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AN INVESTMENT GUIDE TO ETHIOPIA

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Opportunities and conditions
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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 together thousands of members, companies and associations from 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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References to "dollars" ($) are to United States dollars, unless otherwise indicated.

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Three good reasons to invest in Ethiopia

• Market potential

The size of a country's population matters to most investors. Other things being equal, the larger the population the larger the potential market for their products. Nor is this all, for a larger population also increases the pool from which investors draw their employees, whether these are semi-skilled workers or highly qualified professionals. This then is one good reason for considering Ethiopia as a location for investment: its population of nearly 70 million.

Among its East African neighbours, this is twice as large as the next largest, the 35 million in Tanzania. Admittedly, this is a population with a limited purchasing power, but Ethiopia has had GDP growth rates of around 5% for a number of years and growth may be expected to pick up as investor-friendly reforms gather speed. The private sector in the country agrees that reforms *have* gathered speed, especially over the past year or two. The *Economic Freedom Index 2004*, published by the Heritage Foundation in the United States, ranks Ethiopia's economic environment *second* in its list of those *most improved*.

• Climate

Ethiopia is a large country with great geographical diversity. It has 18 ecological zones and five climate zones, ranging from the alpine to the desert. Well over half the country consists of highlands, where the temperatures mostly range from 10°C to 20°C. This climate is, of course, an asset for tourism and also an asset for a variety of agricultural activities, from coffee to roses. It is *ideal* for roses, according to Ethiopia's largest exporter of roses, which chose Ethiopia over its competitors primarily because of its climate. Over 140 kinds of crops are currently grown in Ethiopia. Since agriculture and agro-based industries are the top Government priority for attracting FDI, a variety of incentives are available to foreign investors.

• Soft assets

Ethiopia has the distinction of offering one of the cleanest business climates in the developing world. Among LDCs, it may well be the country with the lowest levels of corruption. According to both foreign and domestic investors, what might be called routine bureaucratic corruption (the confident expectation of bribes by tax or licensing officials) is very nearly unknown in Ethiopia. To make assurance doubly sure, the Government has set up an anti-corruption body that has been active for several years. This feature goes with some others equally appealing. Employers in Ethiopia rarely have cause to distrust the honesty and integrity of their workforce. Crime is uncommon in the country and the level of security of person and property is high. The two main religions in Ethiopia, Christianity and Islam, have co-existed peacefully for a long time and continue to do so today. *Safe, peaceful, stable* and *very nearly free of corruption* – how many business environments in Africa or Asia can be so described?

Acknowledgements

A great many individuals and institutions have contributed to this project and to the production of this guide. Although we cannot list each and every contributor, some merit special mention. These include the donors to the second phase of the investment guides project, specifically the Governments of Finland, Italy, Norway and Sweden; Nestlé SA, which contributed to events held in Ethiopia; the UNDP office in Ethiopia, which facilitated work in the country; the company executives and government officials who participated in the consultations in Addis Ababa; and our consultants in Ethiopia: Fantu Gola, Sonia Pasqua and Tessema Woubneh.

The cooperation of the Ethiopian Investment Commission (EIC) was essential to the success of this project. Our thanks are owed especially to Commissioner Abi Woldemeskel. The Permanent Mission of Ethiopia to the United Nations in Geneva, and in particular Woinshet Tadesse, facilitated work on the project.

This guide was prepared, with the assistance of consultants and advisers both external and internal, by a project team led by Vishwas P. Govitrikar. Valuable input or feedback was provided by a number of people, including Gebrewold Ashengo, Taye Berhanu, Omar Bagersh, Jean-Paul Blavier, Chris de Muynck, Spina Gioacchino, Abraham Gozguze, Tony Hickey, Teshome Kebede, Olivier Mange, Berhane Mewa, Richard Ponsford, Christine Seyfou, Ryaz Shamji, Tadesse Tilahun, Kifle Yeshetila, Arega Yirdaw, Daniela Zampini and Worku Zewde. (Needless to say, none of them is responsible for the final product.) Administrative support was provided by Katia Vieu. The guide was edited by Chris MacFarquhar, and designed and typeset by Nelson Vigneault. Karl P. Sauvant provided overall guidance.

Note to the reader

This document is published as part of the UNCTAD–ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer *overviews* of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private as well as the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is *credibility*. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. "The operating environment" describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, taxation, human resources, and so forth. "Areas of opportunity" offers a description of areas of potential interest to foreign investors. "The regulatory framework" focuses on regulations governing investment and *foreign direct investment* in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

The primary source of further information for an investor wishing to explore investing in Ethiopia is the Ethiopian Investment Commission (EIC) – see box on page 51. Contact details of selected sources of further information, including websites, are provided in appendix 3. Appendix 2 provides the contact details of some 60 foreign investors in Ethiopia.

Preface

Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

This second edition of *An Investment Guide to Ethiopia* (the first appeared in 1999 in quite a different format) is the tenth concrete product of a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *companies* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and Governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment.

Rubens Ricupero
Secretary-General
UNCTAD

Maria Livanos Cattaui
Secretary-General
ICC

The UNCTAD–ICC series of investment guides

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- *An Investment Guide to Ethiopia,* 1999; revised edition in new format, 2004
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- *An Investment Guide to Bangladesh,* 2000
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- *An Investment Guide to Mozambique,* 2002
- *An Investment Guide to Nepal,* 2003
- *An Investment Guide to Cambodia,* 2003
- *Guide de l'investissement en Mauritanie,* 2004

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FORTHCOMING

- *An Investment Guide to East Africa,* 2005
- *An Investment Guide to Kenya,* 2005
- *An Investment Guide to Tanzania,* 2005

Contents

Unilever returned to Ethiopia in 2000 after a longish hiatus, having decided that we would capture a larger share of the local market by being on shore and building a manufacturing base than by staying off shore and relying on imports. The changes we have seen in the last couple of years, in such things as the speed of approval by the EIC, tell us that we made the right decision. The size of the population alone gives Ethiopia market potential but it is the changes in the business climate that suggest that the potential might actually be realized.

Richard Ponsford
Managing Director
Unilever Ethiopia plc

Executive summary

Investors are welcome

Ethiopia began to emerge from an economically damaging period in 1991, when the military regime known as the Derg was overthrown after 17 years of rule (1974–1991). In 1992, the new Government launched an economic reform programme and began moving towards a market economy. Progress in a liberalizing direction has been slow but it has been steady, and the private sector in Ethiopia (both foreign and domestic) agrees that the pace has picked up sharply over the past year or two. As one indication, one might note the dramatic speeding up of service delivery by the Ethiopian Investment Commission (EIC), the body responsible for dealing with foreign investors in the first instance. The issuing of investment licenses took well over three *months* until a year ago – now it takes a little over three *hours*. This is about as clear a signal as possible that foreign investors are welcome. To be sure, the EIC is but one organ of Government and progress is uneven across the federal and regional machinery as a whole, but progress there definitely is. Taxes have come down, infrastructure is being upgraded, restrictions on expatriate hiring are being lifted. Even those who complain that progress has been slow and uneven concede willingly that the recent trend is very positive. The *Economic Freedom Index,* published annually by the Heritage Foundation in the United States, noted in 2004 that Ethiopia offered the *second-most-improved* business environment in the world. The ranking was based on improvement in four areas: trade policy, foreign investment, fiscal burden and government intervention.

Why Ethiopia?

There are a number of reasons why potential investors would find it well worth their while to consider Ethiopia as a location for investment. First and foremost perhaps is *stability and security*. Although this is a large and diverse country – with two major religions, some 80 ethnic groups, and nine regional states – it offers a stable political and economic environment with very little crime and disorder. Next, there is what is potentially one of the largest *domestic market*s in Africa, with 70 million consumers. The market is limited by its low purchasing power but it is growing steadily, with GDP growth rates averaging around 5% between 1996 and 2002. The third reason is Ethiopia's exceptional *climate*. More than half the country consists of highlands, with average annual temperatures under 20°C. The climate offers an excellent environment for various agricultural activities, e.g., floriculture, as well as for tourism. And last, there are the *moral assets* of the country. Ethiopia is exceptional among LDCs in its virtually complete absence of *routine* corruption. The bureaucracy may be difficult to deal with, especially at the lower levels, but investors say that it almost never demands unofficial payments to do its job. The general integrity of the public sector is a reflection of the broader society. Employers do not complain, as they do in some other countries, about pilfering from warehouses.

Opportunities

Opportunities are varied in Ethiopia. As noted above, the climate is a strong asset for activities like floriculture, an area in which the Government is particularly keen to attract foreign direct investment. With altitudes that range from just below sea level to 4,600 metres above it, Ethiopia has one of the most diverse agricultural resources in Africa. The Government offers substantial incentives to investors in agriculture and agro-based industries, including tax holidays of up to eight years. The Ethiopian Investment Commission (EIC) also facilitates the acquisition of land for investors in this field at very reasonable lease rates.

There are opportunities as well in leather and textiles. Ethiopia has the largest livestock population in Africa and the tenth largest in the world – cattle alone number 35 million – and the export of hides and skins was over 70,000 tons in 2001. The leather is uneven in quality and there are opportunities in improving leather quality as well as using it to produce finished goods like shoes and bags. The African Growth and Opportunities Act (AGOA) in the United States offers privileged access to one large market for a variety of manufactured goods, including ready-made garments. The European Union's Everything-But-Arms (EBA) initiative provides access to a second rich market for Ethiopia as a 'least developed country' (LDC).

Tourism represents yet another opportunity for foreign investment. Ethiopia has an ancient cultural heritage and the historic route in the north encompasses memorable sites such as the old capital of Gonder with its castles, the city of Lalibela with its rock-hewn churches, and the island monasteries of Lake Tana with their murals. Although tourism has been growing in Ethiopia – tourist arrivals grew by 72% between 1990 and 2000 – it is from a very low base and the infrastructure needed to approach its potential is still mostly missing, e.g., tourist accommodation approaching reasonable international standards. This lack represents a serious opportunity for a range of foreign companies in this field.

Difficulties facing investors

Unlike Ethiopia's strengths as an investment location, its weaknesses are not unique or even distinctive. In common with all LDCs, Ethiopia suffers from poor infrastructure. Foreign investors in the country rank this at the very top in their list of things calling for Government attention. In fact, the Government has not been inattentive: as witness the improvements in roads and airports. But the task is immense and it has been unevenly pursued, in part no doubt because of a scarcity of resources. Telecommunication and power are two areas in which most investors have seen little progress, although mobile phones have come to Ethiopia and power cuts are less frequent than they used to be. Inadequate infrastructure limits the market potential in a vast and mainly rural country and increases costs – by, for example, requiring companies to furnish themselves with generators against the likelihood of power failure.

Privatization, which could help in this area as in others, has slowed over the past several years and nearly stalled, leading some investors to question the Government's commitment to the market economy. It needs to be remembered, however, that Ethiopia only began to emerge from nearly two decades of committed socialism in the early 1990s and its slow progress towards the market has been free of any major relapse. Still, it remains true that investors see monopolies and market dominance as constraining factors in Ethiopia, complaining, for example, of the way the requirement that all seaborne imports be carried by Ethiopian Shipping Lines raises their freight costs.

The workforce is generally a plus in the eyes of investors, being seen as honest and low-cost. Skills and qualifications remain low, however, and industrial relations are sometimes a problem. Labour unions and some parts of the civil service are seen by many investors as not yet having quite come to grips with the idea of the market economy.

Investment trends

Foreign investment has certainly been growing in Ethiopia but it began with minuscule amounts. In the first half of the 1990s, FDI inflows averaged $8.2 million a year or $1.50 for every $1,000 of GDP. In the second half of the decade, they expanded to an annual average of $155 million. FDI then declined sharply in 2001 and picked up again in 2002, when it was $75 million. The EIC's preliminary data for 2003 suggest an upsurge. According to the EIC's figures for (approved, not necessarily actual) FDI over the past decade, manufacturing has been the main sector to attract investment, followed by agriculture and forestry. Ethiopia's FDI performance has hardly been stellar in the regional context – all its neighbours have done better, with the exception of Kenya. On the other hand, the decline of 2001 was no doubt affected by the conflict with Eritrea, which lasted from 1998 to 2000. With the restoration of peace and the speeding up of improvements in the investor's environment, one may reasonably expect an upward trend in FDI.

Prospects and challenges

As noted above, Ethiopia has large advantages as a competitor for FDI, beginning with its potential domestic market. It also has an appealing climate, a low-cost workforce and one of the cleanest public sectors in the developing world. (One need only recall the frequency with which investors rank corruption as one of their top concerns in other developing countries to sense how enormous a strength this is.) Furthermore, it has made serious efforts to improve the operating environment, as with the major road connections, and strikingly improved its service delivery in such areas as investment licensing. A great deal now depends on how far the recent speeding up of positive changes in the investment climate can be sustained and further advanced. Much still remains to be done. Many restrictions still remain on where FDI can go, for example. Several of Ethiopia's competitors have moved faster and further in liberalization.

Nonetheless, the country has moved considerably given its starting point. Up to as recently as thirty years ago, Ethiopia was a society most commonly described as 'feudal'. It then had a prolonged period under military rule wedded to a command economy. It is hardly surprising that it has taken the country over a decade to start providing visible evidence that it is committed to the market and welcomes foreign investment. And one must note that there is a very broad agreement among investors that they are seeing real changes over the past year or so.

Ethiopia at a glance

Official name	Federal Democratic Republic of Ethiopia
Political system	Federal state with multi-party democracy
Head of state	President Girma Woldegiorgis
Head of government	Prime Minister Meles Zenawi
Political parties in parliament	In the present parliament, the main parties are: the Ethiopian Peoples' Revolutionary Democratic Front (an alliance of four parties with 88% of the seats), the Southern Ethiopian People's Democratic Coalition and the Ethiopian Democratic Party
Next election date	2005
Surface area	1,133,380 sq. km
Population	70 million
Population density	62 per sq. km
GDP per capita	$100 (at purchasing power parity $800)
Currency	Birr
Exchange rates (February 2004)	$1 = Birr 8.65 € 1 = Birr 10.07 ¥100 = Birr 7.78 Rand 1 = Birr 1.25
Official language	Amharic is the working language of the Federal Government. English is widely used in business, in colleges and universities, and in the professions.
Other major languages	Oromiffa, Tigrigna and Somali.
Principal religions	Christian (61.7 %), Muslim (32.8 %), Traditional African (4.6 %) and Others (0.9 %)
Time zone	GMT + 3 (without DST)
Climatic conditions	Despite Ethiopia's location within 15° of the Equator, the central and eastern highlands enjoy subtropical, temperate and alpine climates, with average annual temperatures under 20°C. However, the eastern and the north-eastern lowlands as well as the lowlands on the western and southern margins have tropical and desert climates, with mean annual temperatures of 22°C and 30°C respectively. Rainfall is generally heavy in the western half of the country, varying from 800 mm per year in the northern and north-western margins to over 2,200 mm per year in the south-west. The eastern, north-eastern and southern parts of Ethiopia, on the other hand, are generally dry with annual rainfalls ranging from less than 200 mm to 1000 mm.
Main cities/towns and their populations	Addis Ababa: 2,725,000 Dire Dawa: 248,434 Gonder: 170,372 Dessie: 147,927 Jimma: 138,070 Mekele: 147,858 Bahir Dar: 146,322 Harar: 109,000 Nazareth: 198,513 Awassa: 108,828

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Department of Peacekeeping Operations
Cartographic Section

Country and people

Occupying an area of 1,133,380 square kilometres, Ethiopia is a landlocked country of nearly 70 million people. It shares boundaries with Eritrea to the north, Kenya to the south, Somalia and Djibouti to the east and Sudan to the west. The country has a rugged topography featuring the vast Central Highlands separated from the Eastern Highlands by the Great Rift Valley running from the north–east to the south–west. Altitudes range from 110 m below sea level at Dallol in the north–east to over 4,600 m on the Semien Mountains in the north–west. Surrounding the highlands, which constitute 56 % of the total area of the country, are extensive lowlands with altitudes of less than 1,000 m. Most economic activities take place in the highlands. The country has 18 agro-ecological zones and five traditional climatic zones, including alpine (*Wurch*), temperate (*Dega*), subtropical (*Woina Dega*), tropical (*Qolla*) and desert (*Berha*). The shortest distance to the seacoast is about 60 km from the north–eastern border.

Culturally and ethnically diverse, the population is composed of about 80 ethnic groups. The Oromo and the Amhara are the dominant ethnic groups, jointly accounting for 61 % of the total population. Ethiopian Orthodox Christianity and Islam are the major religions, with traditional animist religions being practiced by many ethnic groups in the south. There are also minority followers of other Christian denominations.

History and government

Although Ethiopia has a long history, going back to the legendary Queen of Sheba, its modern history may be said to begin with the rise to power of Emperor Tewodros II in 1855. Imperial rule continued through the reign of Emperor Haile Selassie and ended in 1974 with the seizure of power by the Derg, a military council that transformed itself into a communist dictatorship and ruled the country until 1991, when the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) deposed it and established a transitional government. In 1993, Eritrea became formally independent. In 1995, a new federal constitution was adopted by Ethiopia. The EPRDF has governed the Federal Democratic Republic of Ethiopia (FDRE) ever since.

The FDRE consists of the Federal Government, nine states and two chartered cities, with each entity vested with legislative, executive and judicial powers. At the federal level, there is a bicameral legislature comprised of the House of People's Representatives (HPR) and the House of Federation (HF). The highest authority of the Federal Government resides in the HPR. The HF has the power to interpret the Constitution and represents the interests of the states. Members of both HPR and the HF are elected by universal adult suffrage.

The President is the head of the Federal State and the Prime Minister, as the chief executive of the Federal Government, leads the Council of Ministers.

Box I.1. The border conflict with Eritrea

The downfall of the Derg regime in 1991 was brought about largely by the twin civil wars fought between the Derg army on the one hand and the Eritrean Popular Liberation Front (EPLF) in alliance with the Tigray People's Liberation Front, later the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), on the other. The people of Eritrea then voted for independence in a referendum held in 1993 and secured it peacefully. Against this background, it was all the more tragic that relations between the two countries began to sour and, in May 1998, led to the commencement of hostilities.

What started as a border skirmish soon grew into an all-out war that lasted for two years. The death toll was estimated at well over 100,000. The Ethiopian press reported the financial cost of the war as 22 billion birr (about $2.5 billion). A number of mediation efforts, among others by the Organization of African Unity (OAU), finally led to the cessation of hostilities in June 2000. In December 2000, the Algiers peace treaty ended the war and established the Eritrea-Ethiopia Boundary Commission (EEBC). The United Nations Mission in Eritrea and Ethiopia (UNMEE) was also established to keep the peace along a demilitarized zone. (UNMEE's current mandate expires in September 2004.)

The Boundary Commission announced its delimitation decision in April 2002. As the parties have come to no agreement on implementing the decision, the Secretary-General of the United Nations has appointed Lloyd Axworthy, former Canadian foreign minister, as his Special Envoy, in an attempt to break the deadlock.

At the moment, there are some 4,000 UN troops monitoring the Temporary Security Zone between the two countries. Barring incidents of cattle rustling, the Zone has been quiet. Legwaila Joseph Legwaila, the Special Representative of the Secretary-General, said at a press briefing in February 2004 that, although the stalemate had created tension, there were no present indications that there would be a resumption of hostilities. Both countries have said that they are committed to peace.

Source: UNCTAD, based on various UN and other sources.

The Prime Minister is elected from among the members of the HPR belonging to the party or coalition of parties that commands a majority in the House. The President is elected by the joint session of both houses for a six-year term and the Prime Minister, who is responsible to the HPR, is elected for a five-year term.

Market size and access

Ethiopia has a large population and thus potentially one of the largest domestic markets in Africa, although the purchasing power of the population is still limited.

Beyond the domestic market, by virtue of its membership of the Common Market for Eastern and Southern Africa (COMESA), embracing 23 countries with a population of 380 million, Ethiopia enjoys market access to these countries at preferential tariffs. With the realization of the African Union, trade liberalization among member states could provide further market access. Ethiopia's proximity to the Middle East also offers potential market opportunities.

Ethiopia has begun the process for accession to the World Trade Organization (WTO). The country also qualifies for preferential access to European markets under the EU's Everything-But-Arms (EBA) initiative and to US markets under the African Growth and Opportunities Act (AGOA).

Furthermore, a broad range of manufactured goods from Ethiopia are entitled to preferential access under the Generalized System of Preference (GSP) in Austria, Canada, Finland, Japan, Norway, Sweden, USA and most countries in the EU. No quota restrictions are placed on Ethiopian exports falling under the 3,000-plus items currently eligible for GSP treatment.

ST AFRICAN

COUNTRY	POPULATION Millions 2001	GNP $ billions 2001	GNP PPP $ billions 2001	GNP per capita $ 2001	GNP per capita PPP $ 2001
Eritrea	4	0.7	4	160	1 030
	66		*53*		*800*
Kenya	31	10.7	30	350	970
Sudan	32	10.7	56	340	1 750
Tanzania	34	9.4*	18	270*	520
Uganda	23	5.9	33**	260	1460**

Source: 2003 World Development Indicators, The World Bank.
* Data refer to mainland Tanzania only.
** The estimate is based on regression; others are extrapolated from the latest International Comparison Programme benchmark estimates.

Government priorities

In 1992, Ethiopia launched an economic reform programme aimed at achieving economic growth through private-sector participation. The Government is now also committed to promoting Ethiopia as a destination for foreign direct investment (FDI).

The liberal economic policy of the 1990s resulted in an average GDP growth rate of about 5% per annum from 1993–1994 to 2000–2001. Inflation has been consistently low, averaging 1.5% from 1997–1998 to 2000–2001. Owing to the collapse of the world price of coffee, the major export commodity, the trade-balance-to-GDP ratio has increased from 11.5% in 1997–1998 to 18% in 2000–2001 (Ministry of Finance and Economic Development, 2003). In general, however, macroeconomic conditions have been stable.

In its 3-year Strategic Plan (2003–2006), the Ethiopian Investment Commission (EIC) envisages attracting FDI from 10 selected home countries by introducing prospective foreign investors to Ethiopia's investment opportunities and conditions. The EIC also encourages existing foreign investors to invest in new or expansion projects. Above all, the EIC plans to improve its service delivery by drastically reducing the time it takes to provide services to investors. In this regard, the EIC now has an amended version of the 2002 Investment Proclamation (Proclamation No. 375/2003, Negarit Gazeta No.8, 28 October 2003), which simplifies the approval process as part of its one-stop-shop service.

Priority areas for investment have been identified as textiles and garments, leather and leather products, agro-processing (including meat-processing),

Box I.2. Civil service reform

Until recently, the Ethiopian civil service was highly centralized and control-minded, with time-consuming procedures that focused on inputs rather than outputs. In a major paradigm shift, the Government introduced the Civil Service Reform Programme in 1996, overhauling legislative frameworks and working procedures so as to make them more responsive to the changing socio-economic environment and the federal system of Government.

The Civil Service Reform Programme Office (CSRPO), under the Ministry of Capacity-building, is the focal federal institution charged with overall planning, direction and coordination of the CSRP. The mission of the CSRPO is " to build an efficient and effective civil service, both at the fedral and regional levels, that supports pro-poor growth and sustainable development; promotes the cardinal values of good governance; and is adaptive and responsive to changes and demands of globalization and technological advance including ICT developments."

