ALN ETHIOPIA
Mesfin Tafesse & Associates

Investment Guide
Ethiopia

ONE REGION
ONE VISION
ONE ALN

ALN.AFRICA

About ALN Ethiopia

For more than a decade, Mesfin Tafesse & Associates Law Office (MTA) has provided high-quality, timely legal advice to clients operating in Ethiopia and, as part of ALN, we have enhanced our reach across the continent and beyond.

With substantial expertise across a diverse range of Ethiopian and international law, we have a sizeable market share of big-ticket foreign direct investment and cross-border M&A. We have expertise in various practice areas, including power and energy, corporate and M&A, mining, manufacturing and industries, banking and finance, taxation, IT and Telecom, construction and real estate, employment and immigration, civil society laws and dispute resolution. We are committed to providing our clients with world-class service, including investment advice on mergers and acquisitions, corporate structuring, business negotiations, corporate and transaction document preparation, local presence facilitation, and research and consultancy.

Chambers Global, Legal 500 and IFLR1000 have consistently ranked MTA as a Band 1 and Tier 1 legal service provider in Ethiopia.

About ALN

ALN is an extensive alliance of Africa's most dynamic, independent and ambitious law firms that have come together to change the future of legal services on the continent. ALN firms are recognised as leading firms in their jurisdictions by the international legal directories, and many have advised on ground-breaking, first-of-a-kind deals in their markets.

The alliance specialises in blending deep local knowledge and reach with sector-specific expertise, to successfully guide clients in navigating locally and across borders.

Executive Summary

Ethiopia has become one of the world's fastest-growing economies. Over the 2008-18 period, Ethiopia recorded an average real GDP growth rate of 9.9%. Structural reforms introduced through industrial sector development have supported this broad-based high growth rate.

Ethiopia remains the largest Foreign Direct Investment (FDI) recipient in East Africa & and among the top five in Africa. FDI stock in Ethiopia grew exponentially from under USD 1 billion in 2000 to around USD 4 billion in 2010 & and USD 27 billion in 2020. Foreign Direct Investment in Ethiopia averaged 676.33 USD Million from 2011 until 2022, reaching an all-time high of 1906.70 USD Million in the second quarter of 2022.

Ethiopia's cheap and abundant labour, privileged access to high-income markets and growing domestic and regional markets add to its attraction as an FDI host country. Addis Ababa, Ethiopia's capital, is the African Union's headquarters.

Overview

Ethiopia

President
Sahlework Zewde

Type of Government
Multiparty Republic

Timezone
GMT + 3

Currency
Birr (ETB)

GDP
USD 11.93 billion

Area
26,338 Sq/Km

Local Currency to USD
FRw 1,076.07 (as of 18 Jan 2023)

Languages
Amharic

Drives On
Right Side

Calling Code
+251

Top Level Domain
.et

Capital City

Addis Ababa

Political Overview

The Executive, Legislative and Judicial branches of the Government of Ethiopia are governed under the Constitution of the Federal Democratic Republic of Ethiopia adopted in 1995. The Constitution provides for a multi-party-political system. Ethiopia has a Parliamentary form of government with two houses, which comprise the House of the Peoples' Representative (HPR) and the House of the Federation (HoF). The HPR is the highest authority of the Federal Government.

The President of Ethiopia is the head of state of Ethiopia. The position is largely ceremonial, with executive power vested in the Council of Ministers chaired by The Prime Minister. The current president is Sahle-Work Zewde, who took office on 25 October 2018. Presidents are elected by The Federal Parliamentary Assembly for six years, with a two-term limit.
Power of government is assumed by the political party or a coalition of political parties that constitutes a majority in the HPR.

