of birr^b)

	1991/92	1992/93	1993/94	1994/95	1995/96
Coffee	168 324	536 982	718,019	1 799 034	1 724 008
Hides and skins	58 645	134 515	203 610	373 549	309 701
Khat	5 073	65 727	107 932	172 339	174 444
Pulses	386	4 050	27 704	103 103	77 224
Petroleum products	18 826	30 308	72 452	95 092	62 011
Oilseeds	383	1 186	44 187	50 130	41 938
Sugar	1 759	5 090	25 723	2 209	#
Total (incl. others)	279 026	800 814	1 238 729	2 732 046	2 539 056

Source: The Economist Intelligence Unit Country Profile: Ethiopia 1998-1999, reference table 11.

^a Excluding gold.

^b Exchange rates: Birr/\$ 1993: 5,000; 1994: 5,465; 1995: 6,158; 1996: 6,352. (Source: IMF, *International Financial Statistics*.)

TABLE 9

Export performance indicators

(Value in US\$ million, growth and share in per cent p.a.)

<i>Group of products</i>	<i>Value 1997</i>	<i>Growth 1993-1997</i>	<i>Share in exports</i>
Primary products	457	27	88
Natural resource-intensive	31	10	6
Labour-intensive	5	21	1
Technology-intensive	22	-2	4
Human capital-intensive	5	21	1

Source: International Trade Centre, 1999***The Middle East***

Market access and low operational costs have made Ethiopia a significant location for exports to the Middle East, especially to Saudi Arabia.

The Rest of Africa

With a total population of over 750 million people, the African market represents an important area of potential for investors in Ethiopia. Ethiopia was a founder member of the Common Market for Eastern and Southern Africa (COMESA), a preferential trade area which embraces 23 countries with a total population of some 300 million. Preferential tariff rates are applied for imports and exports within the member countries. Over time, it is envisaged that this cooperation will develop into an African economic community.

The Developed World

Given Ethiopia's membership of the Lomé Convention and its status under the Generalized System of Preferences (GSP), investors in the country have important opportunities to access advanced markets for both agricultural and manufactured goods.

The Lomé Convention entitles export products from Ethiopia to duty reductions or exemptions and freedom from all quota restrictions. All industrial products and a wide range of agricultural products, including fruit, vegetables, pulses and oilseeds, enjoy the privilege of duty-free entry into the European Union.

In addition, a wide range of Ethiopia's manufactured products are entitled to preferential duty treatment under the GSP in Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland and the United States, and most countries of the European Union. No quantitative restrictions are applicable on Ethiopian exports falling under the 3,000-plus items currently eligible for GSP treatment.

Ethiopia has signed and ratified investment promotion and protection agreements with China, Italy, Kuwait, Malaysia, the Netherlands, and Switzerland. Similar agreements with Romania and Tunisia are awaiting ratification. The agreements with Italy and Kuwait also provide for the avoidance of double taxation. Discussions are under way with several other countries to conclude similar agreements.

With a view to providing additional guarantees to foreign investors, Ethiopia has joined the Multilateral Investment Guarantee Agency (MIGA). MIGA is the arm of the World Bank that insures foreign investors against political risks such as expropriation, inconvertibility and war damage. MIGA's guarantee programme will become operational as soon as pending claims for compensation left over from the period of the previous military Government have been resolved. The Ethiopian Investment Authority advises that the Ethiopian Government is making progressive efforts to resolve these pending claims. Ethiopia has also signed the World Bank's Convention on the Settlement of Investment Disputes between States and Nationals of Other States, which provides for the international arbitration of disputes with foreign investors. The Convention will enter into force in Ethiopia once it has been ratified by the Government.

Labour Issues

Labour availability and quality

As indicated in table 10, Ethiopia has a large workforce, and the majority of people live in rural areas. The workforce is also relatively young. Addis Ababa, the third largest inland city in Africa, with a population of some 3 million, is the capital and main commercial centre of Ethiopia.

TABLE 10

Labour availability in Ethiopia

Total population	60 million
—Economically active	22 million
—Living in main towns	10 million
Population in major towns	
—Addis Ababa	3 million
—Dire Dawa	100 000
—Harar	90 000
—Dessie	97 000
—Debre Markos	49 000
—Jima	89 000
—Bahr Dar	96 000
—Makelle	97 000

Source: Central Statistics Authority, Government of Ethiopia.

Average unemployment in Ethiopia is estimated at 2.9 per cent, although it should be noted that underemployment is also common, particularly in rural areas. The average urban unemployment rate is 22 per cent.

Labour costs

Labour costs in Ethiopia are low even in comparison with the African average.

There is no minimum wage legislation in Ethiopia but a wage of 120 Birr (\$15) per month is currently acceptable as the minimum rate payable for unskilled workers.

Fringe benefits are negotiated between the employer and the employees' trade unions. Benefits can include bonuses, medical expenses, insurance and pension schemes.

Graduate salaries range from 600 birr (\$75) to 800 birr (\$100) per month, depending on the level of qualifications.