Activities and accomplishments

Ethiopia's CSRP initiative had two phases. The design and development phase lasted from late1996 to mid-2001, while the implementation phase began in early 2002. Among the accomplishments are:

- Promulgation of financial laws, by-laws and procedures;
- Introduction of a service delivery policy and a customer-complaints mechanism;
- Establishment of the Federal Ethics and Anti-corruption Commission; and
- Training for several thousand civil servants and parastatal employees on the reformed legislation and improved operating systems.

Future plans

The CSRP focus has now shifted to introducing real improvements in the quality and effectiveness of public service delivery. Dubbed "quick wins", these schemes are implemented by institutions that have identified key service areas requiring process improvements and to which their top management is committed.

Source: UNCTAD, based on information provided by the Civil Service Reform Program Office.

Privatization

The market-oriented economic policy of 1992 recognizes the leading role of the private sector in the economy. In keeping with this policy, the Government established the Ethiopian Privatization Agency (EPA) in 1994, with the mandate to privatize state-owned enterprises (SOEs) in accordance with modalities approved by the Government. The Public Enterprises Supervising Authority, accountable to the Ministry of Trade and Industry, is responsible for identifying and recommending to the Government SOEs to be privatized. The Board of Management of the EPA directs and supervises the activities of the EPA, an autonomous body headed by a General Manager. Proclamation No.146/1998 (as amended in 1999) governs privatization in Ethiopia.

To date, the EPA has used the following modalities to privatize about 220 SOEs and their branches:

- Asset sale: retail outlets, hotels, restaurants, manufacturing and mining enterprises;
- Employee and management buy-outs (MEBO): retail outlets, hotels and restaurants through the Safety Net Programme;
- Joint venture with a strategic investor: a tobacco factory;
- Management contract: two textile factories;
- Competitive sale of shares: Beverage factories and a flour factory; and
- Restricted tender and negotiated sale: three dairy farms and a crop farm.

In the initial years (1995 and 1996) the Agency privatized 102 enterprises, including hotels, retail businesses, warehouses and small and medium-sized factories. However, only 64 SOEs were privatized during the next four years (1997–2000). Out of the total of 166 enterprises (excluding branches), foreign investors acquired 20 enterprises valued at \$326 million in five years (1995–2000). Domestic investors paid \$76.2 million to acquire the remaining 146 enterprises. In the past three years, the Agency has managed to privatize only 10 public enterprises for a total of \$3 million. The more important among the privatized companies are the Legadembi Gold Mine (\$172 million), National Tobacco (\$15.5 million) and Gumaro and Wushwush Tea Production and Marketing (\$27 million). 115 enterprises are currently on the list of SOEs to be privatized. (A partial list appears in Appendix 5.)

In the event of disputes arising during privatization, the preferred method of resolution is amicable settlement by the contracting parties. Failing this, the case may be submitted for arbitration in accordance with the provisions of the Civil Code.

As is clear from the foregoing, privatization has stalled. Several reasons are offered to explain this. According to the EPA, one reason for the slackening pace of privatization is that, while the early privatizations were of relatively small enterprises (many of them not much more than shops), many of the enterprises now for sale are relatively large and the capacity of the private sector to absorb them is limited. In addition, the Government's conditions for privatization, from prices to procedures, have perhaps been too stringent. The EPA recognizes this and is engaged in a rethinking and restructuring process that will lead to greater flexibility. A third reason sometimes given, by the private sector, is that the Government's anti-corruption measures, which have led to the imprisonment of some former EPA officials among others, have created an excess of caution on both sides and had a dampening effect on the privatization process, this in turn leading to its stalling (see box I.3 below).

Box I.3. Combating corruption

Corruption, understood as the misuse of public office for private gain, is commonplace in developing countries (and not unknown in developed ones). In most developing countries and especially perhaps in LDCs, the private sector complains about corruption, which typically manifests itself as a public-sector culture (or sub-culture) that expects and receives bribes to perform routine tasks – such as issuing licenses or clearing customs. 'Unofficial tolls', 'facilitation costs' and 'speed money' are among the euphemisms current in private-sector parlance.

There is perhaps no respect in which Ethiopia stands out more strikingly among LDCs than in its near absence of one form of this unhappy phenomenon. According to the private sector, foreign no less than domestic, *routine bureaucratic corruption* is virtually non-existent in Ethiopia. Bureaucratic delays and difficulties certainly exist, but they are not devices by which officials strive to line their pockets. UNCTAD's consultations with some 35 private-sector representatives in Ethiopia in January 2004 produced not a single complaint about this sort of corruption.

In the light of this, it is interesting that the federal Government has seen fit to set up an anti-corruption body that has been quite active over the past few years. The Ethiopian Civil Service Reform Program (box I.2 above), begun in 1994, led to the establishment of an Ethics Sub-programme in 1998 and then to the empowering of the Federal Ethics and Anti-corruption Commission in May 2001 (Proclamation 235/2001). The Commissioner is accountable to the Prime Minister and is advised by an Ethics Advisory Board of 28 members drawn from the Government, the business community and NGOs. The Commission is organized into nine departments, including an investigations department and a prosecution department.

Some investors see the Commission and its activities as an overreaction by the Government to particular instances of corruption – in banking and privatization – and see this overreaction as having had undesirable, though unintended, consequences. One such consequence, according to these investors, is a dampening effect on the privatization process. Another might be the further tightening of credit, which has been tight to begin with.

The Commission vigorously disagrees. In its view, corruption emerged as a new threat to development as the country began moving towards a market economy and the Government was forced to respond. The Commission's actions – which have led, for example, to the jailing of both the former Chairman of the Privatization Board and the former General Manager of the EPA – have been based, according to Commission officials, on a thorough investigation of evidence and carried out strictly within the limits imposed by the law, which requires, among other things, that a person taken into custody under its mandate be formally charged before a court in no more than 48 hours. As to the suggestion that the Commission can arrest on suspicion and then leave the arrestee indefinitely in jail, officials of the Commission deny it flatly. According to them, to the extent that those charged have had to endure prolonged imprisonment before trial, this has been a function of the tardiness of the judicial system, not of any non-existent draconian powers enjoyed by the Commission.

Whatever the merits of any specific action by the Commission, the generally clean operating environment for business (the absence of routine bureaucratic corruption) is a powerful incentive for foreign firms to consider Ethiopia very seriously as a location for investment.

Source: UNCTAD, based on discussions and correspondence with the Federal Ethics and Anti-corruption Commission and representatives of the private sector in Ethiopia.

MIDROC Ethiopia is proud to be the largest foreign investor in Ethiopia – a country with a huge and trainable workforce, a wonderful climate and almost no corruption. The current political environment is also very hospitable to investors. Once the world knows that there is untapped investment potential, as well as continuous improvement in incentives and governance, we are bound to see more FDI in this beautiful country. MIDROC would certainly welcome it.

Arega Yirdaw
Chief Executive Officer
MIDROC Ethiopia

Economic environment

Ethiopia's economy is based on agriculture, which accounts for 43% of the gross domestic product (GDP), 63% of exports, and 80% of employment. The agricultural sector, however, suffers from frequent drought and poor cultivation practices (box II.2 below).

Coffee is critical to the Ethiopian economy. It earned $160.6 million in exports in 2002, far less than it might. Other important agricultural exports include live animals, hides, pulses, oil seeds, fruits, chat, vegetables, flowers, cereals, and cotton. Under Ethiopia's land tenure system, the government owns all land and provides long-term leases to the tenants (box II.1 below).

The industrial sector, which comprises small and medium-scale manufacturing industries, handicrafts, mining and quarrying, construction, electricity and water, accounts for about 12% of GDP. The service sector, comprised of social services, trade, hotels and restaurants, finance, real estate, and transport and communication, accounts for about 45%.

Growth slowed in 2002. Agricultural production dropped by 3.1%, compared to the 11.4 % growth registered in the previous year. Among other things, the Ethiopian economy was hit by the slowdown in the world economy and a fall in the international price of coffee, the country's major export. The effect was evident in the low credit demand and slowdowns in business activities in the country. Indeed, the impact of the drop in coffee prices could have been worse, but Ethiopia was able to compensate by increasing the volume of coffee exports, and also managed to diversify a little more its sources of foreign currency (mainly in the services sector). Yet another recent factor affecting the economy has been the evolution of exchange rates, mainly the reversal in the exchange rate between the euro and the dollar. This affects debt exposure, as Ethiopia's foreign currency earnings are mainly in dollars, which have lost much value.

Box II.1. Land

In Ethiopia, land is public property. Individuals, companies and other organizations have only the use right of land. Peasant farmers are entitled to use right for an indefinite period, including the right to transfer the land to legal heirs and to lease it to third parties. The maximum limit on rural landholding has been set at 10 ha per household.

There are two broad classifications of land for lease purposes: rural land and urban land. Rural land is leased mainly for agriculture. Abandoned land and unused government land are the kind most available for investment. The lease price of rural land is generally very low. The difficulty in leasing it is the inadequacy of infrastructure.

There is *some* rural land with developed infrastructure and access to markets. Such land is usually available from farmers around the major cities, say within a radius of 100 km. The farmers are compensated by the Government and relocated. This sort of land is provided to investors in floriculture and horticulture at very reasonable prices.

Urban land is divided into land for industrial use and land for other activities. Industrial land is given much attention by the government and the necessary infrastructure connections (roads, electricity, water, telephone) are facilitated. Industrial land in Addis Ababa and in parts of the Amhara and Oromiya regions comes at a low fixed price and the administrative machinery is fairly efficient. Land for export-oriented industries, for example, is generally available at a very low rate. The Ethiopian Investment Commission (EIC) now has the authority to facilitate the acquisition of land by FDI projects throughout the country.

Urban land for other activities is available on an auction basis. The auction prices vary, depending as they do on demand, but are often quite high in places like Addis Ababa.

In principle, the lease value of the land as well as the fixed assets on it can be mortgaged or pledged as collateral, and banks may accept such collateral, perhaps at a discounted rate. In practice, this does not work smoothly. The price of urban land and the difficulty of using leases as collateral are among the primary concerns voiced by investors in this context.

Source: UNCTAD.

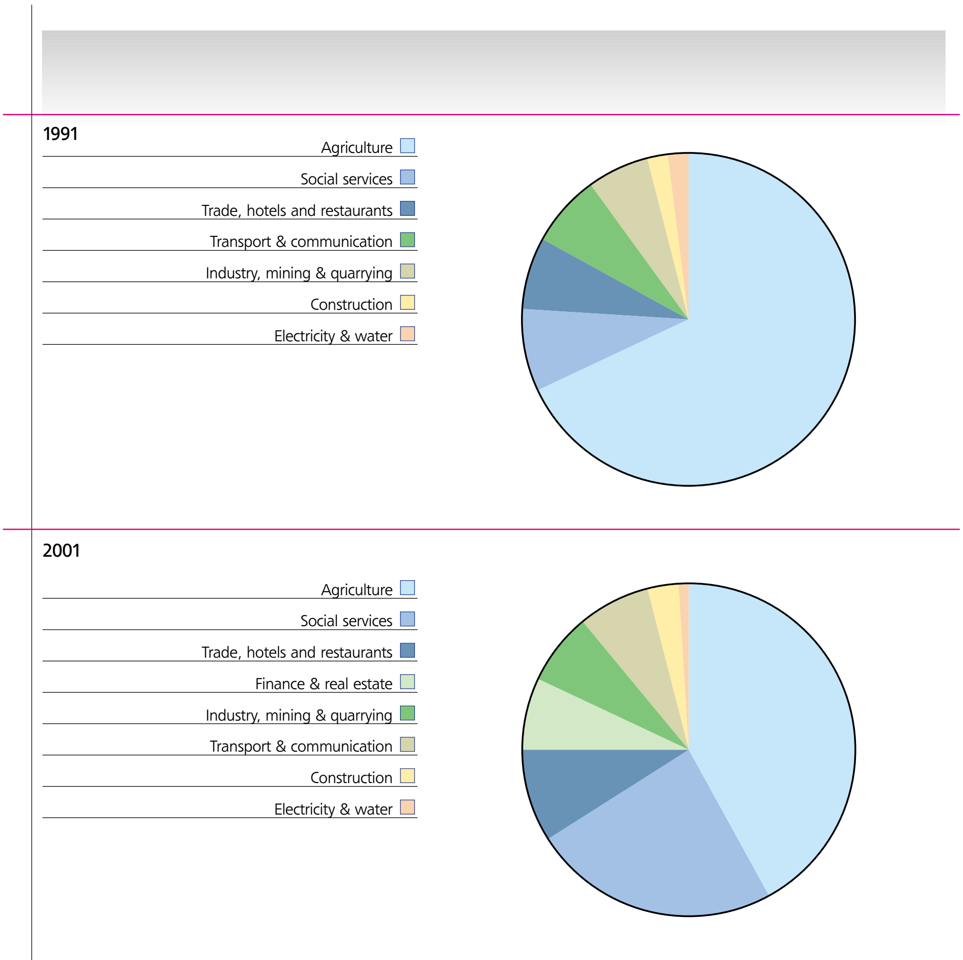
Box II.2. Drought

In the past 30 years, Ethiopia has seen three major food crises: in 1974, 1984 and 2003. The crisis of 2003 was widespread, with almost a fifth of the population requiring emergency food assistance. The immediate cause was inadequate rainfall in 2002, which led to widespread harvest failures and severe pasture and water shortages. The crisis was aggravated by an expanding population and a lack of significant off-farm income opportunities.

Prospects for 2004 are relatively good, given near-normal rainfall in 2003 in most parts of the country. Humanitarian relief requirements are thus reduced significantly, although underlying structural problems persist, along with localized shocks (pests, epidemics) and the continuing impact of unfavourable terms of trade in coffee, on which a significant portion of the rural population partially depends. Pastoral areas of the country remain comparatively more vulnerable in general. In the agricultural sector, seed shortages are an issue.

The Ethiopian Government has taken a number of steps to deal with these crises. Its Rural Development Strategy, Food Security Strategy and Agricultural-development-led Industrial Strategy have all been designed against the backdrop of food insecurity. As far as investment is concerned, agriculture remains the top priority of the Government. A variety of special incentives – tax holidays, duty-free imports – are available to investors in this area. (See box on Incentives for agro-investors in Chapter III.)

Source: UNCTAD, based on information provided by the Disaster Prevention and Preparedness Commission.



Source: Ministry of Finance and Economic Development, Economic survey, 2003.

Trade and investment

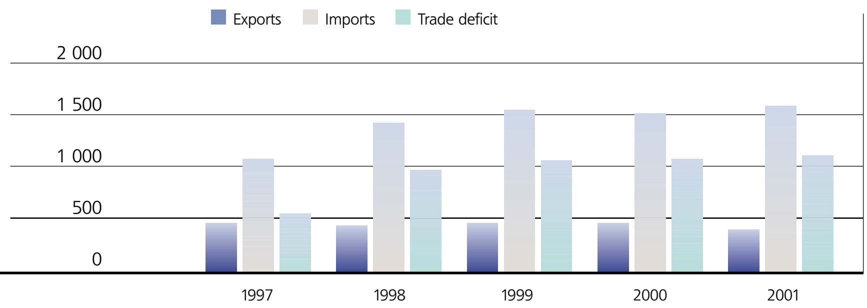
Trade

In order to strengthen and enhance institutional support for the export sector, the government has re-organized and re-vitalized existing institutions: the Ethiopian Livestock Marketing Authority, the Ethiopian Leather and Leather Products Technology Institute, and the Ethiopian Export Promotion Agency. Export taxes and subsidies have been removed.

The coffee-dominated export sector of the country has suffered in recent years. Export receipts were $406.9 million (6.8% of GDP) in 2001–2002 compared to $460.2 million (7.4% of GDP) in 1999–2000 and US$ 427.8 million (6.8% of GDP) in 2000–2001. Another contributing factor for the poor export performance was the decline in chat (a mildly intoxicating leaf) exports. Earning from chat export went down from $71.9 million in 1999–2000 to $59.3 million in 2000–2001 and $22.5 million in 2001–2002 due to a supply shortage. After a significant rebound from the 1999-2000 level of $33.3 million to $71.7 million in 2000–2001, earnings from leather and leather goods exports also declined to $54.9 million in 2001–2002. Canned and frozen meat showed a 35% decline recording only $1.1 million in the year 2001–2002. There was a decline in earnings from the export of meat products, on account of the ban imposed on these export items by some Middle Eastern countries for health-and-safety-related reasons.

Pulses are the one item that has done well lately in exports, rising from $7.9 million in 2000–2001 to $32.7 million in 2001–2002. In 2002, Ethiopian exports were worth $451 million. Germany, Japan, Djibouti, Saudi Arabia were the top four destinations in 2002.

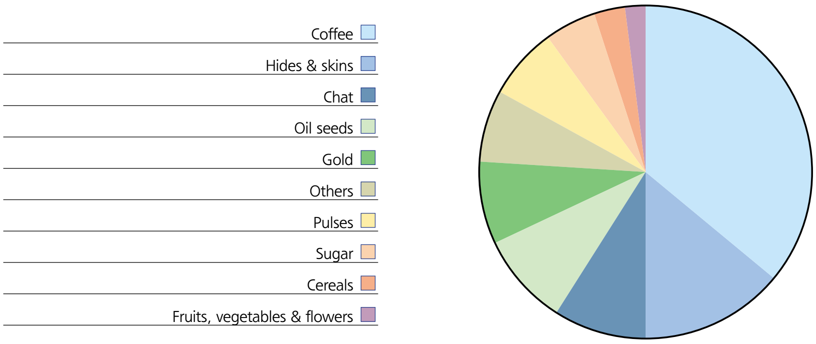
($ million, nominal value) [a]



Source: UNCTAD, based on information supplied by the National Bank of Ethiopia.
[a] In 2001–2002 , $1=Birr 8.6. Using that rate, exports in 2001 were $402.9 million, while imports were $1,684.3 million.

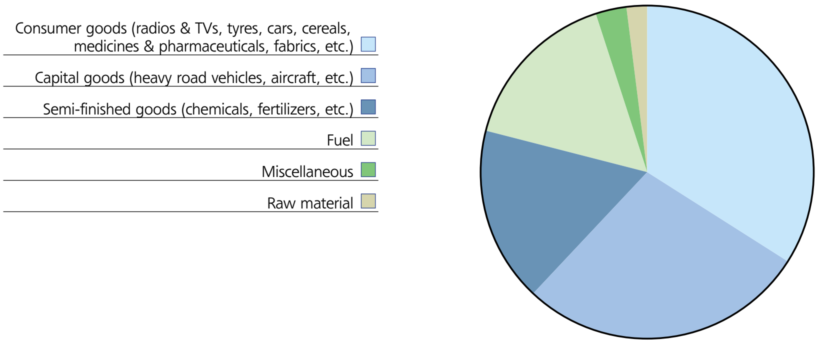
FIGURE II.3. STRUCTURE OF ETHIOPIA'S EXPORTS: PERCENTAGE SHARE OF MAJOR ITEMS IN 2001–2002

1992 - 1996



Source: UNCTAD based on information obtained from the National Bank of Ethiopia and the Export Promotion Agency of Ethiopia, 2003.

1992 - 1996



Source: National Bank of Ethiopia, Annual Report 2001-2002.

Foreign direct investment

Foreign direct investment (FDI) has been increasing during the last ten years. Out of the total investment projects licensed during 1992-2002, FDI's share was about 20%.

Ethiopia remains an untapped and unexploited market for investors compared to neighbouring countries like Sudan and Uganda. France, Germany, Italy, the Republic of Korea, Saudi Arabia, the United Kingdom and the United States are the major sources of FDI.

Out of the total 392 FDI projects licensed by 2003, 12.7% were in agriculture and mining, 46.57% in manufacturing and processing, and 40.7% in trade, hotels and tourism.

TABLE II.1. FDI PROJECTS IN ETHIOPIA: STATUS AS OF DECEMBER 2003

STATUS	NUMBER OF PROJECTS	FOREIGN INVESTMENT cumulative in $ million	EMPLOYMENT*
Operational	77	486.66	51 549
Under construction	103	724.43	17 132
Approved	392	2 172.49	119 237

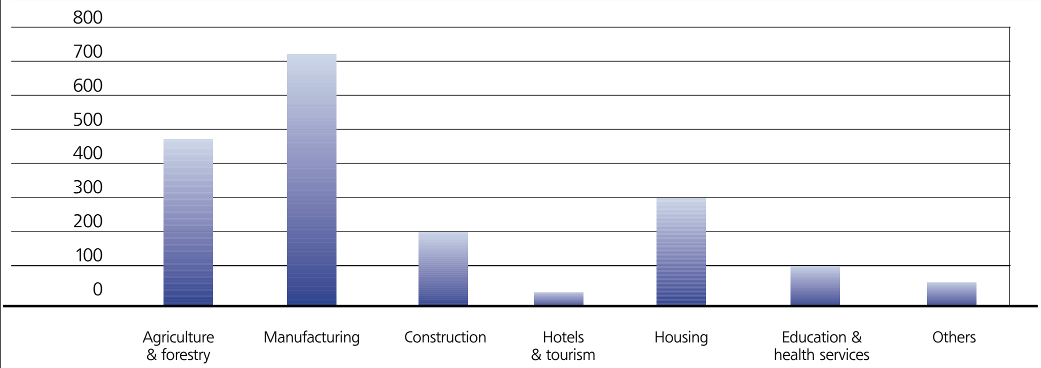
Source: UNCTAD, based on information provided by the Ethiopian Investment Commission.
* Includes both short-term and long-term jobs.

FDI FLOWS TO EAST AFRICA: 1986–2002

COUNTRY	1986–1990		1991–1995		1996–2000		2001		2002	
	$ per $1 000 of GDP	$ millions	$ per $1 000 of GDP	$ millions	$ per $1 000 of GDP	$ millions	$ per $1 000 of GDP	$ millions	$ per $1 000 of GDP	$ millions
	Annual average									
Eritrea	-	-	-	-	102.4	67.5	1.0	0.7	32.0	21.0
	0.3	*2.0*	*1.5*	*8.2*	*24.2*	*155.1*			*12.5*	*75.0*
Kenya	4.7	38.4	1.5	12.8	5.0	52.9	4.4	50.4	4.3	50.4
Sudan	-0.4	-4.4	2.7	22.1	23.4	246.4	45.8	574.0	49.7	681.0
Tanzania	0.1	0.3	9.4	46.4	35.1	291.7	35.0	327.2	25.6	240.4
Uganda	-0.3	-0.1	12.3	53.6	31.3	196.5	40.4	299.2	46.9	274.8
North Africa[a]	7.5	1 282.6	9.4	1 663.1	11.9	2 732.8	22.0	5 473.7	15.3	3 546.2
Other Africa[a]	6.4	1 562.6	9.8	2 827.2	20.1	6 367.7	43.5	13 295.0	22.8	7 451.5

Source: UNCTAD, FDI/TNC database.
[a] North Africa includes Algeria, Egypt, Libyan Arab Jamahiriya, Morocco, Sudan and Tunisia. Other Africa includes all remaining African countries.

(in $ million, cumulative *approved* figures)



Source: UNCTAD, based on information provided by the Ethiopian Investment Commission.

Infrastructure and utilities

Electricity generation

Although Ethiopia has a large potential for both hydroelectric and geothermal power production, only about 1.5% of the potential is currently utilized. Energy consumption per capita is low: 28 KWh. Only about 14% of the population has access to electricity. Electric supply is under the monopoly of the Ethiopian Electric Power Corporation (EEPC), with the supply divided into two major systems: the Interconnected System (ICS) possessing 685 MW installed capacity, of which 657 MW is hydroelectric and 28 MW is thermal, and the Self-contained System (SCS), with a total capacity of 65 MW of which 59 MW is diesel and 6 MW hydro. Altogether, the installed capacity of the hydro, thermal and diesel schemes is about 750 MW, of which roughly 95% represents the dependable capacity. The ICS accounted for 1,781 GWh in 2000-2001, or 98% of total EEPC electric sales, the SCS accounting for the remaining 2%.