Executive power is vested in Prime Minister Abiy Ahmed, elected from among the members of the HPR, for a five-year term. The most recent elections were held in 2021, and the current Prime Minister's party won by a landslide. The Prime Minister appoints the Council of Ministers, which the HPR then approves. Ethiopia has witnessed political turmoil in the northern region of Tigray, resulting in a humanitarian crisis. The conflict started on 4 November 2020, when the Prime Minister of Ethiopia, Abiy Ahmed, issued a military offensive against regional forces in Tigray. He asserted that this action was a response to an assault on a military base accommodating government troops.The intensification of hostilities followed months of discord between Prime Minister Abiy's administration and the leaders of the Tigray's dominant political party.

The party, which had been in a central position of power for nearly three decades, found itself sidelined by Prime Minister Abiy, who assumed office in 2018 following anti-government protests. Despite Prime Minister Abiy's reform initiatives, the resistance from Tigray precipitated the political crisis into a full-scale war. In November 2022, an unexpected agreement was reached in the Ethiopian civil war, wherein both factions consented to cease their two-year-long conflict. This conflict resulted in a substantial loss of lives and raised concerns about the imminent threat of famine.

Economic Overview

The Ethiopian economy is largely based on agriculture, which in 2017-18 was estimated to account for 34.98% of the GDP, 90% of foreign currency earnings, and 72.7% of employment. Agriculture, forestry, and fishing value added (per cent of GDP) in Ethiopia was reported at 37.57% in 2021, according to the World Bank collection of development indicators compiled from officially recognised sources.

The other important export products include gold, oil seeds, khat, flowers, pulses, live animals, leather and leather products, meat products, fruits, and vegetables.

The Government of Ethiopia has attempted to promote private sector investment by providing investment incentives such as implementing an investor-friendly taxation, trade and credit system and simplifying as well as clarifying business and administrative procedures for investors.

Ethiopia's economy experienced a decline in growth rate from 6.1% in 2020 to 5.6% in 2021 due to civil conflict and the effects of COVID-19 on transport and hospitality sectors. The growth continued to be driven by industry and services on the supply side and private consumption and investment on the demand side. However, inflation rose significantly to 26.7% in 2021 from 20.4% in 2020, well above the central bank's target of 8%. This was due to domestic credit expansion to boost the economy and the disruption of supply chains caused by COVID-19. The unemployment rate in Ethiopia is 4.02%.

External Debt Ratings

In 2022, Fitch Ratings downgraded Ethiopia's Long-Term Foreign-Currency Issuer Default Rating (IDR) from 'CCC' to 'CCC-.'. Fitch typically does not assign Outlooks to sovereigns with a rating of 'CCC' or below. Fitch has removed the Long-Term IDR from Under Criteria Observation (UCO).The downgrade of Ethiopia's LT FC IDR to 'CCC-' reflects the lack of identified external financing necessary to meet substantial external financing gaps and a significant decline in the country's external liquidity.

Economy in 2020 | Economy in 2021

6.1% ↓ 5.6%

Ethiopia's economy experienced a decline in growth rate

This is counterbalanced by the November 2022 peace agreement reached in the Tigray War, which will improve the country's medium-term macro and fiscal outlooks; the expected easing of global supply chain constraints, which will help to ease inflationary and external pressures; and the improvement of public debt metrics.

Moreover, the 'CCC-' rating reflects the significant risk of a default event that may result from the government's participation in the G20 Common Framework (CF) debt relief initiative, given the mechanism's guiding principle of comparable treatment for both official and private creditors.

Between 25% and 55% of the ownership of the ESX will be for corporations, capital market intermediaries and operators of international securities exchanges, while the government will not own more than 25%.

Ease of Doing Business

Ethiopia scored 48 points in the ease of doing business, ranking it 159th out of 190 countries in 2020. Compared to the year prior, the country's score dropped by slightly over one point, which indicated a worsening in the business environment in the country. During the period under review, the indicator score dropped in 2016 and fluctuated in the following years.

Regional Communities

Ethiopia is a member of the Common Market for Eastern and Southern Africa ("COMESA"), headquartered in Lusaka, Zambia. COMESA is a regional economic organisation for countries in Eastern and Southern Africa with 21 member states that enjoy a free trade area.