Skills and qualifications

Although the Ethiopian Government has placed a strong emphasis on investing in education, literacy levels are still low. Only 28 per cent of children attend primary schools, and only 15 per cent attend secondary schools. To help counter this, training allowances are now included in the incentives package offered to investors, and a programme of educational reform, which gives greater attention to vocational training, is well under way. Some \$809 million is being spent on upgrading and providing educational facilities under the Education Sector Development Programme 1997-2001.

Around 3,000 students graduate from the universities annually with diplomas, first degrees and advanced degrees.

As indicated in table 11, investors' satisfaction with the availability of skills in Ethiopia is positive and high in comparison to the rest of Africa. English is the medium of instruction in secondary and further education. A number of foreign community schools, including United States, English, French and Italian schools, are already established in Ethiopia.

TABLE 11

Investor satisfaction levels with skills availability

<i>Country</i>	<i>University education: university education available meets the needs of business (1 = strongly disagree, 7 = strongly agree) (ranking in parentheses)</i>	<i>Local labour market: the local labour market has a sufficient supply of educated workers to meet hiring needs of business (1 = strongly disagree, 7 = strongly agree) (ranking in parentheses)</i>
Tunisia	4.80 (1)	5.60 (10)
South Africa	4.75 (2)	2.71 (18)
Ethiopia	4.67 (3)	4.80 (5)
Mauritius	4.40 (4)	4.03 (15)
Malawi	4.31 (5)	3.74 (17)
Burkina Faso	4.17 (6)	5.00 (4)
Ghana	4.11 (7)	5.14 (3)
Botswana	4.11 (8)	3.83 (16)
United Rep. of Tanzania	4.00 (9)	4.30 (11)
Uganda	4.00 (10)	4.10 (13)
Zambia	3.94 (11)	4.10 (13)
Côte d'Ivoire	3.92 (12)	4.76 (6)
Zimbabwe	3.89 (13)	4.64 (8)
Morocco	3.88 (14)	4.71 (7)
Nigeria	3.85 (15)	5.19 (2)
Kenya	3.74 (16)	4.11 (12)
Cameroon	3.67 (17)	4.38 (10)
Egypt	3.48 (18)	4.47 (9)
Namibia	3.45 (19)	2.65 (20)
Mozambique	3.32 (20)	2.68 (19)

Sources: Based on World Economic Forum and Harvard Institute for International Development, *The Africa Competitiveness Report, 1998*, tables 5.08 and 5.09.

Labour conditions and regulations

Labour regulations in Ethiopia have been considerably modernized and brought into line with international practice in recent years.

Normal working hours are limited to 8 hours a day or 48 hours a week. A worker is entitled to 14 working days of annual leave for the first year of service plus one working day for every additional year of service. A weekly rest period of 24 hours is required by law. All public holidays (13 of them altogether) are paid holidays.

There are no restrictions under Ethiopian law regarding the employment of female workers. Male and female workers are subject to the same working hours. It is prohibited, however, to employ women in jobs that are arduous or harmful to their health. A pregnant woman cannot be assigned to night work. Maternity leave, which has to be paid, is for a total of 90 days.

Employment of expatriates is permitted without any restriction for key management posts, including those of general manager, finance controller, technical manager and marketing manager.

Expatriates may also be employed for non-management positions in areas where suitable Ethiopian nationals are not available, once permission is secured from the EIA.

Property Issues

A new legal framework has been established for the leasing of urban land, the value of which is established by public auction or via pre-set rates established by the market.

Costs and availability

Property suitable for business and residence is available in Addis Ababa. Property costs in Addis Ababa are currently \$85/m² for office accommodation and \$24/m² for industrial property.

Conditions

Foreign firms may acquire real estate provided they have the normal investment certificate and the necessary legal status. Legally the Government is the sole owner of land. Land titles may be issued under a leasehold arrangement for a certain number of years, up to a maximum of 100 years. Transfer of titles may be effected at the local municipality level.

The acquisition of real estate was flagged as an issue of concern by private-sector participants in UNCTAD-ICC workshops. Improvements are needed to enhance both the speed and the simplicity of the process.

Industrial Development Zones

Ethiopia does not have any export-processing or similar zones that provide special facilities, treatment, rights or privileges. Industrial zones provided with basic infrastructure are being developed in the Oromia and Tigray regions. Plans are under way to develop similar zones in the other regions, including Addis Ababa.

Financial Sector

The financial sector has been liberalized and there are now six local private banks and eight insurance companies in Ethiopia. Foreign banks are not yet permitted to operate in Ethiopia. Some local entrepreneurs have indicated that they have had difficulties in raising capital locally. Foreign-owned firms can have access to local capital.

Utilities

Electricity

Ethiopia obtains its electricity from two sources; hydroelectric power plants and thermal power stations. The former, with an aggregate power generation capacity of 350 MW, is by far the largest source. All hydroelectric power plants are connected to the national grid, which covers all major cities and towns.

The supply system is being expanded through the construction of additional power plants at four sites, two of which, with an aggregate capacity of 250 MW, are at an advanced stage.