EEPC currently provides electricity to 680,325 customers in approximately 479 towns and communities in Ethiopia, which is a small proportion of the country's 70 million inhabitants. In addition to the existing facilities, there are two major hydroelectric projects under construction. These are the Gilgel Gibe and Tekeze projects with capacities of 450 and 300 MW respectively. The former has been commissioned in February in 2004 and the latter will be completed in 2007.

CTRIC POWER

COUNTRY	CONSUMPTION PER CAPITA (in kwh)		TRANSMISSION AND DISTRIBUTION LOSSES (as percentage of output)		ELECTRICITY PRODUCTION (in thousands of kwh)	
	1990	2000	1990	2000	1990	2000
Eritrea	..	..	..	..	..	..
	18	*22*			*1 202*	*1 689*
Kenya	116	106	16	22	3 034	3 883
Sudan	51	66	15	15	1 515	2 450
Tanzania	51	56	20	22	1 628	2 349
Uganda	..	..	..	..	..	..
SSA[a] average	451	432	9	10	-	-
SSA[a] total	-	-	-	-	222 481	282 382

Source: UNCTAD, based on the World Bank, *World Development Indicators, 2003*, http://publications.worldbank.org/WDI/.
[a] Sub-Saharan Africa also includes Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tomé and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Togo, Zambia and Zimbabwe.

Telecommunications

As of December 2003, there were 427,080 fixed telephones, 97,827 mobile telephones, and 11,361 dial-up, 57 leased-internet and 77 data-service subscribers.

The Ethiopian Telecommunication Corporation (ETC) is currently completing a 200,000-lines mobile service expansion, which will expand coverage of mobile service to 12 major regional centers and their surroundings. An additional 350,000 lines are under procurement and will be operational by the end of 2005. ETC is currently also executing three Broadband Multimedia Connectivity Projects (BMCP) intended to increase bandwidth.

According to the Ethiopian Telecommunication Agency (a regulatory and policy-making body), the government's policy is to expand the domestic market by inviting the participation of the private (especially the foreign private) sector in the telecommunication business in partnership with the government. A search for a strategic partner with a sound technical background and capability is now under way.

ELECOMMUNICATION

COUNTRY	FIXED TELEPHONE LINES PER 100 INHABITANTS		AVERAGE COST OF TELEPHONE CALL TO US $ PER 3 MINUTES	CELLULAR MOBILE SUBSCRIBERS		INTERNET	
				Per 100 inhabitants	As % of total telephone subscribers	Users per 10,000 inhab.	Estimated PCs per 100 inhab.
	1995	2002	2001	2002	2002	2002	2002
Eritrea	0.5	0.9	..	..	..	22.6	0.2
	0.2	*0.5*		*0.07*	*12.0*		
Kenya	1.0	1.0	6	4.15	80.2	159.8	0.6
Sudan	0.3	2.6	39.0	0.59	22.1	25.8	0.9
Tanzania	0.3	0.4	13.3[c]	1.27	74.2	29.8	0.4
Uganda	0.2	0.2	9[c]	1.59	87.7	25.2	0.3
SSA[a] average	1.1	1.5[b]	5.1	2.8[b]	..	42.8[b]	5.5[b]

Source: UNCTAD, based on the International Telecommunication Union, http://www.itu.int/ITUD/ict/publications/wtdr_02/index.html; the World Bank, http://publications.worldbank.org/WDI/, *World Development Indicators, 2003*; and the UNDP, *Human Development Report, 2003*.

[a] See footnote a to table II.3.

[b] Figures for 2001.

[c] Figures for 1998.

Water, sewerage and health services

Access to safe potable water in the year 2000 for urban areas of Ethiopia was 72%, though if Addis Ababa is excluded the figure drops to 38%. Access to safe potable water for rural Ethiopia is about 24%. Sanitation facilities are basically non-existent except in Addis Ababa and a few other cities. The country utilizes only a small portion of its aggregate annual run-off of about 122 billion cubic metres and its groundwater potential of 2.6 billion cubic metres.

According to the World Fact Book of 2002, 47% of the Ethiopian population is below 14 years, 50% is between 15 and 64 years and the remaining 3% is above 64 years. The population growth rate in the year 2002 was 2.64%. The birth and death rates were 44.31 and 18.04 per 1000 in the same year. The ratios of health facilities and health workers to the population were as follows in 2001: Hospitals 1:594,036, clinics 1:18,869, hospital beds 1:6,086, doctors 1:47,836, nurses 1:8,461 and pharmacists 1:768,753 (Ministry of Health, Health indicators, 2001–2002).

Box II.3. HIV/AIDS

Sub-Saharan Africa has suffered more heavily than any other region of the world from the ravages of HIV/AIDS. Of the 40 million people living with the disease at the end of 2003, some 26 million were in sub-Saharan Africa.

Ethiopia's epidemic started in the early 1980s. With its large population, it is perhaps not surprising that about 5,000 people are estimated to get infected every week, with nearly 3 million people infected and nearly 1 million children orphaned. Current levels of capacity and service provision in the regions are limited and risk further decline as the epidemic intensifies. Ethiopia is a large country, with approximately 85% of its inhabitants living in rural areas where surveillance is difficult. Ethiopia's socio-cultural make-up, with its fluid borders and mobile traditions, as well as its recent conflict with Eritrea, may add to the factors that serve to drive the epidemic.

Despite all this, there are some very positive points to note. First and foremost, the adult prevalence rate (the proportion of people aged 15–49 living with HIV/AIDS) of 7.3% is lower than the average for sub-Saharan Africa (7.5–8.5%) and *much* lower than in the worst affected countries – over 20% in seven of them and over 10% in a further five. Next, there have been some notable changes. The rate dropped, for example, from 24% in 1995 to 11% in 2003 among pregnant women aged 15 to 24 in Addis Ababa. Furthermore, for all the limitations of resources and information, there is increasing demand for voluntary counselling and testing, particularly among the young.

The Government has established the National AIDS Council, which is under the leadership of the President. Ethiopia has a National HIV/AIDS policy to guide implementation of its programmes. Constitutional articles, outlining the rights of women and children in particular, back the policy. Some key federal bodies have prepared action plans. All regional states have consolidated action plans for 2003–2004. Funding continues to be a problem. Thus far, the federal government has committed $2 million and regional governments a further $1 million.

Source: UNCTAD, based on information drawn from UNAIDS (www.unaids.org).

Road transport

In 1951, when the Ethiopian Roads Authority was established, the total road network amounted to 6,400 km. During the three regimes that followed – the Imperial (1951–1973), the Derg (1974–1991), and the current (1992–) – the road network increased annually by 2.1%, 6.2% and 8.4% respectively.

By 2002, the total road network had reached 33,297 km, of which 4,053 km (12%) were paved and the remaining 29,244 km (88%) gravel. Of the present classified road network, about 16,617 km are considered part of the main road network, administered by the Federal Government, and the remaining 16,680 km "rural roads", under the Regional Rural Roads Authorities.

Large parts of the country still have no real access to road transport and hence no access to social services or to markets. However, the last ten years have seen a significant increase in access to production centres and markets for agricultural commodities, associated extension services and input supplies, and industrial products and services.

Aware of the crucial role of the road sector in the economic recovery of the country, the Government has given special attention to the development of the sector since 1992. The Road Sector Development Program (RSDP, 1997–2007) has two principal objectives: to reduce transport costs on the road network and to create road access for the rural population and the drought-affected areas. The programme has two phases. The first phase was implemented between 1997 and 2002. Its targets and achievements are shown below.

The total classified road network increased by about 40% from 1997 to 2002, much of the increase being in regional roads. The road density increased from 21 km per 1000 sq. km in 1994 to 30 km per 1000 sq. km in 2002. The efforts of RSDP I in improving the condition of the road network have not fully met expectations, mainly because of an unrealistic original schedule coupled with slow subsequent implementation. Despite this, the maintenance efforts and the rehabilitation of the main road sections have significantly improved the condition of the federal road network.

RSDP II envisages the rehabilitation of 1,014 km of roads, the upgrading of 1,864 km and new construction of 5,693 km. In addition, it includes heavy and routine maintenance in several types of roads and bridges, and studies for follow-up operations. The programme is estimated to cost $1,482.6 million. The major external sources of financial support for RSDP II include the African Development Bank (ADB), the European Union (EU), the International Development Association (IDA), OPEC, and the Governments of Germany, Italy, Ireland, Japan, Sweden and the United Kingdom.

Addis Ababa is an important regional and international transport hub. The road network radiates from Addis Ababa in five main lines to the regions. The RSDP has attached great importance to the upgrading and rehabilitation of major trunk roads radiating from the capital. At present, the Addis Ababa-Modjo-Awassa project has been completed and the Addis Ababa-Debremarkos-Gonder project partially completed, while the Addis Ababa-Ambo and Addis Ababa-Jimma projects are under construction.

ARGETS AND ACHIEVE

COMPONENTS	TARGETS		ACHIEVEMENTS	
	Physical (Km)	Financial (million birr [a])	Physical (km)	Financial (million birr [a])
Rehabilitation and upgrading of trunk roads	2 542	4 580	1 547	3 556
Construction and upgrading of link roads	785	876	826	881
Construction of rural roads	5 400	1 626	6 000	15 000
Periodic maintenance	1 124	356	254	94

Source: Road Sector Development Program (2003).
[a] $1 = birr 8.6.

Air transport

Distance, terrain and an underdeveloped road system make air transport an important part of Ethiopia's transport network. Ethiopian Airlines (EAL), a government-owned corporation that began operations in l946, provides both domestic and international air service. Many international and several regional airlines also provide regular service between Ethiopia and other countries.

EAL links the country with 45 cities in four continents: 26 in Africa, 12 in Asia, 5 in Europe and 2 in the Americas. It has a good safety record and is one of the few profitable African airlines. It also provides training and maintenance services to more than a dozen other African and Middle Eastern airlines.

International airports are located at Addis Ababa and Dire Dawa. In the last ten years, the Government has built airports in Bahardar, Gonder, Mekele, Axum, Lalibela and Arba Minch. These have the capacity to accommodate jet planes and an average of 200 terminal passengers. The new passenger terminal at the Addis Ababa Bole International Airport became functional in 2003. The construction of a cargo terminal and maintenance hangar is under way.

Private companies are beginning to enter the airline business in the country. Abyssinia and General System Engineers, private passenger airlines, have already started charter operations. A new law allows cargo plane operators at all levels and welcomes foreigners as well as Ethiopians. Domestic passenger operations remain reserved for Ethiopians.

Railways and waterways

The only railway that provides passenger and freight transport is the Ethio-Djibouti railway. The Ethiopian segment of the railroad is 681 km. In 1998, Djibouti and Ethiopia announced plans to revitalize the century-old railway that links their capitals and since then Ethiopia has made an effort to repair and maintain the line. In 2001, Ethiopia and Sudan agreed to build a line from Ethiopia to Port Sudan.

The secession of Eritrea from Ethiopia made Ethiopia a landlocked country. Until the border conflict between Ethiopia and Eritrea in 1998, Ethiopia was using the ports of Assab and Massawa in Eritrea. Since then, it has been using the port of Djibouti for nearly all of its imports and exports. Access to Djibouti is by rail and road. Ethiopian Shipping Lines (ESL) provides import-export and coastal carrier services on its vessels. (Investors complain about being forced to use the expensive ESL for all seaborne imports.) Cargo handling, harbour facilities and services are mainly provided by the Ethiopian Maritime and Transit Services Corporation but also by private companies.The financial sector and business support services

TRANSPORT AND RO

COUNTRY	AIR TRANSPORT, FREIGHT		AIR TRANSPORT, PASSENGERS CARRIED		ROADS, TOTAL NETWORK	
	Million tons per km		Thousands		Thousands of km	
	1990	2001	1990	2001	1990	2000
Eritrea	..	..	..	..	4	4
	67	*79*			*28*	*32*
Kenya	52	93	794	1 418	61	64
Sudan	13	33	454	415	10	12
Tanzania	1	3	292	171	56	88
Uganda	22	21	116	41	..	27
SSA[a] total	-	-	14 808	17 069	1 107	1 657

Source: UNCTAD, based on the World Bank, World Development Indicators 2003, http://publications.worldbank.org/WDI/.
[a] See footnote a to table II.3.

The financial sector and business support services

The National Bank of Ethiopia (NBE) is as the central bank. Commercial banking functions are performed by the Commercial Bank of Ethiopia (CBE) and by 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 nine (three of them government-owned and the rest private) in 2002. This includes the two specialized banks, 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. There are complaints that the DBE has been bureaucratic and slow-moving and not as investor-friendly as it might be.

The CBB provides long-term loans for the construction of plants producing housing construction materials (such as concrete blocks, roofing materials, etc.), and the construction of private schools, clinics, hospitals, and real estate development.

The number of insurance companies is also nine (one is government-owned and the rest private). The entry of foreign companies into the financial sector remains forbidden. According to the government, this will remain so until such time as the domestic banks have attained greater competitiveness and the NBE's supervisory and regulatory capacity is strengthened. (A weak banking system was identified as a constraint on investors by UNCTAD's Good Governance report in 2002 – UNCTAD, 2002.) Private banks operating in the capital and other major cities are: Awash, Dashen, Abyssinya, United, Wegagen and Nib.

In addition to banks and insurance companies, micro-finance institutions play an important role in providing credit and saving facilities. As of June 2002, 21 micro financing institutions, with a paid up capital of about $4.4 million, were operating in different regions of the country. Over half a million people, particularly those living in rural areas, have benefited from the services of these institutions.

In conformity with the relevant laws of the country, foreign enterprises formally registered and operating in Ethiopia are entitled to access domestic credit on the same terms and conditions as Ethiopian companies. Exporters, including foreign enterprises, may also have access to external loans and suppliers' or foreign partners' credit in keeping with the directives of the National Bank of Ethiopia (NBE). Foreign investors must have their investment capital, external loans and suppliers' or foreign partners' credits registered with the NBE. Enterprises need viable project proposals and proof of ownership before they apply for credit.

Capital markets and insurance

The financial market in Ethiopia is at a nascent stage and lacking in a strong legal and institutional framework. The Treasury bills market is the only actively functioning primary market, there being no secondary market.

Long–term securities, solely government bonds, are not widely used or traded, although government bonds have occasionally been used to finance government expenditure and/or to mop up excess liquidity.

Accounting and other

Ethiopia has both local and international accounting, consulting and courier services. There are over 16 registered audit firms and 122 accounting firms in Ethiopia. Accounting standards are formulated by the Government and compatible with international standards.

Human resources

School enrolment ratios have been going up in Ethiopia. The total number of senior secondary schools (9–12 grades) went up from 369 in 1997 to 455 in 2002 and the number of students increased from 426,495 to 764,641, a 79% increase over the four years. In 2001–2002, there were 123 Government-run and 18 non-government secondary schools.

The higher education sector witnessed rapid expansion between 1997 and 2002. Four new government universities were established and five new private institutions accredited. Enrolment in higher education increased from 42,132 in 1997 to 101,829 in 2002, a 142% increase. As for private-sector participation in education, over 125 kindergartens, 70 primary schools, 6 secondary schools, 2 technical and vocational institutions and 5 colleges have been established and accredited so far.

Brain drain seems to be a fact. A large number of Ethiopians, especially those with good qualifications, go abroad to seek employment every year, although it is difficult to secure exact figures.

Work permits and visas

Foreign investors obtain work permits for expatriate employees directly from the Ethiopian Investment Commission. The EIC processes these applications very quickly – see table IV.2 in chapter IV. The Commission's stance in this matter is a broadly liberal one, since it takes the view that no investor is likely to engage in the expensive and time-consuming business of hiring expatriate expertise if qualified locals are available.

Foreign citizens other than those of Djibouti and Kenya need an entry visa to enter the country. Visas can be obtained from Ethiopian diplomatic missions throughout the world. Citizens of 30 countries may also obtain visas at Bole International Airport, Addis Ababa.

An ordinary visa can be converted to a business visa upon approval by the Security and Immigration Office on the basis of a recommendation by the Ministry of Labour and Social Affairs. The Ministry makes its recommendations on the application of the firm that needs the foreigner's services.

UCATION

COUNTRY	NET ENROLMENT RATIO [b]				ADULT LITERACY RATE
	PRIMARY		SECONDARY		
Total	Female % of relevant age group	Total % of relevant age group	Female % of relevant age group	% of relevant age group	% of people 15 and above
	2000 - 2001	2000 - 2001	2000 - 2001	2000 – 2001	2001
Eritrea	41.0	38.0	22.0	19.0	56.7
	47.0	*41.0*	*13.0*	*10.0*	
Kenya	69.0	69.0	23.0	23.0	83.3
Sudan	46.0	42.0 [c]	..	..	58.8
Tanzania	47.0	48.0	5.0	5.0	76.0
Uganda	109.0	106.0	12.0 [c]	10.0 [c]	68.0
SSA [a] Average	59.0	56.0	..	..	62.4

Source: UNCTAD, based on the UNDP, *Human Development Report 2003*, and UNESCO Institute for Statistics estimates, http://www.uis.unesco.org.
[a] See footnote a to table II.3.
[b] The net enrolment ratio is the ratio of enrolled children of the official age for the education level indicated to the total population of that age. Net enrolment ratios exceeding 100% reflect discrepancies between these two data sets.
[c] Figures for 1999–2000 school years.

Working hours, leave and holidays

Labour Proclamation No. 42/1993 has fixed nominal hours of work as eight hours a day and forty-eight hours a week. Work done in excess of these hours is deemed to be overtime.

Overtime is paid in the case of work done between 6 a.m. and 10 p.m. at the rate of one and one-quarter of the ordinary rate. In night time and holiday work, the allowance ranges from one and one-half to two and one-half of the ordinary hourly rate. Overtime hours must not exceed 2 hours a day, 20 hours a month or 100 hours a year.

Permanent workers are entitled to uninterrupted annual leave with pay of not less than fourteen working days for the first year of service, with one additional day for every additional year of service. Workers are also entitled to sick leave with 100% of their wage in the first month, with 50% of their wage in the next two months and without pay for the following three months. Pregnant workers are also entitled to maternity leave of 30 consecutive days with pay preceding the presumed date of their delivery and 60 consecutive days after delivery.

Ethiopians have a number of social obligations to fulfill. By law, a worker is entitled to leave with pay for three working days when he or she marries and when a spouse or another relative, up to the second degree of affinity or consanguinity, dies. A worker is also entitled to leave without pay for up to 5 consecutive days in exceptional circumstances.

Leaders of trade unions are entitled to leave with pay for the purpose of presenting cases in Labour disputes, negotiating collective agreements, and attending union meetings, seminars or training courses. A worker who exercises his civil rights or duties is granted leave with pay only for the time utilized for that purpose.

Industrial relations

Labour disputes in Ethiopia have involved questions of the application of the law, collective agreements, work rules, employment contracts, and so forth. During 2002–2003, a total of 747 labour disputes were registered. This was 39 more than the previous year. Among the 747 disputes, 360 were settled through arbitration; 70 cases were solved through conciliation; 218 cases were postponed to the next year and 99 were cancelled.

The labour law is regarded by investors as biased towards labour, and the Government is in the process of reforming it in keeping with its plans to attract more FDI. According to sources from the Ministry of Labour and Social Affairs, a proposal for amendments to the law has been sent to the Council of Ministers for approval.

If a dispute cannot be resolved between the employer and the union, the problem goes to tripartite negotiation among three parties: the Ethiopian Employers Federation, the Ethiopian Trade Union Federation and the Ministry of Labour and Social Affairs. If still unresolved, the case may be referred to court. The tripartite negotiation has so far been fruitful and the three parties have contributed to the amendment of the labour law.

Industrial factor costs

Lease prices of urban land are determined either through auction or negotiation. Lease holders have the right to use urban land for 50–99 years depending on purpose and location. Some indicative lease prices are given in chapter IV. (See also box II.1 Land.)

Indicative salaries and rents are as indicated in tables II.8, and II.9. Rental costs vary from town to town and within the same town. For telecommunication services, \$0.81 per minute is charged for calls to Djibouti and \$1.16 per minute for calls to other countries. The Ethiopian Telecommunication Corporation has two types of charges: normal and reduced. Normal charges apply from 8:00 a.m. to 8:00 p.m. and reduced charges apply from 8:00 p.m. to 8:00 a.m. on weekdays and on Sundays and public holidays. Calls within Addis Ababa are charged \$0.023 per three minutes. Rates from Addis Ababa to Regional towns range from \$0.023 to \$0.23 per minute in normal hours.

Costs of building depend on the type of construction materials used, type of foundation, wall height, finishing and location. According to the Ethiopian Investment Commission, current building costs range from \$127.9 to \$406.95 per m^2.

Labour costs

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. The government has issued a minimum wage for civil service employees, which is $23.25 per month for unskilled labour.

TABLE II.8. INDICATIVE SALARIES PER MONTH

POSITION	SALARY RANGE
Chief Executive	$574-1162
Senior Manager	$348-573
Middle Manager	$174-347
Engineer	$174-347
Technical Operator	$93-173
Junior Operator	$46-92
Office Assistant	$23-45

Source: UNCTAD, based on information provided by the Ethiopian Investment Commission.

TABLE II.9. RENTS PER MONTH: OFFICE AND RESIDENTIAL[a]

TYPE	GOVERNMENT	PRIVATE
Residential	$2.33-3.49/m^2	$5.81-6.98/m^2
Office	$5.81-7.56/m^2	$4.65-16.28/m^2

Source: Ethiopian Investment Commission.
[a] The figures are for Addis Ababa. Other cities vary between $0.58 and 4.65 per m^2.

Taxation

The main types of taxes applicable in Ethiopia are: income tax on salaries and dividends, profit tax on business, custom duty, excise and VAT. Income taxable under Income Tax Proclamation No. 286/2002 includes: income from employment, business activities, personal activities, entrepreneurial activities by non-residents, movable property, immovable property, alienation property, dividends distributed by resident company, profit shares paid by registered partnerships, interest paid by the national, regional or local government, and license fees

Taxable business income of companies is taxed at the rate of 30%. Other business taxpayers with business income ranging from $209.30 to $6,976.75 pay between 10 and 30%. Business income beyond $6,976.75 is charged 35%. Personal income tax rates applicable at present are given in Box II.5.

Capital gains tax

Tax is payable on gains obtained from the transfer of buildings used for business, factory, or office purposes at 15% of the net gain. When calculating the gain realized from the alienation of capital assets, the basis of calculation is the gain over and above the historical cost of the building or the part-value of the share, as appropriate.

Income tax applicable to foreign employees

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 286/2002. However, the following are excluded from the computation of taxable income: medical treatment; transportation allowance; hardship allowance; reimbursement of travelling expenses incurred on duty; per diem and travelling expenses on joining and completion of employment, provided that such payments are made pursuant to specific provisions of the contract; board members' and board secretaries' allowances; the income of persons employed for domestic duties; the contribution of the employer and the employee to the retirement or provident fund and all forms of benefits contributed by employers that do not exceed 15% of monthly salary; and payments made to a person as compensation in relation to injuries suffered by that person or the death of another person.