Ethiopia is also a member of the African Union ("AU"), a continental body consisting of the 55 member States that comprise the African continent. The AU aims to coordinate and intensify their cooperation and efforts to achieve a better life for the people of Africa.

Capital Markets

The Ethiopian Government recently passed the Capital Markets Proclamation (No. 1248/2021) to set up a local capital market to develop the national economy through mobilising capital, promoting financial innovation, and sharing investment risks.

Establishing a capital market in Ethiopia marks the beginning of a new era. The exchange will be established as a Share Company by the government in partnership with the private sector, including foreign investors.

The Proclamation establishes the Ethiopian Capital Market Authority as an autonomous Federal Regulatory authority. One of the major objectives of ECMA is to ensure the existence of a capital market environment that allows for the issuance and trading of securities in an orderly, fair, and efficient manner. As a regulatory authority, ECMA grants licenses to individuals or entities to operate as a security exchange, derivative exchange, security depository and clearing company, capital market service provider, over-the-counter trading facility or any other activity deemed by ECMA as a regulated activity under its jurisdiction.

Between 25% and 55% of the ownership of the ESX will be for corporations, capital market intermediaries and operators of international securities exchanges, while the government will not own more than 25%. ESX will be a for-profit entity.

The Project Team is to develop the ESX business plan and its structures and outline the market segments. It will also develop the ESX trading rules, policies and procedures, trading and operating systems, and other ICT infrastructure. It will establish ESX operations and launch them.

Bilateral & Multilateral Treaties

African Continental Free Trade Area

The African Continental Free Trade Area ("AfCFTA") is a free trade area founded in 2018 and created by the African Continental Free Trade Area Agreement ("AfCFTA Agreement"). It is the largest free trade area in the world, with 54 member states. Ethiopia signed the AfCFTA Agreement and ratified it on 21 March 2019.

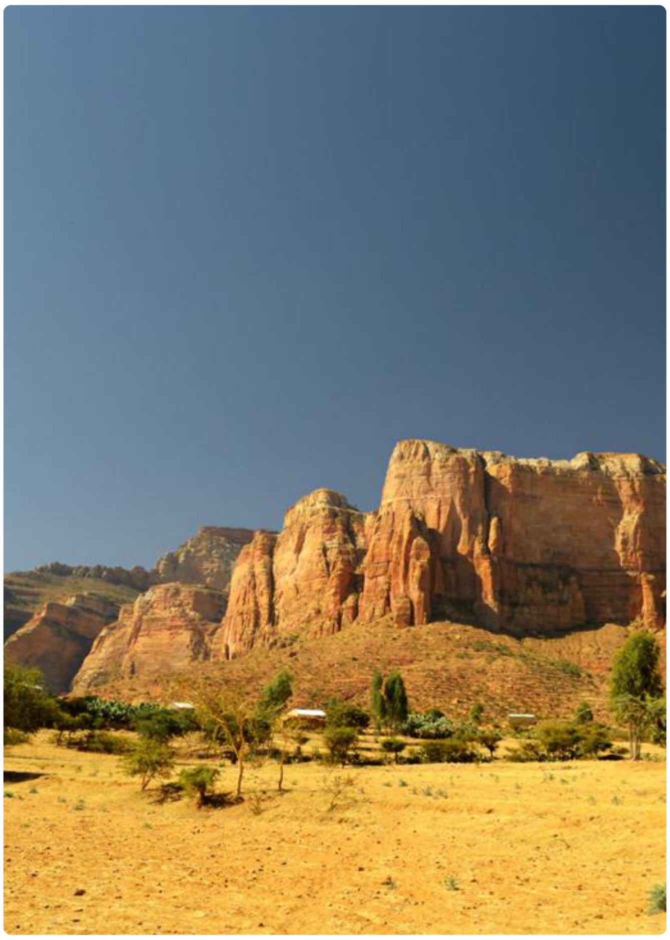
Generally, the AfCFTA Agreement is aimed at achieving the following objectives: creating a single market for goods and services to deepen the economic integration of the African continent; creating a liberalised market for goods and services through successive rounds of negotiations; contributing to the movement of capital and natural persons and facilitating investment building on the initiative and developments in the member states; and enhance the competitiveness of the economies of the member State within the continent and the global market. Specific objectives of the AfCFTA include: progressively eliminating tariffs and non-tariff barriers to trade in goods, progressively liberalising service trade, and cooperating on investment, trade-related areas, customs matters and implementation of trade facilitation measures.