Ethiopia's hydropower potential is estimated at 30,000 MW, of which currently only about one per cent is utilized. On average, power costs are \$0.07 per kWh.

Water

All major cities and towns have municipal water supply systems, and underground water is abundantly available in most parts of the country.

Transport Infrastructure

Roads

As indicated in table 12, Ethiopia's road transport infrastructure is relatively weak, but the improvement of the country's road network has been identified by the Government as a core component of the economic reform programme. More than 20 per cent of the Government's total capital budget in 1998 was allocated to road construction and repairs, and \$3.9 billion has been earmarked by the Government to expand the road network by 80 per cent over a period of 10 years. International highways link Addis Ababa to the neighbouring countries of Djibouti, Eritrea and Kenya.

Rail and ports

A limited rail service stretching 780 km links Addis Ababa with the port of Djibouti via the eastern Ethiopian city of Dire Dawa. Currently, Ethiopia uses Djibouti for its import-export trade. The shift from Assab in Eritrea to Djibouti appears to have occurred smoothly, without any negative effect on Ethiopia's trade. Other ports in the region include Berbera, Port Sudan and Mombasa.

TABLE 12
Transport infrastructure

<i>Country</i>	<i>Roads: paved roads % of total 1996</i>	<i>Roads: normalized road index,^a 1996</i>	<i>Air: passengers carried, 1996 (in thousands)</i>	<i>Air: air freight (in millions of ton-km)</i>
Botswana	23.5	314	104	0
Burkina Faso	16	96	138	16
Cameroon	12.5	59	362	42
Côte d'Ivoire	9.7	86	179	16
Egypt	78.1	149	4 282	198
Ethiopia	15	55	743	118
Ghana	24.1	106	197	30
Kenya	13.9	115	779	48
Malawi	18.5	327	153	3
Mauritius	93.1	110	718	137
Morocco	50.4	144	2 301	57
Mozambique	18.7	141	163	5
Namibia	12.1	362	237	29
Nigeria	18.8	106	221	5
South Africa	41.5	300	7 183	335
United Rep. of Tanzania	4.2	69	224	3
Tunisia	78.9	172	1 371	18
Uganda	-	-	100	1
Zambia	18.3	189	-	-
Zimbabwe	47.4	144	654	153

Source: Based on the World Bank, *World Development Indicators, 1998*, table 5.9.

^a The normalized road index is the total length of roads in a country compared with the expected length of roads, where the expectation is conditioned on population, population density, per capita income, etc. A value of 100 is normal; less is below average.

Air

Aviation is an important means of transport in Ethiopia, with 18 domestic and three international airports. Addis Ababa has developed as an important aviation hub serving North America, Europe, the Far East, Africa and the Middle East. Ethiopian Airlines flies to over 40 destinations in Africa, Europe, North America, Asia and the Far East, with about 50 weekly outbound flights from Addis Ababa.

Telecommunications

Telecommunication services, including telephone, telex, facsimile, the Internet and data communication, are currently provided by the State-owned corporation.

Direct microwave links are available to all major cities and towns in the country. International communication links are maintained via satellite. Microwave links exist with Eritrea, Kenya and Djibouti. Presently, about 200,000 direct exchange lines are served. This number is expected to increase dramatically to over 750,000 lines in two years' time. A mobile system has been introduced recently in Addis Ababa.

As illustrated in table 13, local calls are among the cheapest in Africa and, although Ethiopia has a low density of lines per head of population, Addis Ababa and other major towns are reasonably well served by regional standards.

Taxation and Incentives

In general the tax regime is relatively benign for the investor, with low corporate taxes and assistance with import and export duties. Investors should note that for some sectors (particularly mining) special tax arrangements may apply.

Taxation

For *personal taxes*, the first 120 birr (\$15) earned per month is tax-free. Salaries and wages above 120 birr are taxed progressively at rates of 10 to 40 per cent (the latter applies at 3,001 birr (\$375) per month and above). Transportation allowances, medical treatment expenses, travelling expenses and insurance premiums provided for

in the employment contract are deductible insofar as they constitute a reasonable proportion of total income. Expatriates are subject to personal income tax on income derived from local sources.

TABLE 13

Telecommunications

<i>Country</i>	<i>Telephone mainlines per 1 000 people</i>	<i>Telephone mainlines per 1 000 people in largest city</i>	<i>Cost of local call (\$per 3 minutes)</i>	<i>International outgoing traffic per subscriber</i>
Botswana	48	180	0.03	427
Burkina Faso	3	29	0.12	200
Cameroon	5	30	0.08	352
Côte d'Ivoire	9	36	0.20	285
Egypt	50	95	0.01	37
Ethiopia	3	45	0.03	70
Ghana	4	17	0.08	267
Kenya	8	77	0.06	80
Malawi	4	13	0.04	214
Mauritius	162	206	0.06	118
Morocco	45	121	0.09	104
Mozambique	3	24	0.04	217
Namibia	54	253	—	596
Nigeria	4	16	0.26	233
South Africa	100	495	0.09	83
United Rep. of Tanzania	3	21	0.08	63
Tunisia	64	73	0.07	146
Uganda	2	34	0.19	113
Zambia	9	22	0.25	162
Zimbabwe	15	60	0.03	279

Source: Based on the World Bank, *World Development Indicators*, 1998, table 5.10.