The income tax rate has been gradually reduced from 85% to 35% over the past decade, although expatriate workers find 35% high at a monthly income of only $600.

Box II.4. Special features of Income Tax Proclamation 286/2002

- All income is taxed, from domestic or foreign sources whether 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 as follows:
  A. Buildings and structures 5%
  B. Intangible assets 10%
  C. Computers, information systems, software products and data storage equipment 25%
  D. All other business assets including automobiles, buses and minibuses 20%
- If the determination of taxable business income results in a loss in a period, that loss may be set off against taxable income in the next five tax periods, earlier losses being set off before later losses. A net operating loss may be carried forward and deducted for no more than two periods of three years each.

Source: Income Tax Proclamation No. 286/2002.

Box II.5. Income tax rates

(monthly amounts in birr for individuals)

• Up to	150	Nil
• 151–	650	10%
• 651–	1 400	15%
• 1 401–	2 350	20%
• 2 351–	3 550	25%
• 3 551–	5 000	30%
• Over	5 000	35%

Source: Income Tax Proclamation No.286/2002.
N.B. Birr 8.6 = $1

Indirect taxes

Ethiopia has introduced the value added tax (VAT) to replace various forms of commodity and service taxes including the sales tax and the withholding tax. The VAT rate is 15% of the value of every taxable transaction by a registered person and all imports of goods and services other than those exempted (see Box II.6). Excise tax is payable on a range of consumer goods, whether locally produced or imported, e.g., alcohol, tobacco, salt, fuel, television sets, cars, carpets and toys. Its rates vary from 20% on toys to 100% on perfumes. It is payable in addition to VAT. (Negarit Gazeta, No.20)

Box II.6. VAT: Exemptions and zero-ratings

Some exempt items

The following types of supplies of goods (other than by way of export) or rendering of services are exempt from payment of VAT to the extent provided by regulation:

- The sale or transfer of used dwelling, or its lease;
- Financial services;
- The supply or import of national or foreign currency;
- Import of gold to be transferred to the National Bank of Ethiopia;
- The rendering of religious or church related services by religious organizations;
- Import of prescription drugs specified in the directives issued by the Ministry of Health and the rendering of medical services;
- The rendering of educational services by educational institutions, as well as child-care services for children at pre-school institutions;
- The supply of goods and services in the form of humanitarian aid as well as import of goods transferred to state agencies and public organizations for the purpose of rehabilitation after natural disasters, industrial accidents and catastrophes;
- The supply of electricity, kerosene, and water;
- Goods imported by the government or by organizations, institutions or projects exempted from duties and other import taxes;
- Supplies by the post office authorized under the Ethiopian Postal Service proclamation, other than services rendered for a fee or commission;
- The provision of transport;
- The issuing of permits and licenses;
- The supply of goods or services by a workshop 60% of whose employees are disabled individuals;
- The import or supply of books and other printed materials to the extent provided in regulations.

Zero-rated items

The following transactions shall be charged with tax at a rate of 0%:

- The export of goods or services to the extent provided in regulations;
- The rendering of transport 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;
- The supply of gold to the National Bank of Ethiopia;
- The supply by a registered person to another person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern, provided a notice in writing signed by the transferor and transferee is furnished to the Inland Revenue Authority within 21 days after the supply takes place and such notice includes the details of the supply;
- Goods and services supplied to or imported by accredited diplomats.

Source: Value Added Tax Proclamation No. 285/2002, FDRE.

Custom duty

Custom duties, which currently range from 0 to 35%, are payable on imports by all persons and organizations that have no duty-free privileges. Custom duty for some items is as follows:

- Animals and animal products, agricultural products, prepared food products: 5 to 40%;
- Pharmaceuticals and organic chemicals: 5 to 10%;
- Tanning, leather and leather products: 5 to 40%;
- Plastics, footwear, wire rods, boilers, machinery, electric equipment, etc.: 5 to 40%;
- Motor vehicles: 40%;
- Paper and printed materials: 20%.

Export incentives

Among the measures taken to boost exports are export trade duty incentives (Proclamation No. 249/2001). Some of the incentives given to all exporters are the following:

- Cancellation of the sales and excise tax for all export commodities;
- Cancellation of all forms of export price controls by the National Bank of Ethiopia;
- Duty Drawback Scheme;
- Voucher Scheme;
- Bonded Manufacturing Warehouse Scheme;
- Export Credit Guarantee Scheme: Directive No.SBB/33/2002
  - Pre-Shipment Credit Guarantee, and
  - Post-shipment Credit Guarantee;
- The Retention and Utilization of Export Earnings and Inward Remittances: Directive No.FXD/11/1998
  - Retention Account A allows exporters to hold indefinitely 10% of their export earnings in foreign currency with banks, use it for their export-related activities and also sell it to commercial banks at an agreed rate of exchange;
  - Retention Account B allows exporters to use the remaining 90% of export earnings for export-related activities but within a period of 28 days and also sell it to commercial banks at an agreed rate of exchange.
    If the exporter fails to utilize his/her foreign-exchange earnings within 28 days, then the foreign-exchange earnings will be changed into local currency at the exchange rate prevailing on the next day;
- Franco Valuta Import of raw materials for export processing;
- Suppliers Credit: Directive No.REL/005/200.

The private sector in Ethiopia

The domestic private sector in Ethiopia is still in an early stage of growth, having been discouraged during the Derg regime. Most private businesses are family businesses, although some larger private companies are now managed by professional managers and boards of directors.

Over the last ten years, a number of businesses including banks, insurance companies, hotels, travel agencies, factories, commercial farms and so forth have been set up by private investors. Major export-oriented companies dealing in coffee, hides and skins, tea, floriculture, and leather are now privately owned. Nearly all coffee export is in the hands of private exporters.

The Ethiopian Chamber of Commerce is the umbrella organization of the private sector. The Addis Ababa Chamber of Commerce is the most active one. There are 14 other chambers located throughout the country.

The Addis Ababa Chamber, established in 1947, provides technical and advocacy services to help business people start, run, and grow their businesses. It also plays a major role in conveying business concerns to the government. With over 7,000 registered members, the AACC is the largest and oldest chamber of commerce in Ethiopia. Under its umbrella, a number of industrial associations have been organized, representing such industries as transport, manufacturing, hotels and restaurants, and consulting.

In order to achieve a shared development vision, the Government and the private sector are now engaged in a results-oriented dialogue through the Public-Private Partnership Forum. The Forum has conducted quarterly meetings since its inception in 2002. Both the Government and the Private sector have expressed an interest in learning from other countries' experiences in the formation and implementation of PPP Fora and projects. The Forum attempts to:

- Identify constraints in the business environment and examine solutions to foster sustainable economic development;

- Facilitate the implementation of the current policy framework and, if necessary, address new elements related to it; and

- Forge a stronger relationship between the Government and the private sector.

The Forum functions under the joint chairmanship of the Minister of Trade and Industry and the President of the Ethiopian and Addis Chambers of Commerce. Since the Forum only meets every three months, a mode of operation has emerged allowing the Secretariat to act informally in a decision-making capacity on such matters as proposing agenda items, inviting participants, and distributing documentation on past meetings.

Investment climate: Key factors for foreign investors

Strengths

- Considerable market potential, with a domestic population of nearly 70 million and privileged access to EU, United States and other markets
- A safe environment with little corruption
- Low costs of production, especially of labour
- Political and macro-economic stability
- Substantial natural and cultural assets, including an unusually varied but mostly temperate climate

Opportunities

- Agriculture and agro-based industries, including floriculture and horticulture
- Mining and hydropower
- Light manufacturing, including leather goods and ready-made garments
- Tourism, especially in the northern 'historic route'
- Service areas, including health, education, and research and technical assistance related in particular to agriculture

Weaknesses

- Poor infrastructure and largely unskilled workforce
- Landlocked country and high transport costs
- Stalled privatization and lingering restrictions on foreign investment

Threats

- Drought
- Unresolved border conflict with Eritrea

When we decided to come to Ethiopia in 1998, it was because of its natural advantages – in particular its climate, which was ideal for growing roses. We are delighted that now, in 2004, the natural advantages are beginning to be matched by man-made ones, those deriving from improvements in policies and procedures. If these improvements can be sustained, there is almost no limit to investment opportunities in Ethiopia.

Ryaz Shamji
General Manager
Golden Rose Agrofarms Limited

Areas of opportunity

III

This chapter briefly describes the main areas of investment opportunity.

Ethiopia is endowed with abundant agricultural resources. With altitudes ranging from 110 metres below sea level to 4,620 metres above it, the country has 18 major agro-ecological zones and 62 sub-zones, each with its own physical and biological potential. Thus the country possesses one of the largest and most diverse genetic resources in the world. The natural, historical and cultural attractions of the country, including its ethnic and religious diversity, make the country unique in the continent.

Agriculture and related activities, (agro-processing, horticulture, floriculture, fishery, forestry) leather, textiles and tourism are the priority areas for the Government. Others include hydropower, manufacturing and service areas such as health, education and technical support services for agriculture.

Priority areas

Agriculture and related activities

Ethiopia has the soil and climate for the production of a variety of food crops. 146 types of crops are currently grown. The major food crops are cereals, pulses and oil seeds. The main cereal groups include teff, barley, wheat, maize and sorghum; and pulses comprise peanuts, beans, peas, chick-peas, lentils, rough peas, fenugreek, soybeans haricot beans and several varieties of oil seeds. Among the major oil crops are sesame, niger seed, groundnut, rape and linseed. Sunflower and castor beans also have potential.

Coffee, cotton, tobacco, sugar cane, tea, spices and horticulture are the main commercial cash crops grown in Ethiopia. The broad range of fruits and vegetables includes citrus, banana, mango, papaya, avocado, guava, grapes, cabbages, cauliflower, okra, egg plant, tomato, celery, cucumbers, pepper, onion, asparagus, water melon, carrots and green beans. Cut flowers and vegetables are fast-growing exports. Although the livestock sub-sector has large resources, which include 32 million cattle, 24 million sheep and 18 million goats, its contribution to the national economy could be larger. Opportunities are also available in ostrich, civet cat and crocodile farming. The potential annual freshwater fish production is estimated at about 45,000 tons, of which only 20% are exploited at present.

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, and the establishment of rubber plantations. 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.

Research and technology

Agricultural research and extension programmes are one of the priorities of the Government. The country lacks the technology for agricultural development and an agricultural marketing system. The provision of agricultural inputs such as fertilizers, improved seeds, and pesticides is also important. Private investors are encouraged to invest in this area.

Agriculture is the mainstay of Ethiopia's economy, providing employment to 85% of the population. The sector contributes about 43% of the GDP and 63% of total exports, with coffee alone accounting for 36% of total exports in 2001. Agriculture also plays a crucial role in providing raw material inputs for industry.

Ethiopian agriculture is basically comprised of smallholder farms, which account for more than 90% of agricultural production and 95% of the total area under crop. Smallholders produce 94% of crops and 98% of coffee output. The remainder is generated from mechanized farms. The productivity of the smallholder farmer can be improved in Ethiopia using existing resources of land, labour and capital in better ways through improved technology, be it biological, chemical or mechanical.

Land is the basic agricultural resource on which Ethiopia depends for the production of food, clothing, energy and housing. Out of the total land area of 113 million hectares, about 56% is regarded as suitable for cultivation. However, only 14.8% of the total land is currently under cultivation.

Coffee and tea

Ethiopia is one of Africa's leading producers of Coffee Arabica. (The word "coffee" is said to derive from Kaffa, a region where coffee has long been a wild crop.) The country produces some of the best Arabica coffee in the world.

Before 1974, coffee production, processing and trading were in the hands of the private sector. During the military regime, private farms were nationalized and smallholder coffee producers were neglected. Private entry into coffee export was encouraged by the declaration of a new economic policy by the Transitional Government of Ethiopia in 1991. As a result, the number of private coffee exporters has been rapidly increasing and nearly 90% of coffee export is now in the hands of private exporters. Coffee remains the single most important export crop, utilising over 400,000 hectares under cultivation. The volume of coffee exports increased steadily from 58,000 tons in 1990–1991, to 100,000 tons in 1995–1996 and was just over 110,000 tons in 2001–2002. The potential for the private production and processing of coffee is still significant.

Tea offers another opportunity for production, processing and export. Tea was introduced to Ethiopia in the early 1920s. Since 1980, it has been planted on a commercial scale. Currently there are nearly 1,500 ha of land under tea. Tea production and processing, which began with 3 tons in 1974, had reached 3,900 tons by 2003, of which exports were 1,700 tons. The agro-climatic conditions in the south-western parts of the country offer excellent opportunities for the production and processing of tea, especially for export.

Oil seeds

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. Favourable agro-ecological conditions exist for introducing coconut for the production and processing of palm oil. Ethiopia also has potential for producing and processing maize. The total oil seeds exports for the year 2001–2002 were 76 millions kgs at a value of some $30 million.

Cotton

Cotton is an important crop in Ethiopia. Large-scale production under irrigation is carried out in the Awash Valley where there are about 50,000 ha under cotton. Small-scale farmers cultivate another 42,000 ha of cotton. There is a huge potential for the expansion of cotton cultivation especially in the Omo-Gibe, Wabi Shebelle, Baro-Akobo, Blue Nile and Tekeze river basins. 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.

Floriculture

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 1998–2003 (box III.1 below).

Ethiopia has the following advantages in this industry:

Climate: The appropriate climate gives Ethiopia the potential to achieve very high growth rates of flower cuttings and to produce very high yields of small roses which fits the European market demand.

Low unit production costs: Ethiopia has a small cost advantage over neighbouring countries, although the benefits of these low costs depend on maintaining quality standards.

Technical and financial support: The Ethiopian Investment Commission, the Ministry of Trade, the Development Bank of Ethiopia and other government institutions provide financial and technical support for research projects, provide market information, and monitor production and export statistics for the industry. The Ethiopian Manufacturing Industries Association and the Addis Ababa Chamber of Commerce provide the relevant trade and technical information. The Government also encourages floriculture by allocating land and providing infrastructure.

Meskel Flowers was the first private company to specialize in the production of roses in Ethiopia and exported its first batch to Europe in 1998. Golden Rose is another company engaged in the rose industry (box III.1 below). Other investors operating in this area include Ethio Flora, Summit Agro Industry and Teppo Agricultural Development & Trade Enterprise.

Box III.1. FDI story: Investing in floriculture

Golden Rose Agrofarms Limited is the largest producer and exporter of roses in Ethiopia; it is majority-owned by Rina International Investments Limited, a privately owned company that operates in Canada, Dubai, Ethiopia, India, the United Kingdom and the United States. Its activities also extend into real estate, holistic wellness centres, music production, smart card production and technology, and gear manufacturing. Until 1972, Rina International was Uganda-based; since 1972, it has been UK-based. It came to Ethiopia in 1998, attracted primarily by the climate – which is ideal for growing roses, with its warm temperate days and cool temperate nights. Moreover, the fact that the Ethiopian summer coincides with the European winter translates into an ideal matching of supply and demand. Another advantage of Ethiopia for Golden Rose was the country's relative closeness to the European and Middle Eastern markets. A saving in airfreight cost is important for a voluminous air-freighted product such as roses.

Golden Rose began with an investment of 38 million Birr (somewhat under $5 million). 70% of the equity is held by Rina International, the remainder by Kuwaiti investors. The annual turnover is now about $3 million and is expected to increase to about $10 million by 2005. The size of the farm is now 16 hectares and will go up to 26 hectares by mid-2004. By early 2004, Golden Rose had 520 employees, four of whom were expatriates. This very low ratio of expatriates to locals is expected to fall even further by mid-2004, by which time the company projects 900 employees, six of them expatriates. The company is very pleased with its Ethiopian workers and managers, especially their integrity, a quality in variable supply elsewhere on the continent.

The company assesses the investment climate very positively. Not that it was always so, says Ryaz Shamji, the General Manager of Golden Rose. Indeed, things were quite different in 1998 and even a few years later. But the trend has been very positive, especially over the last two years. The business climate has become far more investor-friendly. Macro-economic policy has long been sensible, with low inflation and a gently declining currency. Bribery and corruption are effectively unknown in routine experience. Indeed, Mr Shamji assesses corruption levels in Ethiopia as lower than in some European countries.

Still, things are not quite perfect. At the lower levels and in the regions, bureaucracy sometimes still causes delays. There has been a broad issue of the mindset in Ethiopia, in the Government (immigration, customs, utilities) and elsewhere (unions), which in the past has frequently been not that of a facilitator but of an obstructor. However, there has been a meaningful and noticeable trend away from this in recent years. Mr Shamji thinks Ethiopia offers both a very attractive operating environment and very considerable opportunities. There are plenty of opportunities still in the floriculture field itself, as there are in agro-processing, light manufacturing including pharmaceuticals, leather and textiles, and tourism. One of the key tasks of the Government in this context, according to Mr Shamji, is improving the image of Ethiopia abroad, which is overwhelmingly and misleadingly one of famine, poverty and war.

Golden Rose itself is committed to expansion and diversification. Its plans include investment in a propagation unit to supply mother plants grown in Ethiopia and providing consultancy services to other floriculture operators. The company very much welcomes other entrants into floriculture, in part because a critical mass may help reduce freight costs. Quite apart from roses, Rina International owns a beverage bottling factory that produces AquAddis (bottled water) and is now also in flavoured drinks and injection-mould plastic manufacturing.

Source: UNCTAD, based on information provided by Golden Rose Agrofarms Limited.

Horticulture

With its variety of altitudes and microclimates, the long growing season and accessible irrigation sources, most fruits and vegetables can grow well in Ethiopia. The Ethiopian Government encourages companies with experience in agro-processing to invest in this sector.

Current horticultural crops include citrus, banana, mango, papaya, avocado, guava, grapes, pineapple, passion fruit, apple, potato, cabbage, cauliflower, okra, egg plant, tomato, celery, cucumber, pepper, onion, asparagus, water melon, sweet melon, carrot, green bean, and cut flowers. Although most of Ethiopia's fruits and vegetables are grown for local consumption, there are categories for export as well. Ethiopia, for instance, exports large quantities of fresh fruits and vegetables to Djibuti.

Ethiopia sells some processed fruits and vegetables to Yemen, Saudi Arabia, and other Middle Eastern countries. The two most important products are oranges (as canned and bottled orange juice) and tomatoes (as ketchup, tomato paste and tomato concentrate). The inadequate and irregular supply of imported packaging materials is a major constraint in this area.

The most important fruit and vegetable exports from Ethiopia, however, are the high-value fresh produce grown mainly on state plantations and sold primarily to Europe. Most of these products are sold through the government-owned Ethiopian fruit and vegetable marketing enterprise Etfruit, which collects the fruits and vegetables from several state plantations and large private farms, transports them to the airport in refrigerated trucks, and ships them by air to Germany, Italy and the Netherlands. The major exports are green beans, tomatoes, mangoes, and papayas.

In recent years, new private growers have started exporting vegetables to the Middle East and Europe outside of Etfruit's marketing channels. The share of these private exports is still quite low, less than 10% of the total value of fruit and vegetable exports. One company, Meskel Flowers, has begun exporting green beans to Europe to complement its sale of roses. Among the over 300 investment licenses acquired for commercial farming in the last five years are a dozen projects in fruit and vegetable production. Ethio-flora, the foremost private producer of export-quality fruits and vegetables in Ethiopia, is exporting strawberries, papayas, mangoes, and carnations this year for the first time. Though more expensive, cargo space on a chartered plane is larger than on a passenger plane and can be reserved solely for company use. The number of charter flights to Europe has risen from one a week several years ago to 7–8 per week in early 2004. Greater capacity and more frequent flights are needed. Ethiopian Airlines has recently purchased and leased new planes to increase its capacity to provide more cargo services.

Ethiopia's exports of fruits and vegetables have been growing slowly over the last 15 years. From 1984 to 1998, the quantity of exports increased from 9,881 metric tons to 17,011 metric tons and the value of exports from just under $1 million to just under $4 million. In 2001–2002, over 29,000 tons of fruits and vegetables and 10 tons of flowers were exported.

Apiculture

The flora of Ethiopia is very heterogeneous. It is estimated to contain between 6,500 and 7,000 species of higher plants, of which about 12% are endemic. There are about 10 million bee colonies and over 800 identified honey-source plants in the country. The annual honey and beeswax production are estimated at 24,700 tons and 3,200 tons respectively. More than 90% of the honey produced is used in the country for domestic consumption. Ethiopia is the first honey-producing country in Africa and the fourth beeswax-producing country in the world, after China, Mexico and Turkey. Studies show that, under modern management, the traditional yield of 5 kgs of honey in one harvesting season can be improved to 15–20 kgs. This area of agricultural activity is currently underdeveloped and has the potential for commercial exploitation, including exports, especially to the Middle Eastern market.

Forestry

An estimated 3.5 million hectares of natural forest presently remains in 58 designated National Forest Priority Areas (NFPA). Of these, 13 are managed under integrated forest management systems, with about 80,000 ha of industrial forest having been established for limited sustainable exploitation.

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 chipboard, and the establishment of rubber plantations. Investors are welcome to invest in integrated commercial production of structural timber, pulpwood, matchwood and even fuel wood.

Livestock

The livestock population of Ethiopia is the largest in Africa. The country has about 35 million cattle, 11 million sheep, 10 million goats and 38 million poultry. The livestock subsector accounts for about 30% of the agricultural GDP and about 16% of the total GDP. Hides and skins are a major foreign-exchange earner.

The subsector provides for the annual per capita consumption of about 24 litres of milk, 10 kg of meat and 40 eggs. Traditional methods of animal husbandry render the current output per unit of domestic breed of livestock too low. However, there is export potential for live animals and livestock products. Investment opportunities are available in ostrich, civet cat and crocodile farming, as well as livestock breeding, the production and processing of meat, milk, eggs and animal feed, and the manufacture of leather products.

Fishery

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 less than 20% are exploited at present. Opportunities exist for fresh-water fish production and processing, using artificial ponds.

Foreign investment is required to install fishing equipment, cold storage and transport facilities, and processing capacities.

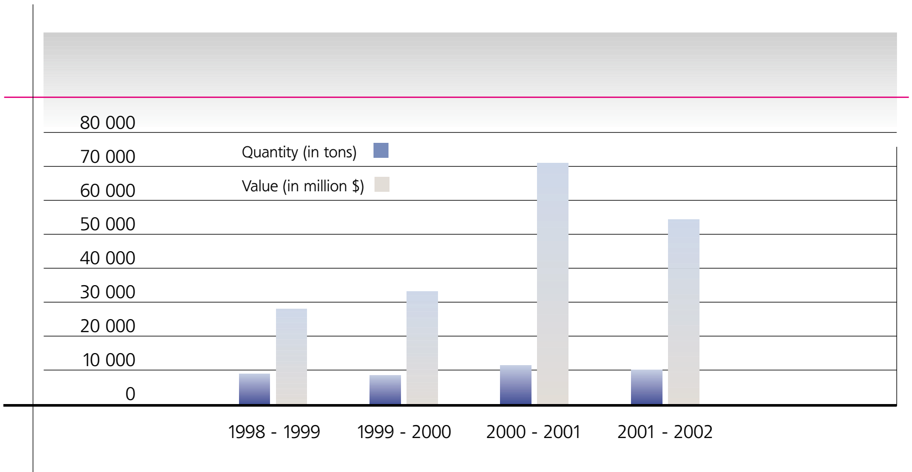
Leather goods

Ethiopian highland sheepskins and hides provide a strong base for semi-processed leather, finished leather and leather products. The Bati kidskin and the Selallie sheepskin in particular have a reputation for strength and other qualities attractive to the international market, which recognizes them as Bati Genuine and Selallie Genuine and offers them premium prices. The leather sector is one of the major components of Ethiopia's export earnings after coffee, representing 13.5% of total earnings in 2001–2002.