Other treaties

Ethiopia commenced its accession to the World Trade Organisation in 2003 and submitted its Memorandum of Foreign Trade Regime in 2006. Following the reform program, between 6 and 13 December 2019, Ethiopia circulated 13 documents to the Working Party. The working party's fourth meeting was held on 30 January 2020.

Ethiopia has also signed bilateral investment and protection agreements with more than 30 countries, including Algeria, Austria, Belgium, Luxemburg, China, Denmark, Egypt, Equatorial Guinea, Finland, France, Iran, Israel, Italy, Kuwait, Libya, Malaysia, Morocco, Nigeria, Netherlands, Russia, South Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, the United Kingdom, Brazil, United Arab Emirates, USA and Yemen. It has ratified a Protection of Investment and Property Acquisition Agreement with Djibouti.

The country has also concluded double taxation avoidance treaties with Algeria, China, Czech Republic, Egypt, France, India, Ireland Republic, Israel, Italy, Kuwait, Netherlands, Peoples Democratic Republic of Korea, Portugal, Romania, Russia, Saudi Arabia, South Africa, Sudan, Seychelles, Tunisia, Turkey, United Arab Emirates, United Kingdom and Yemen. Ethiopia is a member of the World Intellectual Property Organisation (WIPO), the Multilateral Investment Guarantee Agency (MIGA), the African Union (AU), the Common Market for Eastern and Southern Africa (COMESA), African Continental Free Trade Agreement (AfCFTA) and the United Nations (UN).



Regulatory Environment

The Ethiopian Investment Commission (EIC) is the autonomous government body which regulates investments in Ethiopia. The EIC is responsible for promoting the country's investment opportunities and conditions to foreign and domestic investors and issuing investment permits and business licenses. The EIC also facilitates the acquisition of land and utilities, loan and residence permit applications, and other essential services to engage in investment activities.

The National Bank of Ethiopia (NBE) and the Ministry of Trade and Regional Integration are the other main governmental institutions that play an essential role in investors' activities. An amendment to the investment law has significantly reduced the Ministry of Trade and Regional Integration's activity regarding approval and after-registration support provided to investors. The Investment Proclamation 1180/2020, the Investment Regulation 474/2020, and the Investment Incentives Council of Ministers Regulation No. 517/2022 are the main legal frameworks for Ethiopia's foreign and domestic investments. The incentives for investors are still governed by the Investment Incentives Council of Ministers Regulation No. 517/2022.

Foreign investors are required to obtain investment permits and business licences from the EIC. However, registration certificates and business licences for the following activities are issued by other Government institutions:

- prospecting and mining of minerals;
- various water works services, excluding water works construction services;
- banking, insurance and microfinance services;
- air transport services and other aviation services;
- commercial activities involving the use of radioactive materials and radiation-emitting equipment;
- f) telecommunication services;
- the business of generating, transmitting, distributing or selling electricity;
- repairing and maintaining arms and firearms and sale of explosives;
- sea and inland waterways transportation services;
- multimodal transport services;
- the business of warehouse receipt system; and
- trade in tobacco and tobacco products.

The minimum capital required of a foreign investor to invest in Ethiopia is USD 200,000. If the foreign investor invests in partnership with a domestic investor(s), the minimum capital required is USD 150,000. Foreign investors wishing to purchase an existing private enterprise or shares therein are required to obtain prior approval from EIC.