For *sales tax*, the rate of sales tax is 4 per cent for selected lists of agricultural and essential goods, such as live animals and products, vegetables, fruits, printed materials and hides. A levy of 12 per cent is charged on all other products.

Excise tax is levied on selected items when produced locally or imported from abroad. The tax rate ranges from 10 per cent in the case of textiles and television broadcasting receivers to 50 per cent in the case of alcohol. Excise tax is payable on goods produced locally by the producer within a period of three days from the date of production, and on goods imported from abroad by the importer at the time of clearing the goods from the customs net.

Customs duties are payable on imports by all persons and entities without duty-free privileges. The main regulation on customs duty is Proclamation No. 38/1993, which has introduced a harmonized system of classification of goods. The rate of customs duty ranges from 0 to 40 per cent.

There are no taxes on export products (except coffee) or services from Ethiopia.

Ethiopia has treaties with Italy and Kuwait to avoid double taxation, and discussions on similar treaties are under way with several other countries. Intra-company charges, involving the local subsidiary and the parent company abroad, are allowed, provided they are incurred through arm's-length transactions.

Incentives

To encourage investment, the Ethiopian Government has developed a range of incentives for investors engaged in new enterprises and expansion across a range of sectors. The incentives include:

Customs import duty

A 100 per cent exemption from the payment of import customs duties and other taxes levied on imports is granted to all investment capital goods, such as plant, machinery and equipment, as well as

spare parts worth up to 15 per cent of the value of the imported investment capital goods, provided that the goods are not produced or available locally in comparable quantity, quality and price.

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

Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods. Taxes and duties paid on raw materials are drawn back at the time of export of finished products. The duty drawback scheme applies to all taxes at the time of import and to those paid on local purchases.

Income tax holiday

As illustrated in table 14, any income derived from an approved new investment (made pursuant to Proclamation No. 37/1996) is exempted from income tax for periods ranging from one to five years, depending upon the priority of investment activity and the location in which the investment is undertaken.

Income derived from an expansion whose invested capital is in accordance with the Council of Ministers Regulation No. 7/1996, Article 6 (2), is exempted from income tax for a period of two years for pioneer activities and one year for promoted activities.

Research and development incentives

An investor is entitled to deduct expenditure on research, improvement studies or training from taxable income.

TABLE 14

Income tax holidays

<i>Location</i>	<i>Type of investment activity^a</i>	<i>Tax holiday (in years)</i>
Addis Ababa, Nazereth and in	—Pioneer	3
locations within 15 km of the main highway connecting the two cities	—Promoted	1
Underdeveloped locations:	—Pioneer	5
Benshangul and Gumux, Gambella, South Omo, certain zones in Afar, Somalia and other regions determined by the Investment Board		3
All other locations	—Pioneer	4
	—Promoted	2

Source: Ethiopian Investment Authority.

^a “Pioneer activities” are the top tier of activities that are agriculture-based and/or that involve irrigation. Investments requiring a large outlay or having strong linkage effects or investments that are of a strategic nature may also be considered “pioneer” activities.

“Promoted activities” are of secondary priority and include rain-fed agriculture, livestock development, non-basic industries and contracting.

Remittance of capital

Any remittance made by a foreign investor from the proceeds of the sale or transfer of shares or assets upon the liquidation or winding up of an enterprise is exempted from the payment of tax.

Losses carried forward

Business enterprises that suffer losses during the tax holiday period can carry forward such losses following the expiry of the exemption period under the conditions specified in table 15.

TABLE 15

**Criteria for losses which may be carried forward beyond
tax holiday periods**

<i>Location</i>	<i>Type of investment activity^a</i>	<i>Period (in years) during which losses may be carried forward after the expiry of the tax holiday period</i>
Addis Ababa, Nazereth and	—Pioneer	3
locations within 15 km of the main highway connecting the two cities	—Promoted	3
Underdeveloped locations:	—Pioneer	5
Benshangul and Gumux, Gambella, South Omo, certain zones in Afar, Somalia and other regions as determined by the Investment Board	—Promoted	4
All other locations	—Pioneer	5
	—Promoted	3

Source: Ethiopian Investment Authority.

^a See footnote to table 14.

The investor may opt for a straight-line or an accelerated method for the depreciation of assets based on book value.

Business associations

There are chambers of commerce in Addis Ababa and other major cities and towns. The chambers are federated under the Ethiopian Chamber of Commerce. In addition to the chambers, several sector-specific business associations have also been formed in the past few years. They include the Coffee Exporters Association, the Ethiopian Private Industries Association and the Ethiopian Hotels Association.