It is estimated that Ethiopia's off-take/kill rates are low for cattle but high for sheep and goats, with 6% for cattle, 33% for sheep, and 37% for goats. Estimates place the off-take rate for hide and skin production at approximately 2 million cattle hides, 8 million sheep skins and 7 million goat skins per annum.

There are now 19 tanneries in operation, four of which are state-controlled and the remaining under private ownership. Ethiopian tanneries have traditionally exported leather at various stages of processing (from pickled to crust) to international markets. The main markets include China, India, Italy, Japan, the Netherlands, United Kingdom and the United States (table III.1).

Ethiopia has great potential for the rapid development of its leather sector and has focussed its short-term strategy on moving all leather production from the wet-blue stage to the crust and eventually finished stage. The strategy for the long term is to gradually convert all available hides and skins to finished leather products: shoe uppers, shoes, jackets, bags, etc.



Source: National Bank of Ethiopia, Annual Report 2001-2002.

Box III.2. FDI story: Investing in footwear

EthioItaly Private Limited was registered in September 2003 as a wholly foreign-owned company. It is a collaboration among four Italian investors: MCM, a company that makes shoe-manufacturing machinery; Saving Shoes, a company that is a sole manufacturer and shoe wholesaler; Trocchianesi Guerino, an individual investor, and Spina Gioacchino, also an individual investor. MCM and Mr Spina own 28.5% of the shares each; Mr Guerino owns 28% and Saving Shoes 15%. Mr Spina, who is part Ethiopian, serves as the General Manager of EthioItaly. The total initial investment is about $6 million.

The motivation was the investing partners' assessment that Ethiopia offered a potentially competitive manufacturing base for exporting low-cost shoes (perhaps priced around _50 a pair) to the European market. The country offered an ample supply of raw material, even if of uneven quality, and the investors judged that Ethiopian workers could be trained to the requisite standards. Ethiopia's status as an LDC was also a plus for accessing EU markets. EthioItaly is beginning with 30 employees, which will increase to 140 in about a year. Hiring will be in phases, so as to keep pace with the training provided by Italian instructors.

Mr Spina assesses the investment climate as very promising. This is, in his view, the right time to invest in Ethiopia: the Government is supportive and is making genuine efforts to improve the business environment. As an example, he cites the fact that it took him only a few hours to get his investment license. (See table in chapter IV on improvements in the Ethiopian Investment Commission's service delivery.) He has also noted a speeding up in utility connections and customs services. On the other hand, banking services, especially by the Ethiopian Development Bank, are discouraging. EthioItaly had hoped for a substantial loan from the EDB but eventually decided to do without it.

The biggest challenge the company faces, however, has to do not with public-sector services but with the quality of raw material. While Ethiopia boasts the largest livestock resource in Africa, the leather it produces is highly variable in quality. EthioItaly is bringing in Italian expertise to help improve leather quality.

When asked what needs most attention by the Government, Mr Spina answers not by pointing to a particular policy area but to a lack of broader perspective. Ethiopia needs to see itself in a regional frame and consider what its competitors are offering investors. This also applies, in Mr Spina's view, to the business community, which needs to start thinking in global terms. As for opportunities for FDI, Mr Spina thinks investment in almost any labour-intensive activity is worth considering.

Source: UNCTAD, based on information provided by EthioItaly Private Limited.

OF AGRICULTURAL PROD-
UCTS: 2001–2002

Products	Major markets	Export value in $
Coffee	France, Germany, Italy, Japan and Saudi Arabia	127 323 000
Oil seeds	Egypt, Israel, Turkey, United States and Yemen	25 128 000
Hides (Semi-processed)	China, Italy, Hong Kong, Malaysia and United Kingdom	7 538 000
Skins (Semi-processed)	China, India, Italy, Malaysia and United Kingdom	43 978 000
Leather products	Canada, Djibouti, India, Italy and United Kingdom	22 000
Flowers	Italy, Netherlands and Saudi Arabia	27 000
Fruits and vegetables	Djibouti, Germany, Italy, Netherlands and Sudan	9 334 000
Textile, clothing and apparel	Belgium, Germany, Italy, Switzerland and United States	3 780 000
Cotton	Greece, Egypt, India, Turkey, and Oman	6 194 000
Meat & related products	United Arab Emirates and Yemen	1 485 000
Tea	Djibouti, Netherlands and United Kingdom	333 000
Live animals	Djibouti, Egypt and Italy	417 000

Source: UNCTAD, based on information obtained from the Ethiopian Export Promotion Agency.

Other agricultural products

A considerable opportunity exists for the production of sugar and spices for the domestic as well as the export market. At present, there are three large-scale sugar estates in the country; two of them are in the Awash Basin and one in the Blue Nile Basin. They have a combined production capacity of about 260,000 tons per year. Spice-bearing plants are cultivated in the southern and south–western parts of the country. Ethiopia exports significant quantities of spice extracts.

Tobacco is grown at two different sites, i.e. Shoa Robit and Blatie. The farms are operated by the Addis Ababa Cigarette Factory. The Shoa Robit farm is 80 ha and the Blatie farm 250 ha. In addition, 350 ha of land is cultivated by out-growers who get extension service from the factory. The yield per hectare at both farms is estimated at 1,000 kg. The factory is not, however, self-sufficient in the supply of tobacco and accordingly imports about 600 tons per year.

With the increasing commercialization of the sector, there are growing demands for inputs of agricultural products by manufacturing industries and for the provision of all-round support services such as the maintenance of tractors, harvesters, grain silos and cold storage, and services such as transport and marketing. The Agricultural-development-led Industrialization (ADLI) strategy adopted by the government offers incentives to promote foreign investment in agri-business.

Box III.3. Incentives for agro-investors

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are provided to investors (both domestic and foreign) engaged in new enterprises or expansion projects in agro-industries:

Custom exemptions

- 100% exemption from the payment of custom duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment. Spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced and not available locally in comparable quantity, quality and price are also exempt.
- Investment capital goods imported without the payment of custom duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.
- Exemptions from custom duties or other taxes levied on imports are also granted for raw materials necessary for the production of export goods.

Income tax holidays

An investor engaged in a new manufacturing or agro-industry activity, or in expanding or upgrading it, is eligible to profit tax holidays as follows:

a) When at least 50% of its production is to be exported or when at least 75% of its production will be an input for the production of export items: 5 years;
b) When the project is evaluated under a special circumstance by the BOI: Up to 7 years,
c) When less than 50% of the production is to be exported: 2 years;
d) When the whole production is for the local market: 2 years;
e) When the production mentioned in d) is considered by the BOI to be a special case: 5 years; and
f) In the case of an expansion or upgrading of the activity, which results in an increase of the existing production by 25% in value and 50% of it is to be exported: 2 years.

For each case mentioned above, the length of the tax exemption may be extended by one additional year when the investment is made in relatively under-developed regions. Moreover, the council of ministers may also award profit tax holidays for more than seven years.

Exemption from taxes on remittance of capital

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

Loss carry forward

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

Source: Investment Proclamation, 2002..

Tourism

Ethiopia has much to offer 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 Ethiopia. The main attractions include:

The ancient city of Axum: Axum was once the centre of a powerful empire and the most important spiritual centre of Orthodox Christianity in Ethiopia. It is known for its ancient obelisks and is said to be the last repository of the biblical Ark of the Covenant.

The medieval city of Lalibela: Lalibela is a holy city to Ethiopian Christians, with churches carved out of monolithic rock.

Al Negashi mosque at Wukro: A reminder of the presence of Islam and religious tolerance in Ethiopia.

The medieval city of Gonder: Ethiopia's 17th century capital city, with imposing castles.

The island monasteries of Lake Tana: with centuries-old mural paintings.

Other historical attraction areas include:

The walled city of Harar: An old historical city located in the east with its numerous mosques and shrines of venerable age, narrow winding streets, traditional architecture and interior decoration, and a past as an important centre of caravan trade and Islamic culture in Ethiopia.

Anthropological findings: The 3.5 million-year-old skeleton of "Lucy" or Australopithecus at Hadar, the 4.4 million-year-old remains of Australopithecus Ramides which is considered to be man's anthropoid ancestor, and the earliest hand tools of humans unearthed in the Omo valley appeal not only to specialists, but anyone interested in the early beginnings of human civilization.

Ethiopia is a mosaic of peoples and cultures. More than 80 languages are spoken and two of the world's major religions (Christianity and Islam) plus a number of less-known faiths are followed, resulting in great cultural diversity. Religious and other cultural festivals, with roots in the distant past, are very colourful and continue to form an important part of communal life.

Box III.4. The largest foreign investment project in Ethiopia

MIDROC stands for Mohammed International Development Research and Organization Companies. The investor, owner and chairman of MIDROC Investments in Ethiopia is Sheik Mohammed Hussein-Ali Al-Amoudi. Sheik Mohammed was born and raised in Ethiopia and later moved to Saudi Arabia where, after completing his education, he entered the business world. His investments lie in many fields, including oil, construction, real estate, manufacturing, mining, and services such as hotels, engineering and gas distribution. MIDROC operates in a number of countries all over the world, including Egypt, Greece, Morocco, Saudi Arabia, Sweden, Thailand, the United Kingdom and the United States.

MIDROC's presence in Ethiopia goes back to the early 1990s and, at present, consists of over thirty different companies with over 15,000 employees. The total investment in Ethiopia is about $1 billion. The areas of investment and the main companies in each are as follows.

1. Construction and civil works: MIDROC Construction, BAUR-MIDROC, ABB-MIDROC.
2. Manufacturing: ELICO (leather products), MAMCO (paper products), KOSPI (corrugated sheets), Daylight Engineering (bulbs), MBI (paints and fillers), MOHA (Pepsi, 7-up etc.) and Star Soap (soaps and detergents).
3. Real estate: Huda (residential and office buildings).
4. Mining and natural resources: NMIC (Marble and related products), MIDROC Gold (gold and silver), Addis Gas and Plastics.
5. Agro Industries: ELFORA (poultry, meat, canned food), Ethio-Agri-CEFT, Ayehu Farm, Wushwush and Gumro Tea plantation, and Gemadro Coffee Farm.
6. Health care and medicine: Salam Hospital, Salam Clinic, Pharmacure.
7. Hotel management and development: Sheraton Addis, Hora and Arbaminich Hotels.
8. Education: MIDROC-training Institute and Salam Nursing College (newly established).

Source: UNCTAD, based on information provided by the Office of the CEO, MIDROC Ethiopia.

The physical features of the country include high plateaux, long mountain ranges, lofty peaks, deep gorges, the largest cave in Africa (Sof Omar), one of the lowest depressions on earth (Dallol), the Great Rift Valley, savannah land, tropical forests, deserts and lakes (including Lake Tana, the source of the Blue Nile), spectacular waterfalls and volcanic hot springs.

Though situated not far from the equator, much of the land has a climate tempered by its altitude, with an idyllic spring-like climate in most regions of the country throughout the year. The Great Rift Valley, with its seven beautiful lakes, numerous hot springs and a variety of wildlife, offers great potential for the development of tourism.

Almost every kind of big game can be found in Ethiopia in its natural state and habitat. Out of the 845 species of birds and 260 species of mammals registered in Ethiopia, 49 are endemic. 10 national parks, 13 wildlife reserves and sanctuaries, and 18 controlled hunting areas have been established to protect these resources.

Eight national sites have been recognized by UNESCO as world heritage: Axum's obelisks, the monolithic churches of Lalibela, Gonder's castles, the island monasteries on Lake Tana, Hadar (where Lucy was discovered), Tia's carved standing stones, the walls of Harar, and the Simian National Park.

The tourist attractions in these sites have been relatively well promoted since the 1960s, and many tour operators in Europe and North America have included them in their offers. Unfortunately, a shortage of adequate accommodation and related facilities for sports, recreation and entertainment has limited the growth of tourism in the area.

The main tourist destination at the moment is the historic route encompassing Bahir Dar, Gonder, Axum, Makalle, and Lalibela. Addis Ababa, the principal gateway to Ethiopia and a business centre and conference venue, is itself a major destination. Other destinations include the wildlife centres along the Great Rift Valley and the southwest, and the eastern historic area of Harrar.

Ethiopia's wealth of attractions gives it great potential for cultural and educational tourism, photo safaris, hunting safaris, bird watching, water sports including river rafting, desert trekking, mountain camping and eco-tourism generally. Health tourism, on account of the cool climate and the numerous hot springs, is an additional type of tourism with great potential.

Conference tourism, long aided by the presence of a number of international organizations in Addis Ababa including the African Union and the Economic Commission for Africa (ECA), is poised to gain greater significance as a consequence of the newly built facilities at the ECA and the Sheraton Addis.

Ethiopia's tourism sector is poised to benefit from a programme of upgrading, expansion and new construction of airports, road and communication networks, electric power generation and waterworks, the implementation of which is currently under way in various parts of the country. (See Roads and airports in Chapter II above.)

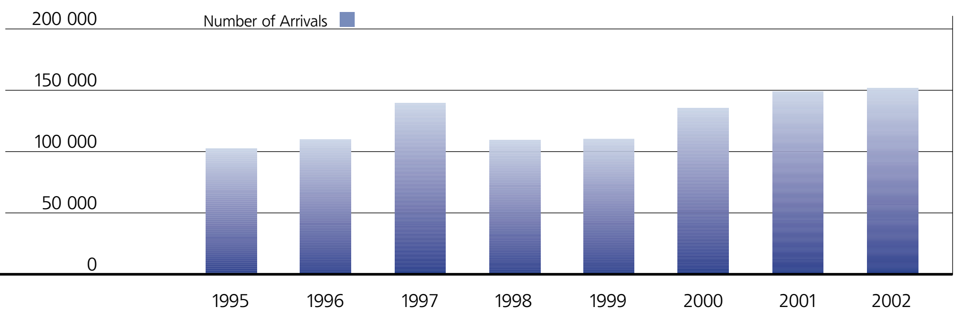
Domestic air travel is provided by Ethiopian Airlines, using Boeing and Fokker jets as well as smaller aircrafts. Competition in domestic service has been ushered in recently with the commencement of operations by two private firms. Tour operators and travel agencies have shown considerable growth in recent years, with 65 firms in operation in 2001.

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 in accordance with a newly promulgated classification and standardization system. FDI is both needed and welcome to upgrade tourism infrastructure in Ethiopia.

TABLE III.2. INTERNATIONAL TOURISM

COUNTRY	INTERNATIONAL TOURISM, NUMBER OF ARRIVALS		INTERNATIONAL TOURISM, RECEIPTS			
	Thousands		Percentage of total exports		Millions of current $	
	1990	2001	1990	2001	1990	2001
Eritrea	169	113	..	50.2	..	74
			3.7	*6.9*	*25*	*68*
Kenya	814	841	19.9	10.3	443	308
Sudan	33	50	4.2	3.3	21	56
Tanzania	..	501	12.1	51.7	65	725
Uganda	69	205	4.1	20.5	10	149
SSA [a] average	-	-	3.8	6.0	-	-
SSA [a] total	7 168	17 931			3 093	7 030

Source: UNCTAD, based on the World Bank, *World Development Indicators 2003*, http://publications.worldbank.org/WDI/ and the Ethiopian Tourism Commission (note [b]).
[a] See footnote [a] to table II.3.
[b] Figure for 2002.



Source: UNCTAD, based on information obtained from the Ethiopian Tourism Commission, official statistics, 2003.

Other areas

Hydropower

The potential of Ethiopia's renewable and non-renewable energy resources is large, with the economically feasible hydropower potential estimated at 30,000 MW. Currently, less than 14% of the population is supplied with electricity. From this low base, domestic demand is growing at 10% per year. There is also considerable potential for exporting hydropower to neighbouring countries.

With a view to expanding the 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 can be made with the Ethiopian Electric Power Corporation (EEPCO) for bulk sales of electric power for transmission and distribution.

EEPCO currently operates three 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 kV and 220 kV).

The power sector has a plan to increase power generation capacity from 750 MW to 1,050 MW by 2007. The Gilgel Gibe II and Tekeze projects, with capacities of 450 and 300 MW respectively, are under construction. Some other projects with feasibility studies are shown in table III.3. The private sector has a role to play in the generation, transmission and distribution of off-grid rural electricity, the generation of power to supply the main grid, and the supplying of energy from mini-hydro and other renewable sources such as solar power, wind, etc.

R PROJECT
WITH FEASIBILITY STUDIES

NAME	CAPACITY (IN MW)	YEAR OF STUDY
Beles	220	2003
Chemogayedana	318	2003
Halele Worabessa	96	2003
Fincha Amertinestu	100	2002
Gojeb	150	2001

Source: UNCTAD, based on information obtained from the Ethiopian Electric Power Corporation, 2003.

Mining

Ethiopia offers excellent opportunities for mineral prospecting and development. Geological studies have identified a favourable geological environment hosting a wide variety of mineral resources. According to the Ministry of Mines and Energy, Ethiopia's green stone belts contain substantial gold deposits and more than 500 metric tons of gold deposits have already been identified by Government exploration efforts. Additional reserves are expected to be identified in at least seven regions of the country. In addition to gold, there are good deposits of 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 also exists in good quantity. With regard to fossil energy resources, there are significant opportunities for oil and natural gas in the four major sedimentary basins, namely the Ogden, the Gambella, the Blue Nile and the Southern Rift Valley.

Despite these discoveries, mineral development remains limited, contributing only 1% to the national economy. 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 from Canada, Italy, Saudi Arabia and the United States. A Saudi company has acquired the only primary gold mine in the country.

Manufacturing

The manufacturing sector contributes no more than 6.5% to GDP and 9.5% to employment, covering about 130 state-owned and 7,000 private plants of all sizes, engaged in the production of food, beverages, tobacco, textiles, leather items, paper, metallic and non-metallic mineral products, cement and chemicals. Manufacturing opportunities for prospective investors exist in the following areas:

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

- 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.;

- Tannery and leather goods: Manufacture of luggage items, handbags, saddle and harness items, footwear and garments, and integrated tanning and manufacturing;

Box III.5. FDI story: Investing in garments

Garment Express Private Limited was set up in 1999 as a joint venture between two investors: Dr Worku Zewde, a US citizen who holds 90% of the equity, and his brother-in-law, an Ethiopian citizen who holds the remaining 10%. The total current investment is something over $2 million and the current turnover something under half a million dollars. This is a cut-sew-trim operation dedicated to exports. The company exports 100% of its product to the United States. As of now, Garment Express has one factory that employs 250 people. (For expansion plans, see below.)

Dr Worku is a physician who practised medicine for many years in the United States. In the late 1990s, he decided to return to Ethiopia. It was then, in part because of his wife's background as a designer, that he saw and seized the opportunity to go into the garment-manufacturing business. Ethiopia, in his view, has major advantages in this business: labour costs are low, there is privileged access to foreign markets and taxes are not a problem, with a five-year tax holiday. When asked about competition, Dr Worku says it is not an issue, given the size of the export market and Ethiopia's preferential access to Europe and North America as an LDC. In this context, he thinks the Government ought to be doing a better job of supplying accurate information on things like the EU's Everything-But-Arms (EBA) initiative.

Dr Worku assesses the investor's environment as now positive. It wasn't always so. Over the past year, in particular, the environment has improved significantly. By way of illustration, he cited his recent experience in Oromia, where he was looking for land for a new venture. Both the time the process took (a few hours) and the price of the land (*reduced* from that earlier quoted) were noteworthy. The greatest challenge the company has faced has been bureaucracy. As for what needs most attention today, in addition to bureaucracy, Dr Worku mentions the land issue and the broader matter of the Government's attitude towards the private sector, which is far more positive than it used to be but still not without a lingering distrust.

As for opportunities for FDI, Dr Worku sees them in a number of agriculture-related areas – cotton, sugar and oil seeds, for example. Garment Express itself would have been interested in buying one of the textile factories still in Government hands but a combination of factors has ruled this out. The machinery is old, the workforce is excessive, the land issue is unsettled, the enterprise is saddled with debts and the price asked is far too high. The Government would need to value state-owned enterprises more realistically if privatization is to move forward again. The best things about Ethiopia, in Dr Worku's view as an investor, are its climate and its people.

Garment Express is planning an expansion by mid-2004, which will see it add another factory with a floor size of over 20,000 m^2 and an additional 500 employees. Quite apart from this, Dr Worku is setting up a dyeing and knitting company with a Taiwanese and an American partner in the Oromia region. The proposed investment, equally shared by the three partners, is $4.5 million. The project expects to hire 150 employees.

Source: UNCTAD, based on information provided by Garment Express Private Limited.

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

- Chemicals and chemical products: Manufacture of basic chemicals based on local raw materials, including 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;

- Drugs and pharmaceuticals: Manufacture of pharmaceutical, medicinal, chemical and botanical products in the form of tablets, capsules, syrups and injectables;

- Paper and paper products: Pulp from indigenous raw materials, paper and paper products;

- Plastic products: High-pressure pipes, pipe fittings, shower hoods, wash basins, insulating fittings, light fittings, office and school supplies, and fittings for furniture;

- Building materials: Manufacture of cement, lime, gypsum, marble, granite, limestone, ceramics, roofing tiles, corrugated sheets, tubes, pipes and fittings.

Box III.6. FDI story: Investing in consumer goods

Unilever is one of the largest multinationals in the world, ranking 25th in 2001 in UNCTAD's list of the largest non-financial investors abroad, ranked by foreign assets. A Dutch-British company, it specializes in producing a wide range of consumer goods, specifically in food and in home and personal care (soaps and detergents, tea, petroleum jelly). The company had a presence in Ethiopia during the Haile Sellasie regime, when it had a plant in what is now Eritrea. It returned to Ethiopia in 2000, after what Richard Ponsford, the Managing Director of Unilever Ethiopia plc, describes as a longish struggle with red tape. (He notes that things have since changed – see below.)

One of the main motivations for returning to the country was the size of the market. Even taking the limited purchasing power into account, the fact remains that Ethiopia, with its population of nearly 70 million, is the third most populous country in Africa (after Nigeria and Egypt). The size of the market offered the opportunity to set up a manufacturing base and so Unilever Ethiopia was established as a joint venture with a domestic investor, Almeta Import Export, which owns 28% of the shares. The company's annual turnover is around $7 million after taxes and it has 50 employees, 14 of them indirect contract employees. Currently, there are 5 expatriate employees, with some Ethiopian managers undertaking management development programmes in other African countries.

The company believes the investor's environment has improved notably over the past few years. The trend is positive in key areas: roads have been built, red tape has been slashed, better business services are forthcoming. "The banks actually approach you!" said Mr Ponsford, noting that this had been unheard of earlier. The company's biggest challenge used to be bureaucracy; now it is mainly enhancing its understanding of the market and building up the necessary capabilities. The company is pleased with its employees, whom it regards as both honest and competent. What they mainly lack is a broader exposure to the world.

Asked what most needs attention by the Government, Mr Ponsford mentioned continued privatization (especially in banking and telecommunication), further reduction of bureaucracy and more rapid improvement of infrastructure. As for opportunities for foreign investment, he could see them in a number of manufacturing areas, packaging for example. Many items currently imported – cartons, paper, steel structures – could be domestically produced.