The minimum capital required of a foreign investor investing in architectural or engineering works or related technical consultancy services, technical testing and analysis or publishing work is USD 100,000 if the investment is wholly foreign-owned and USD 50,000 if the investment is made jointly with a domestic investor.

The areas with the most promising potential for investment in the country today are textile and garments, leather and leather products industry, agro-processing, pharmaceutical, chemical and metal industries in the manufacturing sector, horticulture, palm tree farming, rubber tree farming, cotton plantation, coffee plantation, and sugarcane farming in agriculture, power generation in the services sector, road and dam construction works and buildings, infrastructure and mining. Banking, insurance, finance, import trade, wholesale trade, resale trade and the export of raw coffee, oilseeds, hides and skins are some of the areas reserved for domestic investors.

The Investment Law provides a guarantee against nationalisation or expropriation of the assets of a domestic or foreign investor except when the public interest requires it, in compliance with the law and upon payment of adequate compensation corresponding to the prevailing market value. Assets may only be seized, impounded or disposed of by court order.

Ethiopia launched its first free trade zone (Dawa Free Trade Zone) on 14 August 2022, located in Dire Dawa, about 450 km east of the capital Addis Ababa and 320 km southwest of Djibouti's port. This has not yet become operational. A draft law has also been prepared to designate free trade zones and regulate their operation. Most Ethiopian trade is conducted through the port of Djibouti and, occasionally, via the Somaliland port of Berbera. In May 2018,

Ethiopia concluded an agreement with the Republic of Sudan that will enable Ethiopia to develop a port facility at the Port of Sudan. The Government has planned to import half of its foreign volume through this proposed new port. Ethiopia has also restored diplomatic and trade relations with Eritrea, which signals a potential future possibility of shipping through ports in Assab and Massawa.

All foreigners entering the country must obtain visas either at the arrival gate or before arriving from an Ethiopian Embassy, Permanent Mission or Consul General. A work permit is obtained from the EIC for expatriate employees that the investor may bring into the country. A business visa is required to obtain a work permit. A residency permit is obtained from the Main Department for Immigration and Nationality Affairs.

Investment Promotion

Institutes Governing Investment Promotions

The Ethiopian Investment Commission (EIC) is the primary Government organ that serves as a nucleus for investment matters and is given the power and duty to promote, coordinate and enhance investment activities.

Public Enterprises Holding and Administration Agency issues Government tenders in infrastructure development and public sectors. The National Bank of Ethiopia controls and facilitates foreign exchanges.

Investment Incentives

Investment incentives are mainly provided under the Investment Incentives Council of Ministers Regulation No. 517/2022. Ethiopia offers comprehensive fiscal and non-fiscal incentives to encourage investment in priority areas. Customs duty and income tax exemptions are provided as fiscal investment incentives for specific areas of investment eligible for investment incentives and investments in specified less developed regions of the country.

Any investor eligible for customs duty exemption is entitled to import duty-free capital goods and construction materials necessary for establishing a new enterprise or expanding or upgrading an existing enterprise. The investor is also allowed to import spare parts, the value of which is at most 15% of the total value of the capital goods, within five years from the date of commissioning of the project.

The Regulation provides that an investor who expands or upgrades their existing enterprise is entitled to the income tax exemption as per the directive to be issued by the Ministry of Finance. The Ministry has issued the directive on Tax Incentives for Expansion/Upgrading Investment.

Investors can benefit from income tax exemption on income generated from the expansion/upgrading of an existing enterprise or service capacity if they can increase the production or service rendering capacity of the enterprise by a minimum of 50% within a year from the completion of the expansion.Similarly, an investor engaged in expansion or upgrading may benefit from privileges of exemption from customs duty upon submitting a business plan showing that it will increase in volume by at least 50% of an existing enterprise's attainable production or service rendering capacity.