V. Organizing a Private Business Investment

Foreign participation in investments may be carried out either through the establishment of branches or through locally incorporated enterprises. All foreign investors intending to invest in Ethiopia are required to obtain investment permits. Foreign investments are governed by a number of codes, proclamations and regulations. The Ethiopian investment regime identifies three types of investors:

- Domestic investors;
- Foreign investors (wholly owned); and
- Investors in joint ventures.

The legal regime makes a distinction among the different classes with regard to areas of investment and capital requirements during licensing. In all other respects, the law treats all classes of investors in the same manner during and after licensing.

The EIA is the focal point for promoting, coordinating and facilitating foreign investments in the country. Organized as a “one-stop shop”, the EIA:

- Provides all the necessary information required by foreign investors;
- Approves foreign investment applications and issues investment permits;
- Provides registration services to newly incorporated business organizations;
- Approves expatriate posts in approved investments and issues work permits to foreign employees;
- Issues trade and operating licences for foreign investments;

- Approves and registers technology transfer agreements between local companies and foreign technology suppliers; and
- Facilitates the acquisition of land by foreign investors in accordance with the relevant federal and regional Government laws and regulations.

In all cases of proposed foreign investments, the following documents will have to be submitted in order to secure an investment permit and other certificates and licences:

- A completed application form;
- A project profile;
- A draft memorandum and articles of association, if the investment participation is through a locally incorporated enterprise;
- A list of machinery and equipment intended to be exempted from duty;
- In the case of planned employment of expatriates, a schedule for their replacement by Ethiopians and details of the training programme leading to the replacement; and
- Technology transfer agreements, if any.

If the applicant is a company, the following documents are also required:

- Certificate of incorporation of the parent company;
- Statute or memorandum of association of the company;
- Annual report and financial statement of the company;
- A resolution passed by the owners or the board of the company authorizing the establishment of a branch office in Ethiopia and indicating the capital of the branch, its activities and the name of the manager; and
- A power of attorney for the person authorized to sign on behalf of the company.

All these documents need to be authenticated by the Ethiopian embassy of the investor's home nation, where such an embassy exists.

Approval Procedures

Once the documents listed above are submitted, the EIA will process applications for investment permits and investment incentives, as well as for registration of branches or locally incorporated enterprises.

The necessary documents are then sent to the Legal Documents Registration and Depository Office to be officially signed by the applicants. A public notice appears in an official gazette announcing the formation of the branch/enterprise. Subsequently, an investment permit, certificate of incorporation and other licences are issued to the applicants by the EIA.

Approval time

The aim is to issue investment licences within 10 working days of submission of the complete set of documents. In practice, however, more than 10 days might be required. A recent review by the EIA of a sample of 15 applications indicated a mean processing time of 16.7 working days.

Fees and expenses

The EIA charges a fee of \$30-100 for processing applications, depending on the amount of investment capital. A further expense of \$300-400 may be incurred for stamp duties and the publication of an official notice.

Building and construction permits

Permits are required for all construction. Local municipalities normally issue such permits after examining architectural, structural and sanitary designs. The power supply authority will also have to

be satisfied with electrical drawings before approving a connection to the national grid.

Areas Reserved for Domestic Investors

Certain business activities are reserved for domestic investors (see annex 2). These are mostly small-scale manufacturing and trading activities, such as the retail trade, wholesale trade (except trade in petroleum products), the import trade and the export of traditional commodities.

All other areas are open to foreign investors except defence industries and telecommunication services, where they may invest only jointly with the Government. Foreign investors may acquire existing firms in sectors open for foreign investment.

Operational Characteristics

There is no local content requirement, although investors are encouraged to use domestic resources in their manufacturing processes as much as possible. A technology transfer agreement may be entered into between the parent company and a local company or subsidiary. Such agreements have to be submitted for approval to the EIA together with the initial application.

Ethiopia does not as yet have a comprehensive set of environmental legislation and regulations. Investors are expected to adopt environment-friendly practices, and may be requested to sign an undertaking to that effect. The Ethiopian Environmental Protection Agency may scrutinize projects that are judged to have a significant environmental impact.

Once a business is up and running, it may have to deal with various ministries, authorities and agencies. The most important are the Ministry of Trade and Industry, the Inland Revenue Authority, the Customs Authority, the National Bank of Ethiopia and the Environmental Protection Agency (see annex 3).

Competition and price policies are not rigorously developed. There are no anti-trust laws or laws against unfair competition. All price controls have been dismantled except those on petroleum products.

Exit

Foreign investors may exit their investments through disposal of their shares, assets or entire businesses. Asset disposal by liquidating enterprises requires the prior consent of the Inland Revenue Authority. In accordance with Proclamation No. 37/1996, proceeds from the sale or liquidation of an enterprise are exempt from capital gains tax and may be remitted abroad in hard currency. As Ethiopia does not have a stock exchange, investors wishing to exit their investments will have to find and negotiate with a private buyer.

Ownership

Foreign investors may own any businesses other than those falling in sectors specifically reserved to Ethiopian nationals, the Government and domestic investors.

In the case of joint investment, the Investment Proclamation requires that the domestic partners acquire a minimum of 27 per cent equity ownership interest. Foreign investors may acquire property required for their investment activities. Land is public property and may be acquired only on a leasehold basis.