The best thing about Ethiopia, in the company's view, was the feeling that *the country was actually moving*, away from its interventionist past and towards an increasingly market-based economy. Unilever's plans include building a solid manufacturing base in conjunction with its local joint-venture partner, initially at least for the domestic market. It also envisions new facilities, the introduction of new products, and effective product distribution (particularly in rural areas) throughout the country.

Source: UNCTAD, based on information provided by Unilever Ethiopia plc.

Health services

Health services are another potential area for FDI in Ethiopia. The number of hospitals has increased from 96 in 1998 to 115 in 2002, health centres from 257 to 382, private clinics from 712 to 1,235, physicians from 1,415 to 1888, and nurses from 4,774 to 12,838 in the same period. In 2002, the government allocated about 7% of its total budget to improve in health services.

Despite these achievements, Ethiopia has poor health conditions, even within the content of sub-Saharan Africa. The Government has announced that it welcomes the private (including foreign) provision of health services. Land is offered at very low lease rates for up to 99 years to construct hospitals, health centres, clinics, and educational institutions. As a result, 15 private hospitals, 1,235 clinics, 24 health centres and six teaching institutions have been set up.

There has been an improvement in drug availability, partly through the licensing of a large number of private pharmacies and the establishment of several domestic manufacturers. In the last ten years, 18 pharmaceutical projects have been approved by the Ethiopian Investment Commission, out of which 3 have commenced operations and 5 are under implementation. (Of the three, one is wholly foreign-owned and another a joint venture.) At present there are five units including the government-owned Pharmid, which together have about 30% of the market share.

During my two years in Ethiopia, I have seen great progress towards good governance and economic liberalization. Although a lot remains to be done, the path is now set. And all this has been done during a severe drought, which absorbed a tremendous amount of energy and resources.
Even though purchasing power is still very low, our principals believe strongly in the future potential of this huge market of 70 million.

Chris De Muynck
Managing Director
MOENCO SC

Legal and judicial system

History and basis

The current Constitution of the Federal Democratic Republic of Ethiopia (FDRE) (proclaimed in 1995) has introduced many changes in the judicial system of Ethiopia. Among the major changes are: the establishment of an independent judiciary; provision for a three-layered federal and regional court system; provision for the extraordinary jurisdiction of the Federal Supreme Court to "review and correct any final decision of a *basic error of law*", including a decision of the Federal Supreme Court; and the establishment of Federal and Regional Judicial Administration Councils for the appointment and dismissal of judges with a view to avoiding government interference.

Ethiopian law is essentially based on civil law, even though vestiges of the common law system are in evidence in some laws, notably the civil procedure code and the maritime code. Significantly, commercial and industrial laws are mainly influenced by the civil law.

Judicial aspects

The highest federal judicial authority is the Federal Supreme Court, followed by the Federal High Court and the Federal First Instance Courts. Similarly, State Supreme Courts have the final judicial power over state affairs. According to the Constitution, State Supreme Courts and State High Courts are to exercise the jurisdiction of the Federal High and First Instance Courts where the latter two have not been established. Municipal courts are organized in a similar manner.

Although the Constitution forbids the establishment of special or ad hoc courts, it permits the House of Peoples' Representatives and State Councils to establish or give official recognition to customary and religious courts, especially where such courts have functioned with government recognition prior to the adoption of the present Constitution. To ensure efficiency through specialization, courts are organized into civil, criminal and labour benches. Commercial courts have yet to be established, although the intent to do so has been frequently expressed.

Amharic, the working language of the Federal Government, is the official language of Federal Courts. Although English is in practice the second working language of the Federal Government, documents written in English or in other foreign languages need to be translated into Amharic in order to be accepted by Federal Courts. Cases must be submitted and argued in Amharic in all Federal Courts. State Courts adjudicate in their state languages.

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.

Ethiopia is signatory to the International Convention on the Settlement of Investment Disputes (ICSID), a World Bank agreement for the arbitration of disputes between States and Nationals of Other States. The recognition and enforcement of foreign judgments and arbitral awards in Ethiopia are conditioned by reciprocity, based on judicial assistance agreements.

Legislative aspects

The Constitution confers the power of federal legislation on the House of People's Representatives (HPR). State Councils are authorized to legislate on state affairs. Federal bills generally originate from the Council of Ministers or members of the HPR. After a bill passes the HPR, it becomes a law on being signed by the country's president.

The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia. It contains detailed provisions for traders and businesses; business organizations; carriage and insurance; negotiable instruments and banking transactions; bankruptcy; etc. The code is in the process of being revised with a view to accommodating modern business concepts. The 2002 investment code has also been amended, to make it consistent with good governance.

Box IV.1. Some features of the Ethiopian legal system

- The constitution is the supreme law of the land, overriding all other legislation.
- 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 expected to be directed by internationally accepted principles of justice as well as by the laws of the FDRE.
- The judicial system enforces judgments of foreign courts on the basis of reciprocity under judicial assistance agreements.

Source: UNCTAD.

Administrative aspects

Ethiopia's civil service has been described as bureaucratic, inefficient, and lacking in transparency and good governance. Legal provisions are not available for the judicial review of the administrative actions of the state machinery and there have been almost no legal measures taken to penalize inefficient action or inaction. To redress this situation, the Government has embarked upon a comprehensive Civil Service Reform Programme (CSRP), embracing human resource development, public service delivery, and various financial, legal and judicial reforms (box I.2 in chapter I).

There have been some allegations of corruption against the court system. The public perception of courts in general is not favourable, given the long delays in court proceedings and decisions. The accused frequently languish in prison due to delays in court hearings and lengthy proceedings.

Protection of person and property

The 1995 constitution provides for the protection of person and property. Articles 14–18 of the constitution enumerate several guaranteed personal rights including the rights to liberty and equality before the law. Articles 29–44 guarantee 'Democratic Rights', including the right to freedom of thought and expression, the right to property, the right of assembly, and economic, social and cultural rights. 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 as the owner sees fit.

The government may expropriate property for public interest, strictly according to the law and only after making adequate compensation. Article 21 of the Investment Proclamation (2002) guarantees investors against measures of expropriation or nationalization, and Article 21.2 specifies advance payment of compensation "corresponding to the prevailing market value" of an investment earmarked for nationalization in the public interest.

Table IV.1. Bilateral investment treaties (BITs) and Double taxation treaties (DTTs)

BITs	DTTs
China	Italy
Denmark	Kuwait
Italy	Romania
Kuwait	Russia
Malaysia	Tunisia
Netherlands	Yemen
Russia	
Sudan	
Switzerland	
Tunisia	
Turkey	
Yemen	

Source: Ethiopian Investment Authority (2003) and the Ministry of Finance and Economic Development.

Institutional framework

The Investment Proclamation of 2002, as amended in 2003, and the 2003 Regulation on Investment Incentives constitute the main legal framework for both foreign and domestic investment in Ethiopia. Included in the framework are: forms of investment and capital requirement, investment permits, concessions, incentives and facilities, including one-stop service to investors. An industrial development strategy issued in 2002 aimed at:

- Accepting the fact that private investment is the engine of industrial development;
- Using agricultural development-led industrialization (ADLI) strategy as the road map to industrialization;
- Promoting export-led and labour-intensive industrial development; and
- Seeking to exploit joint ventures in industrial development.

Box IV.2. The Ethiopian Investment Commission (EIC)

Since its establishment in 1992 as the Ethiopian Investment Authority, the EIC (so renamed in 2003) has been more of a regulatory organ than an investment promotion agency (IPA), although it has been trying to be both. It is now an autonomous body accountable to the Investment Board chaired by the Minister of Trade and Industry.

The EIC has restructured itself recently with a view to promoting more FDI and improving the services provided to investors. It is now organized into four functional departments:

- the Investment Promotion and Public Relations Department,
- the Investment Facilitation and Aftercare Department,
- the Planning and Research Department, and
- the Licensing and Registration Department.

With respect to foreign and domestic investment, the EIC is responsible for the following tasks:

- issuing investment permits, work permits, trade registration certificates and business licenses as part of its one-stop-shop service;
- promoting and facilitating foreign direct investment, including the registration of technology transfer agreements and export-oriented non-equity-based collaborations with foreign enterprises;
- monitoring the implementation progress of licensed investment projects;
- negotiating and, upon Government approval, signing bilateral investment promotion and protection treaties with other countries; and
- advising the Government on policy measures needed to create an attractive investment climate for investors.

The EIC's priorities are:

- promoting Ethiopia's investment opportunities to potential investors in 10 selected home countries with a view to attracting FDI;
- encouraging existing foreign investors to engage in new investment or expansion;
- improving the efficiency and effectiveness of the EIC's service delivery processes (see table IV.2 below); and
- enhancing its capacity to promote and facilitate investment.

The EIC is headed by a Commissioner, currently Abi Woldemeskel. For contact details, see Appendix 3.

Source: The Ethiopian Investment Commission.

FIGURE IV.1. STAGES OF IMPLEMENTATION OF FDI PROJECTS

Application to the EIC

Investment permit within 5 days (EIC)

Business registration within 2 days (EIC)

Registration of technology transfer agreement, if any, in 2 days (EIC)

Approval of duty-free capital goods within 1-2 days (MoR)

Approval for opening foreign currency account within 1 hour (NBE)

Registration and approval of foreign loan/supplier's credit in 7days (NBE)

Registration of investment capital within 2-3 days (NBE)

Tax registration within an hour (IRA)

Work permit for expatriates in 1 hour (EIC)

Business license in 2 days (EIC)

Start of operations

Source: UNCTAD, based on the Ethiopian Investment Proclamation and on information obtained from relevant Government institutions.

VICE DELIVERY

TYPE OF SERVICE	AVERAGE TIME FOR SERVICE DELIVERY: UP TO 2003	PROPOSED TIME FOR SERVICE DELIVERY: AS OF 2004	ACTUAL TIME FOR SERVICE DELIVERY: AVERAGE OF 3 MONTHS ENDING 28 JANUARY 2004
Issuance of investment license	25 days for individuals 108 days for companies	5 days	3 hours 51 minutes
Renewal of investment license	13 days	1 hr	20 minutes
Principal business registration	28 days for individuals 96 days for companies	2 days	2 hours 44 minutes
Work permit	58 days	1 hr	42 minutes
Business license	225 days	2 days	3 hours 14 minutes
Domestic status	-	1 hr	34 minutes
Replacement of licence	-	1 hr	48 minutes

Source: Ethiopian Investment Commission.

In addition, the 2003 revisions to the Investment Proclamation of 2002 have made investment approval procedures simpler and more transparent.

Ethiopia is a member of the World Intellectual Property Organization (WIPO) and the Multilateral Investment Guarantee Agency (MIGA). It is also (as mentioned above) signatory to the International Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

Furthermore, Ethiopia has concluded bilateral investment treaties (BITs) and double taxation treaties (DTTs) with a number of countries (table IV.1).

After issuing investment permits and business licenses, the EIC has the obligation to notify pertinent government organs to undertake the required follow up.

Actually, the EIC's current service delivery is even better than that suggested by the chart above. Table IV.2 summarizes the results of the EIC's own research, which are confirmed by discussions with investors.

After acquiring land (within 60 days) and building permits (within a day or two), the investor is advised to apply early for utility connections. (See sections on Land and Building and related permits below.) According to the Ethiopian Telecommunication Corporation, the average time taken to connect fixed telephone lines for investors is one week and to acquire mobile telephone service three days. The Ethiopian Electric Power Corporation takes two to four weeks to connect electricity to investors. The Addis Ababa Water and Sewerage Authority, on the other hand, needs four to five days to provide water connections.

Article 35.4 gives the EIC the responsibility for facilitating the allocation of land for approved investment. In addition, the EIC also facilitates the connection of utilities such as water, power and telecommunication for investors who have been allocated land.

Entry and exit

Foreign investors wishing to invest in Ethiopia are required to apply to the EIC on a prescribed form. For priorities and restrictions, see appendix 1.

Screening and registration

Together with the application for an investment permit, the following documents need to be submitted to the Licensing and Registration Department of the EIC:

- Power of attorney in the case of an application made through an agent;

- For an individual investor, photocopies of relevant pages of passport together with two passport-size photographs;

- For a business organization incorporated in Ethiopia, the memorandum and articles of association;

- For newly established organizations, in addition to item 3 above, photocopies of the passport pages of each shareholder;

- In the case of investment by a branch office of a foreign firm in Ethiopia, copies of the memorandum and articles of association of the parent company; and

- For joint investment by foreign and domestic investors, in addition to item 3 above, photocopies of identity cards or of legal documents certifying domestic investor status.

Incorporation and related matters

The EIC is authorized by law to approve all FDI, regardless of size or type of investment. Investors who are dissatisfied with EIC's decisions may appeal to the Federal Investment Board within 30 days of receiving the decision.

All companies in Ethiopia are established under the Commercial Code (1960), with every company being governed by it. According to the Code, there are several forms of business organization under which companies may be organized in Ethiopia. The most common of these are private limited and share companies. Any two individuals may set up a private limited company, but a minimum of five founders are required to establish a share company, which is a public company.

An individual investor may also invest as a sole proprietor, with full equity ownership in most areas. 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. Partially or fully foreign-owned companies may sell their shares to Ethiopian or domestic investors in accordance with the law. However, there are no stock markets to facilitate the quick disposal of shares.

Building and related permits

Municipalities allocate land for industries and services according to the provisions of their master plans. (See the section on Land below.) After acquiring land, the investor applies to the concerned authority for a building permit. The authority may specify the type and height of buildings for the particular site. Once the investor submits the building plans to the authority for final approval, permits should normally be forthcoming within a few days. The Infrastructure and Construction Authority of the Addis Ababa Municipality, for example, claims that it can issue building permits within one day of receiving the building plan.

Acquisition and access

In spite of the provisions of Articles 390-393 of the Civil Code, which essentially forbade foreign ownership of immovable property except by "imperial order", Article 38 of the Investment Proclamation (2002) gives a foreign investor the right to own a dwelling house and other immovable property necessary for his investment.

Access to capital

Legally established foreign companies in Ethiopia have access to domestic bank loans. Exporters also have access to external loans and suppliers' or foreign partners' credit in keeping with the directives of the National Bank of Ethiopia (NBE). Foreign investors must have their investment capital, external loans and suppliers' or foreign partners' credits registered with the NBE.

Land

The 1993 urban land proclamation gives investors the use right of land on leasehold for periods of up to 99 years. The land cannot be mortgaged or sold, but the lease value of the land and the fixed assets thereon may be mortgaged or transferred to a third party. State governments and municipal administrations are authorized to allocate rural and urban land free of charge or on lease, in accordance with the provisions of their laws. Investment projects in social services, such as hospitals and educational institutions, may acquire land free of charge, while export-oriented investment schemes may obtain land at reduced lease prices. All other projects may rent land through public auction or through negotiation with the relevant authorities. Regional governments are expected to allocate land to investors within 60 days of receiving their applications.

The lease price of urban and rural land varies according to location, type of investment and class of land. Indicative lease-price ranges for Addis Ababa and Oromiya State are given below.

Exit

The Government has yet to articulate a specific exit policy for FDI. However, the Commercial Code of Ethiopia (1960) provides for the dissolution and winding up of legally established business organizations. One legitimate reason for the dissolution of a share company, for example, may be the resolution of an extraordinary general assembly of shareholders. Having resolved to liquidate, the general meeting must appoint liquidators, where provisions are not made for such appointment in the memorandum or articles of association. The liquidators must follow the rules and procedures of the Commercial Code in liquidating the share company. Private limited companies and joint ventures may be voluntarily liquidated according to the provisions of their memorandum or articles of association and according to the Commercial Code. The liquidation processes of joint ventures must also consider joint-venture agreements.

Article 218 of the Commercial Code provides for the dissolution of a business organization "for good cause" by court order at the request of a partner. Foreign investors may also exit by selling or transferring their assets, shares or enterprises. Foreign investors have the right to remit proceeds from the sale or liquidation of an enterprise and from the transfer of shares or partial ownership of an enterprise to a domestic investor.

TIVE LAND LEASE

REGION	LOCATION	SECTOR	LEASE PRICE (for lease period)
Addis Ababa	Kality	Industry	$ 33-37 per m^2
	Gurd Shola & Bisrate Gebriel	Industry	$ 45-51 per m^2
Oromiya	Nazareth	Industry	$ 3.72-7.53 per m^2
	Rural areas	Agriculture	$8-16 per ha (annual rent)

Source: Land Administration Authority of Addis Ababa, Land Lease Department and Oromiya Investment Bureau (Conversion of Birr into $ at 8.6:1).

Ownership, property and management control

In areas open to FDI, there are generally no limits as to the percentage of equity that a foreign investor may own. Foreign investors may also acquire local firms in areas open to FDI.

Government intervention in board appointments is restricted to government-owned enterprises. Share company members may establish their board of directors according to the provisions of their memorandum or articles of association. However, the board structure of a joint venture is expected to satisfy the provisions of the joint-venture agreement.

Foreign investors may employ expatriates to fill top management positions without any precondition to replace expatriates with Ethiopians. However, the labour law (1993) requires that all foreign workers should obtain work permits in order to work in Ethiopia. The EIC issues these permits for three years with mandatory annual renewals. With respect to non-management posts, the revised investment law requires a schedule of replacement by Ethiopians and a training programme for such replacement to be presented.

The Labour Proclamation No.42/1993 (as amended in 1994) is a comprehensive law governing all aspects of worker-employer relations in Ethiopia. It is applicable to every person or enterprise with employees.

Intellectual property

In 1998, Ethiopia acceded to the convention establishing the World Intellectual Property Organization (WIPO). The Ethiopian Constitution (1995) provides the foundation for intellectual property rights. The Government also recognizes the protection of intellectual property rights as a key factor in economic growth. As a result, the Proclamation Concerning Inventions, Minor Inventions and Industrial Designs was enacted in 1995. In addition, a draft proclamation to protect literary and artistic ownership and related rights is awaiting passage by the House of Peoples' Representatives. Another draft proclamation to be approved by the HPR is the trademark proclamation. The Civil Code of 1960 also provides for the protection of copyright. These proclamations are in accord with the spirit of the Berne Convention for the Protection of Literary and Artistic Works, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the WIPO Treaty.

The various aspects of intellectual property were administrated by various government organs until April 2003, when the Ethiopian Intellectual Property Office (EIPO) was established to oversee the protection of patents, trademarks and copyrights under one umbrella. To provide the required protection, EIPO is to register patents, industrial designs, utility models and trademarks, after duly processing applications and supporting documents. Lengthy evaluation and verification procedures are involved especially in processing patents. The length of time taken to register each type of intellectual property is shown in Table IV.4.

F

INTELLECTUAL PROPERTY

REGISTRATION OF	TIME TAKEN*
Patent	2.5 years
Industrial design	4 months
Utility model	4 months
Trademark	6 weeks

Source: Ethiopian Intellectual Property Office (EIPO) and Ministry of Trade and Industry.
*The first three time estimates are according to EIPO's experience as a department under the Ethiopian Science and Technology Commission.

Privatization, limitation and exclusion

According to the amended Privatization Proclamation No. 146/1998, the provisions of the Investment Proclamation with regard to entry requirements, foreign investment guarantees and investment incentives for expansion or upgrading are applicable to foreign investors participating in privatization. This means a minimum entry capital requirement of $100,000 for a wholly foreign-owned ($50,000 for consultancy services) and $60,000 for a jointly owned ($25,000 for consultancy services) privatized enterprise. It also means an income tax holiday of 2 years for exporting at least 50% of products and increasing the value of production by 25% (see the section on Fiscal and financial incentives below).

No capital restrictions are placed on a foreign investor who re-invests his profits or dividends or exports at least 75% of his products. A foreign investor is barred from investing in areas exclusively reserved for the Government, Ethiopian nationals and domestic investors (see Appendix 1). According to the revised investment code, a foreign investor intending to buy an existing enterprise or shares in an existing enterprise must get a permit from the Ministry of Trade and Industry (MoTI). There are no zonal or other restrictions.

Technology transfer is not limited by type or cost of technology. According to the revised investment code, technology transfer agreements will now only be *registered* by the EIC, not approved as previously required.

Investment protection and standards of treatment

Expropriation

The Investment Proclamation, 2002, provides protection against expropriation or nationalization. It states that no private investment may be nationalized or expropriated except when dictated by public need, and then only in accordance with the law. In the event of nationalization or expropriation, the constitution guarantees advance payment of adequate compensation corresponding to the prevailing market value of the investment.

There has been no instance of expropriation since the establishment of the FDRE in 1995.

Dispute settlement

The Civil Code of Ethiopia (1960) provides contracting parties with the options of compromise and arbitration as mechanisms of dispute resolution. Even though a contract does not include provisions for such mechanisms and the case is in a lawsuit, compromise or arbitration is possible if the disputants submit a written application to the court. The procedures to be followed by the arbitrators are described in the Code of Civil Procedure (1965).

Parties to a dispute may decide to settle it amicably through negotiations. Failing this, they may agree to resolve their dispute according to international laws such as the arbitral provisions of the United Nations Commission on International Trade Law (UNCITRAL), with the venue of the arbitration and the law to be applied being decided by mutual consent. In the case of joint ventures, the provisions made in the joint-venture agreement may be used in resolving the disputes.

The Addis Ababa Chamber of Commerce (AACC) has recently established the AACC Arbitration Institute as an alternative dispute settlement mechanism. The Institute resolves commercial disputes according to the rules of the Institute, which are based on the international arbitration rules of the International Chamber of Commerce and the UNICITRAL Model Arbitration Rules.

Exchanging and remitting funds

The National Bank of Ethiopia (NBE) regulates the entry and remittance of foreign currencies in Ethiopia through specific directives applicable to both Ethiopians and foreigners. Currently, Foreign Exchange Regulation Notice No. 1/1977 (as amended) and Directive No. Rel/005/2002 govern the flow of foreign exchange. Virtually all outgoing and some incoming foreign currencies (such as foreign loans) are regulated. Foreign investors may, with NBE's approval, open foreign-exchange accounts in commercial banks. Eligible exporters of goods and recipients of inward remittances may also open foreign-exchange accounts without prior approval from the NBE. Subject to the exchange regulations of the NBE, a person with a foreign-exchange account can remit foreign currency abroad.

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 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.

According to UNCTAD's consultations, the foreign-exchange regime generally is not a big problem but there is dissatisfaction with its application in the area of trade-related payments.

Fiscal and financial incentives

The Council of Ministers Regulation No.84/2003 specifies the areas of investment eligible for investment incentives. A separate law, Proclamation 53/1993 (revised 1996), governs the incentives provisions for mining operations. (See Special regimes below.)

To encourage investment, two types of fiscal incentives are offered:

- exemption from the payment of customs duty and other taxes levied on capital goods and construction materials, together with spare parts worth up to 15 % of the total value of capital goods; and
- exemption from the payment of income tax for 2 to 5 years.

(See also the section on Export incentives in Chapter II under Taxation.)

Other facilities available to exporters are the duty-drawback scheme, the voucher scheme and the bonded warehouse facility. The duty-drawback scheme offers investors an exemption from the payment of customs duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods. Duties and other taxes paid in importing are drawn back at the time of the export of the finished goods.

Although the duty-drawback scheme has been in place since 1993, it has been dogged by inefficiency and long delays. Up until 2001, a high-level committee used to evaluate and grant duty-drawback requests. Since 2001, the responsibility for the implementation of the duty-drawback scheme has been transferred to the Customs Authority. After making the required evaluation, the Customs Authority communicates the amount of duties and taxes to the Ministry of Finance for payment to the beneficiary. The new system is faster but the huge backlog from previous years continues to hamper efficiency.