Intellectual Property

Ethiopia does not have comprehensive legislation providing for the protection of intellectual property. There are, however, legal provisions governing some aspects of intellectual property. A section in the Civil Code of Ethiopia deals with “Literary and Artistic Ownership” regulating mainly issues of copyright. There is also another piece of legislation, Proclamation No. 123/1995, which governs inventions, minor inventions and industrial designs, focusing mainly on patents. Trade names and trade marks are governed by the provisions of the Commercial Code and Proclamation No. 67/1997. Technology licensing is governed by Regulation No. 121/1993. Ethiopia is a contracting party to the Convention establishing the World Intellectual Property Organization (WIPO), which has been ratified by the State.

Investment Protection

The constitution protects private property. Investment Proclamation No. 15/1992 and the revised Investment Proclamation No. 37/1996 also provide investment guarantees against measures of expropriation and nationalization, except when required by the public interest. Where such measures are taken, the Government guarantees to provide adequate and prompt compensation based on the current market value.

Investment permits may be suspended or revoked for good reasons specified in the Investment Proclamation. Disputes arising between a foreign investor and the Government may be settled amicably or, failing that, by the competent court in Ethiopia or through international arbitration. Since 1992, there has been no instance of expropriation, nationalization, revocation or suspension of any investment.

Exchanging and Remitting Funds

The exchange rate is determined at weekly foreign exchange auctions, where banks and large investors (participation requires over \$500,000) participate. Foreign exchange may be acquired from banks at the prevailing exchange rate. Trade-related payments are normally transferred through letters of credit.

Foreign investors are entitled to make the following remittances:

- Profits and dividends;
- Principal and interest payments on external loans;
- Payments related to a technology agreement;
- Proceeds from the sale or liquidation of an enterprise; and
- Proceeds from partial sales of shares to domestic investors.

Expatriate employees may remit salaries and other payments accruing from their employment in hard currency.

The Future

Overall, the Ethiopian Government is working progressively to improve the business climate and regulatory framework for foreign investment and the EIA offers a streamlined service to encourage and facilitate investment in the country. The Ethiopian Government is committed to the development of a free market economy and foreign investment has an important role to play in the continuing liberalization and development of the economy. For further details please contact the EIA:

Ethiopian Investment Authority

PO Box 2313, Addis Ababa, Ethiopia

(Tel: 251-1-510033/153432) (Fax: 251-1-514396)

E-mail: ethiopian.invest@telecom.net.et

ANNEXES

Annex 1

List of Foreign Firms in Ethiopia (*not exhaustive*)

TABLE 16

Foreign firms in Ethiopia

<i>No.</i>	<i>Name of company</i>	<i>Ownership</i>	<i>Business</i>	<i>Address</i>
1	Addis Tyre	Ethiopian Government/ Japanese	Tyre manufacturing	PO Box 2394 Phone: 65155/ 650723 Fax: 652108
2	AFROTEC Informa- tion Technologies	Canadian/Ethiopian	Computer assembly	PO Box 11607 Phone: 611 656 Fax: 613 002
3	Agip (Ethiopia) SC	Italian	Petroleum products distribution	PO Box 1495 Phone: 650522 Fax: 650067
4	Akaki Modern Tannery	Saudi	Leather tanning	PO Box 12633 Phone: 341404 Fax: 341400
5	American University of Ethiopia	Jordanian/Ethiopian	Higher education	PO Box 18933 Phone: 620423 Fax: 655070
6	Apex Bottling Co.	USA/Ethiopian	Water bottling	PO Box 18767 Phone: 651800 Fax: 512001
7	BGI Ethiopia	French	Brewing	PO Box 644 Phone: 511172
8	Bagersh Coffee Exporters	Yemeni/Ethiopian	Coffee export	PO Box 1269 Phone: 516288 Fax: 510922
9	Bereka Agricultural Enterprise	Yemeni/Saudi/ Ethiopian	Oil seed farming	PO Box 30260 Phone: 516474 Fax: 516474

TABLE 16 (continued)

<i>No.</i>	<i>Name of company</i>	<i>Ownership</i>	<i>Business</i>	<i>Address</i>
10	Caroga Eco	Italian	Import of machinery	PO Box 12627 Phone: 161090 Fax: 654595
11	Ethiopia Crown Cork & Can Manufacturing Industry S. Co.	Ethiopian Government/ USA	Cork manufacturing	PO Box 5501 Phone: 340244 Fax: 340216
12	Daylight Engineering	Saudi	Lamp manufacturing	PO Box 8964 Phone: 517762 Phone: 517953
13	ELFORA Agro-Industries	Saudi	Meat processing	PO Box 2500 Phone: 611102/ 614121
14	Ethio Coffee and Tea Plantation and Marketing	Saudi	Plantation	PO Box 1006 Phone: 615608 Fax: 615573
15	Ethio-Japanese Synthetic Textiles	Ethiopian Government/ Japanese	Textile manufacturing	PO Box 2184 Phone: 512004 Fax: 515077
16	Ethio-Leather Industry	Saudi	Tanning and manufacturing of leather products	PO Box 3973 Phone: 650277/ 651780 Fax: 654133
17	Ethiopian Pioneer Hi-Bred Seeds	USA	Seed importation and distribution	PO Box 1134 Phone: 510725 Fax: 510155
18	HUDA Real Estate	Saudi	Real-estate development	PO Box 5787 Phone: 614124/ 614125 Fax: 611609
19	Kombolcha Steel Products Industry	Saudi	Steel products manufacturing	c/o MIDROC Ethiopia PO Box 8677 Phone: 711277 Fax: 711912
20	MAMCO Paper Products	Saudi	Manufacturing	PO Box 5710 Phone: 341009/ 341413
21	MIDROC Construction	Saudi	Construction	PO Box 16960 Phone: 652466 Fax: 653113