As for the 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.

Exemption from double taxation

See Table IV.1 for double taxation treaties. For taxation details, see the section on Taxation in Chapter II.

Special regimes

Mining

The federal Ministry of Mines has responsibility for overseeing large-scale mining operations and all mineral prospecting, exploration and mining operations undertaken by foreign investors, including joint ventures.

The Mining Proclamation and the Mining Income Tax Proclamation were enacted in 1993. These proclamations were later amended in 1996 and 1998, with a view to attracting more private investment in the sector. The Mining Operations regulations were issued in 1994 and amended in 1998. The proclamations and regulations, as amended, provide for:

- the opening of all areas of mineral operations to private investment;
- an exclusive prospecting license for 1 year and an exclusive exploration license for 3 years, with two renewals of 1 year each;
- an exclusive mining license for 20 years with unlimited numbers of renewals of 10 years per renewal;
- the right to sell minerals locally or abroad;
- exemption from the payment of customs duties and taxes levied on machinery, equipment and vehicles;
- royalties of 2 % to 5 % *ad valorem;*
- retention of part of foreign-currency earnings and remittance abroad of profits, dividends, and principal and interest on foreign loans;
- carry forward of losses for 10 years;
- amortization of investment over 4 consecutive years;
- reduction of the free equity of the Government from 10% to 2%; and
- reduction of income tax from 45% to 35%.

With regard to petroleum, there are three basic proclamations: Petroleum Operations Proclamation (295/1986), Petroleum Operations Income Tax Proclamation (296/1986) and Petroleum Operations Income Tax (Amendment) Proclamation (226/2000). The major provisions of these proclamations are:

- exploration license for up to 4 years with up to 4 years' extension;
- production for 25 years with 10 years' of extension;
- no government participation in exploration;
- negotiable government participation in production not exceeding a maximum of 20%;
- production share of investor between 25% and 85%;
- 100% petroleum operations cost recovery;
- negotiable royalty up to a maximum of 12.5% for oil and 5% for gas;
- income tax of 30%; and
- loss carried forward for a maximum of 10 years.

Energy

The Electricity Proclamation (No. 86/1997) and the Ethiopian Water Resources Management Proclamation (197/2000) are the two laws governing electric energy. An investor must have a permit for the use of water resources for the generation and transmission of electricity. The generation, transmission and distribution of electricity also require a license from the Ethiopian Electricity Agency (EEA), the regulatory body established by the Electricity Proclamation (2000). In addition, the licensee needs an investment permit from the EEA, as it is delegated to issue these by the EIC, pursuant to Article 41 of Proclamation No. 375/2003. An investor is allowed to invest in all aspects of electrical energy, except in the transmission and distribution of electricity through the Integrated National Grid System, an area reserved for the Government.

Other issues

Performance requirements

Ethiopia does not impose any performance requirements such as local content, local employment, minimum export, trade balancing, foreign-exchange balancing, technology transfer or local equity participation – although it encourages joint ventures, the use or local raw materials, and labour-intensive methods in the manufacture of finished goods.

Environmental requirements

The Environmental Impact Assessment Proclamation (No. 299/2002) and the environmental regulations, as well as directives, govern the investment-environment nexus. The Ethiopian Environmental Protection Authority (EEPA) is the federal organ responsible for ensuring compliance with the provisions of the proclamation. For investment projects with potentially negative environmental impacts, the EEPA requires investors to submit environmental impact assessments (EIA). The EEPA directives identify investment projects that require EIAs.

Competition and price policy

Since Ethiopia restored the market economy in 1992 (after nearly two decades of communism), domestic prices have been deregulated except for petroleum-based fuel prices, which are still fixed every 3 months, and sugar whose wholesale price at the factory is fixed. Generally, however, the market determines the prices of all other goods. Customs police have been busy recently trying to crack down on illicit trade, which has been rampant. Recently, Ethiopia has issued trade-practice legislation, Proclamation 329/2003, in order to curb monopolies and restrictive trade practices.

We believe that this is exactly the time to invest in the garment business in Ethiopia. Not only are labour costs low & the workforce trainable, access to major markets like the US and the EU is available on preferential terms. What's more, the investment climate has improved notably in the past year or so. Our own recent experience has been positive enough to lead us to expand our garment business (tripling employment) *and* setting up a related dyeing and knitting venture with two other foreign investors.

Worku Zewde
Managing Director
Garment Express Private Limited

Private-sector perceptions

V

This chapter summarizes the results of consultations with the private sector in Ethiopia. The consultations were carried out mostly in January 2004, mainly through two group meetings but also through a number of individual meetings. About 35 business people participated in these consultations, nearly 20 of them representing companies with foreign investment. The group meetings used a questionnaire on the business climate which also served as an agenda for the meetings.

This summary should be seen as no more than indicative of private-sector opinion in Ethiopia.

General observations

When asked to identify the three most attractive things about Ethiopia, investors as a whole chose climate above all, which was seen as an advantage for agricultural activities as well as tourism. (Much of Ethiopia has a surprisingly temperate climate by African standards, because of its elevation.) Climate was the clear favourite among domestic investors and came a close second among foreign ones, who put low production costs first. Low costs, especially of labour, came next among investors as a group, followed fairly closely by security and market size. Ethiopia is broadly seen as a safe place to live and work, with very little crime or social disorder. In fact, if the feature of security is combined with peace and stability, it rivals climate for the most attractive feature of Ethiopia.

Notably, low production costs ranked much higher in the estimation of foreign investors than of domestic ones. Market size was also more important to foreign investors than local ones, although the former also tended to stress the limits imposed on the market by the low purchasing power of the population. (By African standards again, Ethiopia has a very substantial domestic market of nearly 70 million, the third largest in the continent after Nigeria and Egypt.) Other candidates for the top three positions among attractive features were natural resources, a lack of corruption, proximity to export markets and a good rate of return on investment. Religious harmony between the two main groups, Christian and Muslim, was also mentioned, as was the long historical and cultural tradition of the country.

As for things that needed attention by the Government, infrastructure ranked at the top, with telecommunication being specifically mentioned a number of times. Bureaucracy came next, followed by the operating environment for business. One notable difference between foreign and domestic investors in this context was that the latter gave equal weight to some seven or eight points, ranging from infrastructure through bureaucracy and banking to promoting tourism and strengthening dialogue, while the former established a clear ranking, with infrastructure the overwhelming favourite.

Investors saw the general political and economic environment as stable. The way the Government dealt with business was seen as satisfactory by most investors, with only a small minority disagreeing. The trend in particular was seen as definitely positive. Ethiopia's progress towards a market economy, since the end of the Derg regime in 1991, had been slow but it *had* occurred and, especially over the last year or so, had gathered speed. Domestic investors thought that foreign investors faced no special problems in Ethiopia; some foreign investors disagreed. Among the difficulties mentioned were a lack of clear regulation and documentation, and variations in rules among regions. Some foreign investors felt that the Forum that met every three months did not really invite their participation, as it was conducted in Amharic.

Specific points

Infrastructure

As noted above, infrastructure ranks at the top of private-sector concerns in Ethiopia. It was broadly acknowledged that there had been significant improvement in some areas, in particular roads, to which the Government had dedicated substantial resources. Still, Ethiopia was a large country with low urbanization and improving road connections among the main towns was thus not enough. One foreign investor noted that, although Ethiopia offered a large potential market for his products, logistical difficulties meant that much of it was effectively inaccessible. "In effect," he said, "my market isn't 70 million; it's 10." Still, roads and airports were areas of real accomplishment. Power and telecommunication, on the other hand, were areas in which there had been the *least* progress. Reliability was the principal concern, but so were access, quality and cost.

Human resources

Investors speak well of the Ethiopian workforce. There was no mention of the kinds of problems that arouse distrust among employers, such as pilfering. A number of investors thought qualifications had improved over the past five years and a few thought attitudes had as well. On the whole, however, industrial relations and attitudes were seen as areas in which there had been the least progress. Some thought that unions in Ethiopia had not come to terms with the idea of the market economy and had yet to develop a positive conception of their role in it. Greater openness to ideas and a stronger customer orientation were needed.

Taxation

There was general agreement that there had been progress in this area. Tax levels were now reasonable, especially as far as corporate tax was concerned. Personal income tax was a different matter. It was seen as high, especially for expatriate employees, as the highest rate of 35% was payable as soon as income reached $600 per month. The complexity of the tax system was mentioned as something that needed attention by a number of investors. Some also saw import duties as still too high. One investor said the monopoly of the Ethiopian Shipping Lines on the transport of seaborne imports in effect constituted an indirect tax. (The ESL monopoly was mentioned as an issue by other investors as well.) The tax problem mentioned most often by foreign investors was getting advance tax payments refunded, which was seen as nearly impossible.

Other issues

Both foreign and domestic investors thought monopolies and market dominance were issues of concern in Ethiopia. State monopolies in areas like shipping and telecommunication raised problems of both cost and quality. There was also some concern over unfair competition and preferential treatment for enterprises owned by the party in power. Investment protection was seen as a problem by only a small minority of investors, as was Government interference in management. Some foreign investors, as well as domestic ones, were concerned that intellectual property rights (copyright, patents, trademarks) were not adequately respected in Ethiopia, but most did not flag this issue. Ownership restrictions were an issue for foreign investors: too many sectors were protected. On the other hand, there was not much concern over special requirements for foreign investors, such as minimum investment or local inputs. Foreign exchange was not a big concern either, although trade-related payments posed some difficulties of delays and bureaucracy. On the whole, there had been progress in this area.

When asked if there were other issues that seriously affected the investment climate and had not been covered by the UNCTAD questionnaire, *land* was the answer most often given, especially by foreign investors but by some domestic ones as well. The price of land was the primary concern but its poor administration was also mentioned. Another point mentioned was the image of Ethiopia abroad. This matter came up often in discussions with investors. The Government, in their view, needed to do more to alter the perception that Ethiopia was a land of drought and famine.

Concluding remarks

Ethiopia is in many ways an unusual country in the African continent and the private sector, especially the domestic private sector but to some extent also the foreign, sees most of the features that set it apart as positive. The potential size of the domestic market is one of these features. Since most of the private sector sees the economy as moving in the right direction, even if it is doing so at a pace much slower than it would prefer, it sees the market potential as a strong plus, though the population of nearly 70 million is poor even by African standards. Ethiopia's long history is another unusual feature, which helps contribute to its stability as a state and gives it an asset with commercial value if it can be properly exploited to attract tourism. Although the country is marked by a great variety of regions, languages and ethnic groups, it is free of tensions between its two major religions, Christianity and Islam, and notably free of crime and corruption.

The absence of what might be called routine corruption is perhaps the most unusual feature of the Ethiopian business environment, unusual not just in Africa but in the developing world as a whole. As elsewhere in developing countries, investors complain in Ethiopia about bureaucratic hassles and delays, but they also note that these are *not* in Ethiopia, as they often are elsewhere, means to extract 'unofficial' payments. Not only is routine bureaucratic corruption largely absent in Ethiopia, the Government has reacted to some actual or suspected cases of corruption with strong anti-corruption measures – which some investors see as an overreaction with unhappy unintended consequences. (See box on Combating corruption in Chapter I.)

Appendix 1

Priorities and restrictions

Priorities

The Government specifically encourages foreign direct investment in the following areas:

- Agriculture and agro-processing
- Horticulture, including cut flowers
- Leather and leather products
- Textiles and garments
- Tourism

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
- Domestic air transport using aircraft with a capacity of more than 20 passengers.

2. **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 (excluding LPG, bitumen and, upon approval from the Council of Ministers, material inputs for export products);
- Retail and brokerage; and
- Wholesale (excluding supply of petroleum and its by-products as well as wholesale trade by foreign investors of their locally produced products).

B. Other
- Bakery products and pastries for the domestic market;
- Barber shops, beauty saloons, and provision of smithing, 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 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.

3. **Areas exclusively reserved for Ethiopian nationals (without prejudice to No. 2 above):**

- 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.

N.B.
A "national investor" is an Ethiopian national. The term "domestic investor" is more inclusive and includes: an Ethiopian national, a foreigner permanently residing in Ethiopia who chooses to be considered a domestic investor, a naturalized foreigner born in Ethiopia who wishes to be considered a domestic investor, and a government organization registered to establish a state-owned enterprise. ("Investor" in this context covers both individuals and enterprises owned by them.)

Appendix 2

Major foreign investors

	Name of company	Ownership	Business	Address
1	Abdullahi S.A.A.L. Hosaini Mr Abdullahi S.A.A.L. Hosaini General Manager	Saudi Arabia	Animal fattening & animal feed processing	Addis Ababa Tel: 251-1-09-214504
2	Addis Corrugated Sheet Production Plc	Ethiopia, United Kingdom, United States	Corrugated sheet	P.O. Box 4737 Addis Ababa Tel: 251-1-111950
3	Addis TYRE Company S. Co. Mr Reda Tamirat General Manager	Ethiopia, Japan	Tires manufacturing	P.O. Box 2394 Addis Ababa Tel: 251-1-421555 Fax: 251-1-422108
4	Akaki Modern Tannery Mr Said Hussien Ali General Manager	Saudi Arabia	Leather manufacturing	P.O. Box 12633 Addis Ababa Tel: 251-1-341404 Fax: 251-1-341400
5	Alala Agro-Industry & trading Plc	Yemen, Ethiopia	Vegetable oilseed	P.O. Box 30260 Addis Ababa Tel: 251-1-04-400819 Fax: 251-1-625340
6	Bauer-MIDROC Foundation Specialist Plc Mr Achim Braun General Manager	Germany, Saudi Arabia	Special foundation & underground construction	P.O. Box 1912-1110 Addis Ababa Tel: 251-1-421876 Fax: 251-1-4027003
7	Bereka Agricultural Enterprise Plc	Saudi Arabia, Ethiopia, Yemen	Oil crop farming and bee keeping	P.O. Box 30260 Addis Ababa Tel: 251-1-516474 251-1-615795
8	Beverly International Plc Mr Tesfaye Dinssa Deputy General Manager	United Kingdom, Ethiopia	Soft drinks	P.O. Box 399 Addis Ababa Tel: 251-1-342923 Fax: 251-1-342944
9	BGI (Ethiopia) Plc Mr Jean Paul Blavier General Manager	Ethiopia, France	Beer and soft drinks	P.O. Box: 737 Addis Ababa Tel: 251-1-515196 Fax: 251-1-511711
10	B.I.M.A.A.P. Plc	Ethiopia, Italy	Medicinal aromatic plants, essential oil and green beans	P.O. Box 153470 Addis Ababa Tel: 251-1-654944
11	BIOSOL Plc Mrs Muna Ahmed General Manager	Ethiopia, France	Intravenous solution, IV	P.O. Box: 15-1027 Addis Ababa Tel: 251-1-461754 Fax: 251-1-465713
12	Blue Nile Consultants Plc Mr Richard Beaudoin General Manager	United States	Technical consultancy service	P.O. Box 1766-1110 Addis Ababa Tel: 251-1-660243 251-1-09-217039
13	BURAYU Spring Water Plc Mr Ryaz Shamji General Manager	Ethiopia, United Kingdom	Mineral water	P.O. Box 19900 Addis Ababa Tel: 251-1-780009 Fax: 251-1-669970
14	China Geo-Engineering Corporation/Eth. branch	China	Water well drilling	P.O. Box 8536 Addis Ababa Tel: 251-1-713592
15	COVIT Plc	Italy	Pastries and biscuits	P.O. Box 27804 Addis Ababa Tel: 251-1-755426

16	Danie Johannes Oberholezen Mr Danie J. Oberholezen General Manager	South Africa	Mine drilling and related consultancy	P.O. Box 4146 Addis Ababa Tel: 251-1-668571 Fax: 251-1-668572
17	Daylight Engineering Plc Mr Tibebe Argaw General Manager	Ethiopia, Saudi Arabia	Incandescent & fluorescent lamps; tumblers	P.O. Box 8964 Addis Ababa Tel: 251-1-519041 Fax: 251-1-422148
18	DHV Ethiopian Plc Mr Tjalling Mak Area Manager	Netherlands	Consultancy Service	P.O. Box 5910 Addis Ababa Tel: 251-1-110107
19	East African Pharmaceuticals Plc Dr Abdurahim R. Hashim General Manager	Sudan, United Kingdom	Human and veterinary medicines & drugs	P.O. Box 9036 Addis Ababa Tel: 251-1-632903 Fax: 251-1-519395
20	EDGE Plc	Ethiopia, Germany	Building Construction	P.O. Box 10015 Addis Ababa Tel: 251-1-612914
21	ELFORA Agro Industries Mr Getachew Hagos General Manager	Saudi Arabia	Meat processing	P.O. Box 2500 Addis Ababa Tel: 251-1-611102 Fax: 251-1-610208
22	Ethio Horizons Investment and Development Plc	Ethiopia, Oman, Yemen	Paints Manufacturing Plant	P.O. Box 899 Addis Ababa Tel: 251-1-167506 Fax: 251-1-751955
23	Ethio-Japan Synthetic Textiles Share Co. Mr Zegaw Tilaye General Manager	Ethiopia, Japan	Nylon Fabric	P.O. Box 2184 Addis Ababa Tel: 251-1-513333 Fax: 251-1-515077
24	Ethiopia Crown Cork & Can Manufacturing Industry S. Co. Mr Feseha Berhanu General Manager	Ethiopian Government, United States	Cork manufacturing	P.O. Box 5501 Addis Ababa Tel: 251-1-340244 Fax. 251-1-340216
25	Ethiopian Steel Plc Mr Rakesh Bahatragar General Manager	Kenya, Mauritius	Galvanized corrugated iron sheets, tubes and pipes	P.O. Box: 8692 Addis Ababa Tel: 251-1-342718 Fax: 251-1-341940
26	EV Industries Plc Mr Vijay Kumar General Manager	India	Yarn processing	P.O. Box 22848-1000 Addis Ababa Tel: 251-1-662640/42 Fax: 251-1-655947
27	Gaffar Enterprise Plc (Blue Nile Tannery) Mr Mohamed Gaffar Mustafa General Manager	Sudan	Tannery and leather processing	P.O. Box 9339 Addis Ababa Tel: 251-1-380816-18 Fax: 251-1-518288
28	Garment Express Plc Dr Worku Zewde Managing Director	United States	Garments	Woreda 28, Kebele 24 Addis Ababa Tel: 251-1-463509/463562 Fax: 251-1-463510
29	Genesis Farms Ethiopia Plc Mr Bahilu Wolde General Manager	Netherlands, United States	Integrated agricultural development	P.O. Box 1565 Addis Ababa Tel: 251-1-339966 Fax: 251-1-339180
30	Golden Rose Agro Farm Plc Mr Ryaz Shamji General Manager	United Kingdom	Flowers farming	P.O. Box 19900 Addis Ababa Tel: 251-1-669971 Fax: 251-1-669970

31	Imperial Agro-Farm Industry Plc Mr Dereje Asfaw General Manager	Ethiopía, Israel	Tomatoes production	P.O. Box 2966 Addis Ababa Tel: 251-1-293329 Fax: 251-1-293332
32	Kality Garment Factory Plc Mr Artimis Misilides General Manager	Ethiopia, Italy	Garments factory	P.O. Box 1290 Addis Ababa Tel: 251-1-340127 Fax: 251-1-514971
33	Kombolcha Steel Products Industry Plc, KOSPI Plc Mr Terefe Mengesha General Manager	Ethiopia, Saudi Arabia	Corrugated roofing sheets, structural and metallic profiles	P.O. Box 20772-1008 Addis Ababa Tel: 251-1-620836 Fax: 251-1-630528
34	MAMCO Plc Mr Merduf Zalaha General Manager	Saudi Arabia	Paper production factory	P.O. Box 5710 Addis Ababa Tel: 251-1-341413 Fax: 251-1-341424
35	Michael D.Wills Mr Michael D.Wills General Manager	United Kingdom	Engineering consultancy	P.O. Box 101317 Addis Ababa Tel: 251-1-653425 Fax: 251-1-654640
36	MIDROC Construction Et. Plc Dr Arega Yirdaw Chief Executive Officer	Saudi Arabia	Multi-sectoral` holding company	P.O. Box 8677 Addis Ababa Tel: 251-1-711277 Fax: 251-1-711912
37	MIDROC Construction Et. Plc Mr Shimelis Eshete Deputy General Manager	Saudi Arabia	General constructor, GC1	P.O. Box 16960 Addis Ababa Tel: 251-1-510899 Fax: 251-1-512244
38	MIDROC Lega Dembi Gold Mines Mr Kasahun Endailalu Director	Saudi Arabia	Gold mining	P.O. Box 2318 Addis Ababa Tel: 251-1-655205 Fax: 251-1-655208
39	MIDROC Et. Plc Sheraton Mr Jean Pierre Manigoff General Manager	Saudi Arabia	Hotel	P.O. Box 1223 Addis Ababa Tel: 251-1-171717 Fax: 251-1-172727
40	Mobil Oil East Africa Ltd. Mr Tichafa Tederara Lead Country Manager	United States	Petroleum products distribution	P.O. Box 1365 Addis Ababa Tel: 251-1-651125 Fax: 251-1-651039
41	Modern Building Industries Plc Mr Ketema Asefa General Manager	Ethiopia, Saudi Arabia Addis Ababa	Non-metallic Filler Production	P.O. Box 8964 Tel: 251-1-720555 Fax: 251-1-712921
42	MOENCO Mr Chris De Muynck Managing Director	Japan	Motors and engineering	P.O. Box 5727 Addis Ababa Tel: 251-1-613688 Fax: 251-1-611766
43	National Mining Corporation Mr Melaku Beza General Manager	Saudi Arabia	Marble, limestone, granite tiles and slabs production	P.O. Box 1174 Addis Ababa Tel: 251-1-711887 Fax: 251-1-711677
44	Nestlé P.E.C. Mr Olivier Mange Delegate for the Horn of Africa	Switzerland	Food and beverages	P.O. Box 19992 Addis Ababa Tel: 251-1-713389 Fax: 251-1-713394
45	Oxford Industries Plc Mr Hiren A. Savla Manager	Ethiopia, India	Plastic packaging material	P.O. Box 100725 Addis Ababa Tel: 251-1-636521 Fax: 251-1-711157

46	Pioneer HI-Breed seeds Plc Mr Worede Woldemariam General Manager	Ethiopia, United States	Technical consultancy service in agro-chemicals	P.O. Box 1134 Addis Ababa Tel: 251-1-510725 Fax: 251-1-510155
47	Ropack International Plc Mr Binyam Asefa General Manager	Ethiopia, United Kingdom	Powder soft drinks	P.O. Box 4737 Addis Ababa Tel: 251-1-634840 Fax: 251-1-552876
48	ROTO Plc Mr Kumar S. Bangera General Manager	Kenya	Plastic production	P.O. Box 922-1110 Addis Ababa Tel: 251-1-431045 Fax: 251-1-431046
49	Saleh A.S.Hosaini Mr Saleh A.S. Hosaini General Manager	Saudi Arabia	Integrated livestock farming and meat processing	Addis Ababa Tel: 251-1-09-405009
50	Salini Construction Private Ltd. Co. Eng. Blanda Leonardo Area Manager	Italy	Construction	P.O. Box 101463 Addis Ababa Tel: 251-1-53848 Fax: 251-1-517195
51	Salam Health Care Plc Mr Melaku Yoseph Deputy General Manager	Saudi Arabia	Nurses training school	P.O. Box 1038 Addis Ababa Tel: 251-1-713155 Fax: 251-1-710352
52	Shell Ethiopia Ltd Mr Tadesse Tilahun General Manager	Netherlands, United Kingdom	Petroleum products distribution	P.O. Box 3174 Addis Ababa Tel: 251-1-53848 Fax: 251-1-653017
53	Sino Ethiop Associate (Africa) Plc Mrs Zaf G/Tsadik Executive Director	China, Ethiopia	Capsules manufacturing	P.O. Box 30609 Addis Ababa Tel: 251-1-714555 Fax: 251-1-710486
54	Summit Engineering Plc Mr. Dagim Tadesse A/Deputy General Manager	Ethiopia, Saudi Arabia	Woven polypropylene and plastic	P.O. Box 17758 Addis Ababa Tel: 251-1-626863 Fax: 251-1-626853
55	Target Ethio-China investments Plc Mr Dai General Manager	China, Ethiopia	Blanket factory	Addis Ababa Tel: 251-1-621133 251-1-628700
56	TASTY Foods Plc Mr Eyob Bekele General Manager	Ethiopia, United Kingdom	Snacks and powdered drinks	P.O. Box 2964 Addis Ababa Tel: 251-1-751556 Fax: 251-1-751555
57	TOTAL Ethiopia Share Co. Mr Jean-Jacques Legrand Managing Director	France	Aviation depots and retail network	P.O. Box 1462 Addis Ababa Tel: 251-1-516077 Fax: 251-1-510410
58	UNILEVER Ethiopia Plc Mr Richard Ponsford General Manager	Ethiopia, Netherlands	Soaps, detergent, tea, vaseline and VSM factor	P.O. Box 23353-1000 Addis Ababa Tel: 251-1-655775 Fax: 251-1-655777
59	Victory Plc Mr Kassaye Zewdie General Manager	D.R Korea	Photo albums and frames	P.O. Box 41759 Addis Ababa Tel: 251-1-712519 Fax: 251-1-712519
60	Woinu Curtain Trade Plc Ms Woinshet Shewatsega General Manager	Ethiopia, Sweden	Blind curtains	P.O. Box 100230 Addis Ababa Tel: 251-1-509068 Fax: 251-1-509067

Appendix 3

Sources of further information

Ethiopian Investment Commission
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P.O. Box 2313
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E-mail: ethiopian.invest@telecom.net.et

Public sector

Ministry of Trade & Industry
Addis Ababa
P.O. Box 704
Tel: 251-1-151805
Fax: 251-1-514288

Ministry of Agriculture
Addis Ababa
P.O. Box 62347
Tel: 251-1-518040
Fax: 251-1-512984
E-mail: MOA@telecom.net.et

Ministry of Mines
Addis Ababa
P.O. Box 486
Tel: 251-1-461214
Fax: 251-1-463454
E-mail: mm&e@telecom.net.et

Inland Revenue Authority
Addis Ababa
P.O. Box: 3087
Tel: 251-1-518200
Fax: 251-1-667257

Ethiopian Customs Authority
Addis Ababa
P.O. Box 3248
Tel: 251-1-513100
Fax: 251-1-518355
E-mail: customs@telecom.net.et

Tourism Commission
Addis Ababa
P.O. Box 2183
Tel: 251-1-517470
Fax: 251-1-517533

Ministry of Finance & Economic Development
Addis Ababa
P.O. Box 1037
Tel: 251-1-560002
Fax: 251-1-553844
E-mail: medac2@telecom.net.et

Ministry of Labor & Social Affairs
Addis Ababa
P.O. Box 2056
Tel: 251-1-517080
Fax: 251-1-518396
E-mail: moisa-comt@telecom.net.et

Ethiopian Telecommunication Corporation
Addis Ababa
P.O. Box 1047
Tel: 251-1-510500
Fax: 251-1-515777
E-mail: etc-hq@telecom.net.et
internet-mark@telecom.net.et

Other public institutions

Coffee & Tea Development Authority
Addis Ababa
P.O. Box: 3222
Tel: 251-1-518088
Fax: 251-1-517293
E-mail: etcoftea@telecom.net.et

Ethiopian Agricultural Research Organization
Addis Ababa
P.O. Box 2003
Tel: 251-1-432633
Fax: 251-1-461294
E-mail: iar@telecom.net.et

Ethiopian Export Promotion Agency
Addis Ababa
P.O. Box 6945
Tel: 251-1-504170
Fax: 251-1-505192
E-mail: Tpaddis@telecom.net.et

Central Statistical Authority
Addis Ababa
P.O. Box 1143
Tel: 251-1-553011
Fax: 251-1-550334
E-mail: csa@telecom.net.et

Ethiopian Electrical Power Corporation
Addis Ababa
P.O. Box 1233
Tel: 251-1-550811
Fax: 251-1-552345 or 560289
E-mail: eelpa@telecom.net.et

National Bank of Ethiopia
Addis Ababa
P.O. Box 5550
Tel: 251-1-517430
Fax: 251-1-514588
E-mail: nbe.excd@telecom.net.et

Ethiopian Privatization Agency
Addis Ababa
P.O. Box: 11835
Tel: 251-1-150370
Fax: 251-1-513955
E-mail: epa@telecom.net.et

Environmental Protection Authority
Addis Ababa
P.O. Box 12760
Tel: 251-1-627728
Fax: 251-1-610077
E-mail: envpa@telecom.net.et

Private sector

Ethiopian Chamber of Commerce
Addis Ababa
P.O. Box 517
Tel: 251-1-518240
Fax: 251-1-517699
E-mail: eth.cham@telecom.net.et

Addis Ababa Chamber of Commerce
P.O. Box 2458
Tel: 251-1-518055
Fax: 251-1-511479
E-mail: aachamber@telecom.net.et

Tourists & Travel Agents Association
Addis Ababa
P.O. Box 13178
Tel: 251-1-157557
Fax: 251-1-514722
E-mail: Gashem-Travel@telecom.net.et

Ethiopian Tour Operators Association
Addis Ababa
P.O. Box 27548 Code 1000
Tel: 251-1-508444/5/6
E-mail: ethiotour@telecom.net.et

Italian Business Community Association
Addis Ababa
P.O. Box 4649
Tel: 251-1-187565
Fax: 251-1-613588

Ethiopian Hotels & Restaurants Association
Addis Ababa
P.O. Box 152
Tel: 251-1-653736
Fax: 251-1-653737

Ethiopian Employers Federation
P.O. Box 2536
Addis Ababa
Tel: 251-1-523419, 528261

Ethiopian Contractors Association
P.O. Box 22171 Code 1000
Addis Ababa
Tel: 251-1-625905
Fax: 251-1-613897

Ethiopian Leather Manufacturing Association
Addis Ababa
Tel: 251-1-151644

Ethiopian Manufacturing Industries Association
P.O. Box 8739
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Fax: 251-1-507148
E-mail: epia@telecom.net.et

Ethiopian Private Industry Association
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Tel: 251-1-204121
Fax: 251-1-551244

Tanners Association
Addis Ababa
Tel: 251-1-150141
Fax: 251-1-518098

Others

African Development Bank
P.O. Box: 25543
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E-mail: adbetco@telecom.net.et

European Union
P.O. Box: 5570
Addis Ababa
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Fax: 251-1-612877
E-mail: European.union@telecom.net.et
mailto@deleth.cet.eu.int

United Nations Development Programme
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Fax: 251-1-512599
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World Bank
P.O. Box: 5515
Addis Ababa
Tel: 251-1-514200, 627700
Fax: 251-1-627717

International Monetary Fund
P.O. Box: 2411
Addis Ababa
Tel: 251-1-511411, 627800
Fax: 251-1-627803

United States Agency for International Development (USAID)
P.O. Box: 1014
Addis Ababa
Tel: 251-1-510088
Fax: 251-1-510043

International Labour Organization
P.O. Box: 2788
Addis Ababa
Tel: 251-1-510346
Fax: 251-1-513633
E-mail: iloaddis@ilo.org

Useful internet sites

Ethiopian Government
www.gksoft.com/govt/en/et.html

Ethiopian Investment Commission
www.investinethiopia.org

Ethiopian Privatization Agency
www.telecom.net.et/~epa

Ethiopian Business Directory and Networking
www.ethiopianyellowpage.com

Addis Ababa Chamber of Commerce
www.addischamber.com

National Bank of Ethiopia
www.nbe.gov.et

Ethiopian Export Promotion Agency
www.ethioexport.org

Ethiopian Customs Authority
www.telecom.net.et/~ethcusau

Ethiopian Tourism Commission
www.tourismethiopia.org

Ministry of Revenue
www.mor.gov.et

Commercial Bank of Ethiopia
www.combanketh.com

Appendix 4

Public holidays and related information

September 2003 – September 2004

Public holidays	Date	Days	Remarks
Ethiopian New Year	September 12, Frida	1	National holiday
Meskel (The Finding of the True Cross)	September 28, Sunday	1	Christian holiday
Id Al Fater (Ramadan)	November 25, Tuesday	1	Muslim holiday
Ethiopian Christmas	January 7, Wednesday	1	Christian holiday
Ethiopian Epiphany	January 20, Tuesday	1	Christian holiday
Id Al Adaha (Arafa)	February 1, Sunday	1	Muslim holiday
Victory of Adwa	March 2, Tuesday	1	National holiday
International Women's Day	March 8, Monday	1	Only for women, not a public holiday. It is a working day
Ethiopian Good Friday	April 9, Friday	1	Christian holiday
Ethiopian Easter	April 11, Sunday	1	Christian holiday
International Labour Day (May Day)	May 1, Saturday	1	National holiday
Prophet Mohamed's Birthday (Maulid)	May 2, Sunday	1	Muslim holiday
Patriots' Victory Day	May 5, Wednesday	1	National holiday
Downfall of the Derg	May 28, Friday	1	National holiday

NB

1. The Ethiopian calendar is based on the Julian calendar, which has 12 months of 30 days each and a 13th short month of 5 days, which has 6 days in a leap year.
2. The maximum number of closure days in a year is 12 instead of 13, since Easter always falls on Sunday.

Normal business hours

Government

Monday to Friday

Office hours: 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.

Appendix 5

Privatization

Selected privatized enterprises by category and by date of privatization

	Name of company	Buyer	Sales proceeds (in birr [1])	Date of privatization	Method of privatization
	AUTOMOTIVE				
1	Shop No. 6	Addis Fana	9 211 097	1995	Business sale
	BEVERAGE				
2	Coca-Cola Factory [2]	East African Bottling	64 030 000	1995	Asset & business sale
3	Pepsi-Cola Factory [3]	Moha Soft Drinks	105 356 891	1995	Asset & business sale
4	Saint George Brewery	B.I.H International	74 248 087	1998	Asset & business sale
	BUILDING				
5	Addis Cemental Products	Mohammed Yemen and Sons	15 527 000	1996	Asset & business sale
	CENTRAL FOOD PROCESSING				
6	Central Food Processing	ETTC	8 752 238	1997	Asset & business sale
	CHEMICAL				
7	Addis Gas & Plastic Crates	Star Technical	22 441 000	1996	Asset & business sale
8	Dil Paint	Equatorial Business Group	35 000 000	1996	Asset & business sale
9	Gullele Soap	Ato Fitsumzeab Asgedom	22 370 000	19/96	Asset & business sale
	ETHOF [4]				
10	Technical Service	Ethiopian Tourist Trade	8 777 580	1995	Building & fixed asset
	FOOD				
11	Adwa Flour Milling	Bihari I Babulal Modi	20 629 102	1995	Asset & business sale
12	Anbessa Flour Milling	East African Trading	12 335 083	1995	Asset & business sale
13	Awassa Flour S.C	Abeba Gidey Pvt.	18 509 250	2000	Asset & business sale
	KURAZ PUBLISHING				
14	Kuraz Publishing [5]	Mega Publishing Enterprise	13 031 048	1995	Asset & business sale
	LEATHER				
15	Awash Tannery	ELICO	127 781 850	1998	Asset & business sale
16	Ethiopian Pickling	ELICO	35 500 000	1997	Asset & business sale
17	Universal Leather Products	ELICO	16 205 000	1997	Asset & business sale
	MEAT FACTORY				
18	Combolcha Meat Factory	MIDROC	15 456 010	1998	Asset & business sale
19	Diredawa Meat Factory	MIDROC	47 035 331	1998	Asset & business sale
20	Ethiopian Meat Concentrate Factory	MIDROC	36 705 044	1998	Asset & business sale
21	Gonder Meat Factory	MIDROC	17 211 410	1998	Asset & business sale
22	Melgue Wondo Meat and Vegetables Factory	MIDROC	65 250 739	1998	Asset & business sale

	MINERAL				
23	Legadembi Gold Mine	National Mining Pvt.	1 290 796 624	1997	98 % share
	RAS HOTELS				
24	Ras Hotel Debre Zeit	MIDROC Ethiopia	8 700 000	1996	Asset & business sale
	STATE FARM				
25	Cheffa Farm	MIDROC	8 027 302	1999	Asset & business sale
26	Gojam Gondar Agri.Ent, Ayehu, Lower & Upper Birr Farms	Ethio-Coffee & Tea Plantation & Marketing Plc.	103 750 000	2000	Asset & business sale
27	Live Stock Market	MIDROC	74 778 978	1998	Asset & business sale
28	Poultry Dev't Ent Including The New Project	MIDROC	144 177 665	1998	Asset & business sale
29	Wush Wush, Gumaro, Tea Prod. & Mark. Enterprise	Ethio-Coffee & Tea Plantation & Marketing Plc	222 695 938	2000	Asset & business sale
	TANA SUPER MARKET				
30	Tana Market & Store [6]	National Trading Pvt.	68 010 020	1995	Asset & business sale
	TEXTILE				
31	Adei Abeba Yarn Factory Block 1	Mr. Atila Yildrim	29 040 000	1999	Lease for 5 years
32	Akaki Blanket Factory	KK Plc.	10 173 844	2000	Asset & business sale
33	Dire Dawa Textile Factory	Mr. Atila Yildrim	111 248 000	1999	(Full) Hiring sale
34	Kality Spinning and Socks Knitting Factory	Shoa Cotton Ginning Plc.	20 646 323	2000	Asset & business sale
	TOBACCO				
35	National Tobacco Enterprise	Sheba Investment Holding	147 000 201	1998	22.15 % share
	WOOD				
36	Tikur Abay (Blue Nile) Furnitue	Ato Selehadin Ibrahim & Mahammed Haji	9 359 500	1998	Asset & business sale
37	Wanza Wood Work (3 factories)	Star Technical	31 980 000	1996	Asset & business sale

Source: Ethiopian Privatization Agency.

1 Exchange rate in February 2004: $1 = Birr 8.6538.

2 Includes Addis and Dire Dawa Soft Drinks Factories.

3 Includes Abay Mesk, Gondar and Dessie Soft Drinks Factories.

4 ETHOF is the acronym for Ethiopian Household and Office Furniture Co.

5 Consists of 34 Shops and Head Office.

6 Consists of 7 Shops.

Selected state-owned enterprises to be privatized

No	Name of the enterprise	Location	Annual turnover: '000 Birr
	AGRICULTURE		
1	Arsi Agricultural Dev't Enterprise	Arsi	33 958
2	Awassa Agricultural Dev't Enterprise	Awassa	11 464
3	Bale Agricultural Enterprise	Robe	39 439
4	Dairy Development Enterprise	Addis Ababa	13 674
	AGRI-SERVICES		
5	Natural Gum Marketing	Addis Ababa	11 355
	BASIC METAL & ENGINEERING INDUSTRIES		
6	Ethio-Iron & Steel	Akaki	32 592
7	Kality Metal	Kaliti	33 400
8	Nazareth Tractor	Nazareth	13 477
	BEVERAGE INDUSTRY		
9	Bedele Brewery S.C.	Bedele	68 240
10	Harar Brewery S.C.	Harar	102 462
11	Meta Abo Brewery S.C.	Sebeta	185 327
	COFFEE		
12	Coffee Plantation & Development Enterprise	Jimma	97 886
	CONSTRUCTION		
13	Building Materials Supply Enterprise	Addis Ababa	17 572
14	Ethio-Marble	Addis Ababa	17 532
15	Water Wells Drilling Enterprise	Addis Ababa	11 119
	CONSTRUCTION DESIGN		
16	Transport Construction Design Enterprise	Addis Ababa	29 145
	CONTRACTORS		
17	Awash Construction Enterprise	Addis Ababa	14 949
18	Batu Construction Enterprise	Addis Ababa	13 727
19	Bekelcha Transport Enterprise	Nazareth	40 392
20	Blue Nile Construction Enterprise	Addis Ababa	22 970
21	Shebele Transport Enterprise	Addis Ababa	28 827
22	Woyra Transport Enterprise	Addis Ababa	23 134
23	Water Works Construction Enterprise	Addis Ababa	80 652
	ENGINEERING INDUSTRY		
24	Akaki Spare Part S.C.	Akaki	15 752
	GARMENT INDUSTRY		
25	Akaki Garment S.C.	Akaki	9 297
26	Gulele Garment S.C.	Addis Ababa	25 499
	HORTICULTURE		
27	ETFRUIT	Addis Ababa	22 200
	HOTEL & TOURISM		
28	Ethiopian Tourist Trade Enterprise	Addis Ababa	67 324
29	Ghion Hotel	Addis Ababa	35 405
30	Wabi Shebele Hotel	Addis Ababa	16 150

	LEATHER & SHOE INDUSTRY		
31	Addis Ababa Tannery S.C.	Addis Ababa	26 802
32	Anbessa Shoe S.C.	Addis Ababa	24 819
33	Ethiopia Tannery S.C.	Addis Ababa	131 608
34	Modjo Tannery S.C.	Modjo	36 166
35	Tikur Abay Shoe S.C.	Addis Ababa	50 682
	MINING		
36	Ethiopia Mineral Dev' t Enterprise	Addis Ababa	32 772
	MISCELLANEOUS		
37	Ada Flour & Pasta Factory	Debrezeit	27 489
38	Addis Ababa Foam & Plastic Factory	Addis Ababa	33 725
39	Akaki Metal Factory	Akaki	91 348
40	Brick Products S.C.	Addis Ababa	17 235
41	Cemental Products Factory	Addis Ababa	10 794
42	**ECAFCO**	**Addis Ababa**	**21 007**
43	Edget Yarn & Sewing Thread	Addis Ababa	47 494
44	Ethiopia Hotels	Addis Ababa	10 018
45	Ethiopia Spice Extraction	Addis Ababa	11 576
46	Ethiopian Plastic S.C.	Addis Ababa	29 828
47	Housing Construction Enterprise	Addis Ababa	11 673
48	Middle Awash Agricultural Dev'tEnterprise	Awash	50 049
49	M'S Whole Sale & Import Trade	Addis Ababa	250 000
50	Nefas Silk Paint Factory	Addis Ababa	35 405
51	Ras Hotels	Addis Ababa	14 265
52	Repi Soap Factory	Addis Ababa	14 794
53	Tendaho Agricultural Dev't Enterprise	Assaita	37 300
54	Yerer Flour S.C.	Nazareth	22 755
55	Yekatit Paper Convertion	Addis Ababa	17 390
	PHARMACEUTICAL		
56	EPHARM	Addis Ababa	73 133
57	PHARMID	Addis Ababa	209 930
	PUBLIC TRANSPORT		
58	Walia Public Transport Enterprise	Addis Ababa	27 000
	SHARE COMPANIES		
59	Addis Tyre S.C.	Addis Ababa	174 422
60	AMCE (Truck Assembly) S.C.	Addis Ababa	185 081
61	Crown Cork S.C.	Akaki	29 759
62	Pulp & Paper Factory S.C.	Wonji	65 098
	TEXTILE		
63	Adei Ababa Yarn Factory	Addis Ababa	15 007
64	Debre Berhan Blanket	Debre Berhan	56 081
65	Ethio-Fiber Factory	Akaki	11 534
66	Meher Fiber Factory	Akaki	59 179
	TEXTILE INDUSTRY		
67	Bahir Dar Textile S.C.	Bahir Dar	36 077

Source: Ethiopian Privatization Agency

Appendix 6

Major laws and regulations affecting foreign investment

NAME	AREA
(a) Investment	
Proclamation No. 375/2003, A Proclamation to Amend the Investment Re-enactment Proclamation No. 280/2002	Amended Law governing investment
Proclamation No. 280/2002, Re-enactment of the Investment Proclamation	Law governing investment
Council of Ministers Regulation (No. 84/2003) on InvestmentIncentives and Investment Areas Reserved for Domestic Investors	Regulation governing investment incentives and reserved areas
(b) Trade, taxation, finance and insurance	
Commercial Code (1960)	Law governing company formation, operation, dissolution, etc.
Civil Code (1960)	Law governing various types of contracts
Proclamation No. 67/1997, Commercial Registration and Business Licencing Proclamation	Law governing business registration and licencing
Federal Government Commercial Registration and and Licencing Regulation No. 13/1997	Regulation governing procedures for business registration and licencing
Proclamation No. 123/1995 Concerning Inventions, Minor Inventions and Industrial Designs	Law governing the protection of inventions, utility models & industrial designs
Council of Ministers Regulation No. 12/1997, Inventions, Minor Inventions and Industrial Designs Regulation	Regulation governing patents, utility models and industrial designs
Proclamation No. 227/2001, A Proclamation to Amend the Income Tax Proclamation (No.173/1961,as amended)	Law governing tax identification number, tax withholding, directives and penalties
Proclamation No. 286/2002, Income Tax Proclamation	Law governing income tax
Proclamation No. 285/2002, Value Added Tax Proclamation	Law governing value added tax
Proclamation No. 20/2002, Excise Tax Proclamation	Law governing excise duties
Proclamation No. 49/2001, A Proclamation to Provide for the Establishment of Export Trade Incentive Scheme	Law governing duty draw back, voucher and bonded manufacturing ware house incentive schemes
Proclamation No. 83/1994, Monitory and Banking Proclamation	Law governing the powers & duties of the National Bank
Proclamation No. 84/1994, Licencing and Supervision of Banking Business Proclamation	Governs the licencing and supervision of banks

Proclamation No. 86/1994, Licensing and Supervision of Insurance Business Proclamation	Law governing the licencing and supervision of insurance businesses
Proclamation No.329/2003, Trade Practice Proclamation	Law governing unfair trade practices
(c) Labour and industry	
Proclamation No. 42/1993, Labour Proclamation	Umbrella law governing worker-employer relations, work permits, etc
Proclamation No. 152/1999, International Labour Organization Convention Ratification Proclamation	Law on ratification of ILO conventions
Proclamation No.146/1998 Privatization of Public Enterprises Proclamation	Law governing the processes and modalities of privatization
Proclamation No. 17/1996, Establishment of the Board of Trustees for Privatized Public Enterprise	Law governing the establishment of the Board and the scope of its duties and responsibilities
Proclamation No. 11/1995, Tourism Commission Establishment Proclamation	Law governing the establishment of the Commission and the scope of its duties and responsibilities
Proclamation No. 86/1997, Electricity Proclamation	Law governing the generation, transmission & supply of electricity for commercial purposes
(d) Environment	
Proclamation No. 299/2002, Environmental Impact Assessment Proclamation	Law governing environmental impact assessment of investment projects
Proclamation No. 9/1995, Environmental Protection Authority Establishment Proclamation	Law governing the establishment of the Authority and its powers, duties and responsibilities
Proclamation No.120/1998, Establishment of the Institute of Biodiversity Conservation and Research	Law governing the establishment of the Institute and its duties and responsibilities

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