TABLE 16 (continued)

<i>No.</i>	<i>Name of company</i>	<i>Ownership</i>	<i>Business</i>	<i>Address</i>
22	MICROC Ethiopia	Saudi	Investment holding	PO Box 8677 Fax: 711912
23	MICROC Lega Deinbi Gold Mines	Saudi	Gold mining	PO Box 2318 Phone: 655205/ 655206 Fax: 655208
24	MICROC Scandinavia Ethiopia	Saudi	Construction	PO Box 16960 Fax: 512244
25	Mitsubishi Ethiopia Trading	Japanese	Trade representative	PO Box 3257 Phone: 512829/ 517768 Fax: 512831
26	Mitsui & Co.	Japanese	Trade representative	PO Box 1300 Phone: 514464/ 511583 Fax: 510065
27	Mobil Oil East Africa Ltd.	USA	Petroleum products distribution	PO Box 1365 Phone: 651125 Fax: 651039
28	Modern Building Industries	Saudi	Building materials manufacturing	PO Box 13093 Phone: 517737/ 511989 Fax: 512374
29	MOENCO	British	Import of vehicles	PO Box 5727 Phone: 613692 Fax: 611766
30	Moha Soft Drinks Industries	Saudi	Bottling of Pepsi brands	PO Box 1270 Phone: 614655/ 615087
31	National Mining Corporation	Saudi	Mining	PO Box 1174 Phone: 204492 Fax: 711677
32	Nestlé Products Export Corporation	Swiss	Food import and distribution	P.O. Box 19992 Phone: 713389 Fax: 713394
33	Selam Health Care	Saudi	Health-care services	PO Box 1038 Phone: 713155 Fax: 710352

TABLE 16 (concluded)

<i>No.</i>	<i>Name of company</i>	<i>Ownership</i>	<i>Business</i>	<i>Address</i>
34	Shama-Macmillan	British/Yemeni/Ethiopian	Publishing	PO Box 57 Phone: 533283 Fax: 533283
35	Shell Ethiopia Ltd.	British/Dutch	Petroleum products distribution	PO Box 3174 Phone: 653040 Fax: 653017
36	Sheraton Addis	Saudi	Hotel	PO Box 6002 Phone: 171717 Fax: 172727
37	Total Mer Rouge	French	Petroleum products distribution	PO Box 1462 Phone: 516077/ 510410
38	ZAK Ethiopia	Kenyan/Ethiopian	Soap manufacturing	PO Box 50402 Phone: 341614 Fax: 552700
39	Orbis Trading and Technical Co.	German	Automotive and mechanical equipment	PO Box 321 Phone: 516211 Fax: 512421
40	Seferian	Italian	Automotive and mechanical equipment	PO Box 64 Phone: 511419 Fax: 510279
41	Jos Hansen and Soehn (Ethiopia) Ltd.	German	Construction equipment	PO Box 1501 Phone: 757270 Fax: 753806
42	BIOSOL Private Ltd. Co.	French/Ethiopian	Intravenous solution	PO Box 9077 Phone: 188541 Fax: 519863
43	East Africa Pharmaceutical Private Ltd. Co.	British/Sudanese	Medicines	PO Box 121776 Phone: 510931 Fax: 519767
44	Summit Partners Private Ltd. Co.	USA	Soft drinks	Phone: 616010 Fax: 616011/ 616281
45	Salini Construction Private Ltd. Co.	Italian	Construction	PO Box 101463 Phone: 511533 Fax: 517195

Annex 2

Areas of Investment Reserved for Domestic Investors

1. Radio and television broadcasting services.
2. Retail trade and brokerage.
3. Wholesale trade (excluding supply of petroleum and its by-products) as well as wholesale by foreign investors of their locally produced products.
4. Import trade.
5. Export of raw coffee, oilseeds, pulses, hides and skins, and export of live sheep, goats and cattle not raised or fattened on own farm.
6. Construction companies, excluding grade one contractors.
7. Tanning of hides and skins up to crust level.
8. Hotels other than star-designated hotels, motels, pensions, tea-rooms, coffee shops, bars, nightclubs and restaurants (excluding international and specialized restaurants).
9. Tour operations, travel agency, commission agency and ticket offices.
10. Car hire and taxicab transport.
11. Commercial road transport and inland-water transport services.
12. Bakery products and pastries exclusively for the domestic market.
13. Grinding mills.
14. Barber shops, beauty salons, smith workshops and tailoring (excluding garment factories).
15. Building maintenance services, repair and maintenance of vehicles.

16. Sawmills and manufacture of wood products exclusively for the domestic market.
17. Customs clearance services.
18. Museums, theatres and cinema hall operations.
19. Printing industry.
20. Artisan mining.

Annex 3

For further information:

Ethiopian Investment Authority
PO Box 2313
Addis Ababa, Ethiopia
tel. 251 1 153 432
fax 251 1 514 396
e-mail: ethiopian.invest@telecom.net.et

Other Governmental Organizations

Central Statistics Authority
PO Box 1143
Addis Ababa, Ethiopia
tel. 251 1 553 011
fax 251 1 550 334

Environmental Protection Authority
PO Box 3248
Addis Ababa, Ethiopia
tel. 251 1 186 197
fax 251 1 610 077
e-mail: envpa@telecom.net.et

Ethiopian Airlines
PO Box 1755
Addis Ababa, Ethiopia
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fax 251 1 611 474
e-mail: eal@telecom.net.et

Ethiopian Customs Authority
PO Box 3248
Addis Ababa, Ethiopia
tel. 251 1 513 100
fax 251 1 518 355

Ethiopian Electric Power Corporation
PO Box 1233

Addis Ababa, Ethiopia
tel. 251 1 550 811
fax 251 1 551 324

Ethiopian Privatization Agency
PO Box 11835
Addis Ababa, Ethiopia
tel. 251 1 150 370
fax 251 1 513 955
e-mail: epa@telecom.net.et

Ethiopian Shipping Lines
PO Box 2572
Addis Ababa, Ethiopia
tel. 251 1 514 204
fax 251 1 519 525
e-mail: ESL@telecom.net.et

Ethiopian Telecommunication Corporation
PO Box 1047
Addis Ababa, Ethiopia
tel. 251 1 510 500
fax 251 1 515 777
e-mail: internet-mark@telecom.net.et

Ethiopian Tourism Commission
PO Box 2183
Addis Ababa, Ethiopia
tel. 251 1 517 470
fax 251 1 517 533

Inland Revenue Authority
PO Box 3087
Addis Ababa, Ethiopia
tel. 251 1 518 200
telex 21989

Ministry of Agriculture
PO Box 62347
Addis Ababa, Ethiopia
tel. 251 1 518 040
fax 251 1 512 984
e-mail: moa.v.m@telecom.net.et

Ministry of Economic
Development and Planning
PO Box 1037
Addis Ababa, Ethiopia
tel. 251 1 552 800

fax 251 1 553 844
e-mail: medac2@telecom.net.et

Ministry of Mines and Energy
PO Box 2543
Addis Ababa, Ethiopia
tel. 251 1 613 355
fax 251 1 611 776

Ministry of Trade and Industry
PO Box 704
Addis Ababa, Ethiopia
tel. 251 1 513 990
fax 251 1 515 411

National Bank of Ethiopia
PO Box 5550
Addis Ababa, Ethiopia
tel. 251 1 517 430
fax 251 1 514 588
e-mail: nbe.excd@telecom.net.et

Other Organizations

Addis Ababa Chamber of Commerce
PO Box 2458
Addis Ababa, Ethiopia
tel. 251 1 513 814
fax 251 1 511 479
e-mail: aachamber1@telecom.net.et

Ethiopian Chamber of Commerce
PO Box 517
Addis Ababa, Ethiopia
tel. 251 1 514 005
fax 251 1 517 699
e-mail: eth.cham@telecom.net

Ethiopian Private Industries Association
PO Box 8739
Addis Ababa, Ethiopia
tel. 251 1 512 834
fax 251 1 552 633

Ghion Hotel
Addis Ababa, Ethiopia
tel. 251 1 513 222
fax 251 1 510 278

Hilton Hotel
Addis Ababa, Ethiopia
tel. 251 1 518 400
fax 251 1 510 064

Imperial Hotel
Addis Ababa, Ethiopia
tel. 251 1 614 490
fax 251 1 614 493

Sheraton Addis
Addis Ababa, Ethiopia
tel. 251 1 517 138
fax 251 1 172 727

Annex 4

UNCTAD-ICC Project on Investment Guides and Capacity-Building for Least Developed Countries

Project Champions

Agip
Akzo Nobel
Anglogold
Banque Nationale de Paris (BNP)
BAT
Bata
Bayer
British Petroleum (BP)
Cargill
Coca-Cola

Commonwealth Development Corporation
DaimlerChrysler
Eskom
Hilton Hotels International
Marubeni Corporation
Moving Water Industries (MWI)
Myungsung International Development
Nestlé SA
Novartis

Rio Tinto
Shell
Sheraton Hotels International
Siemens
Société Générale de Surveillance (SGS)
South African Breweries
Standard Chartered Bank
Unilever
Vodafone

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