Investors who export 60% of their products or services, or supply the same to an exporter as production of service input, will also be exempted from the payment of income tax for two additional years. All investors who produce export products will receive non-fiscal incentives. These incentives allow them to import machinery and equipment necessary for their investment projects through suppliers' credit. If a business enterprise experiences losses during the income tax exemption period, it can carry forward those losses for half of the tax exemption period after the period expires.

In Ethiopia, land is public property. Individuals, companies and other organisations only have the right to possess and use the land, not own it. Land can be obtained through lease or rent. Investors leasing land for investment purposes are given priority, and the EIC has the mandate to facilitate land allocation for investment projects throughout the country.
In addition to the above, foreign investors

- who reinvest profits or dividends or
- who buy the entirety of an existing enterprise owned by a foreign investor or the shares therein are exempt from minimum capital requirements.

Laws have been put in place to establish industrial parks. Industrial Parks Proclamation No. 886/2015 was promulgated to regulate industrial parks. In addition to the proclamation, a regulation was issued by the Council of Ministers to establish Industrial Parks Development Corporation Regulation No. 326/2014. The corporation administers the industrial parks in the country as stated in the above regulation and proclamation. The industrial parks to be built are expected to facilitate the planned transition to an industry-led economy.

The Industrial Park Development Corporation develops identical, similar or interrelated industries together or multifaceted industries based on a planned fulfilment of infrastructure and various services such as road, electric power and water, and having special incentive schemes. The parks are designed with a broad view of achieving planned and systematic development of industries, mitigation of the impact of environmental pollution and development of urban centres. For example, the design of the Hawassa Industrial Park envisages recycling 78% of its water.

The priority sectors of the industrial parks are agro-processing, textile and garment, leather and leather products, sugar and related industries, chemical industries, pharmaceutical industries and metal and engineering industries. An investor who invests within an Industrial park and exports 80% or above of the product from their manufacturing industry or supplies as production input to an investor who exports their products is entitled to an additional exemption from income tax for two years. The development of industry parks has recently been opened to private investors, and these investors are also exempt from income tax for 10 - 15 years, depending on the location of investment.

Tax

Personal Income

All persons who earn an 'income' as defined in the Income Tax Proclamation No. 979/2016 must pay income tax. This includes income from business activities, entrepreneurial activities carried out by a non-resident through a permanent establishment and licence fees (including lease payments and royalties paid by a resident or a non-resident through a permanent establishment).

An individual is regarded as being a resident in Ethiopia if that individual has a domicile or habitual abode in Ethiopia, is a citizen of Ethiopia, or is a consular, diplomatic or similar official of Ethiopia posted abroad.

An individual who stays in Ethiopia for more than 183 days in twelve calendar months, either continuously or intermittently, is considered to be a resident for the entire tax period or is taxed per the provisions of the Income Tax Proclamation.

An entity is regarded as a resident if it has its principal office or place of effective management in Ethiopia or is registered in the trade register of the Ministry of Trade and Regional Integration or of a trade bureau of a regional government. Corporate Income Tax is computed on taxable profits.

The taxable business income of companies is taxed at the rate of 30%. Licensees and contractors in mining and petroleum operations receive a concessional tax rate of 25%, compared to the normal rate of 30% for other entities.

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Income Tax Proclamation & Tax Administration Proclamation

Income Tax Schedules

There are five income tax schedules under the Income Tax Proclamation No. 979/2016 (ITP): income from employment, business, rental of buildings, other incomes and exempted income. Each schedule is subject to a different tax rate.

Preservation of funds and assets deposited with financial institutions

The scope of a taxpayer's assets to satisfy a tax claim has been expanded by the Federal Tax Administration Proclamation (FTAP) as it provides that the Ministry of Revenue may require a financial institution, in addition to blocking the account of the taxpayer, to also block access to cash, valuables, precious metals or other assets in a safe deposit.

Departure Prohibition Orders

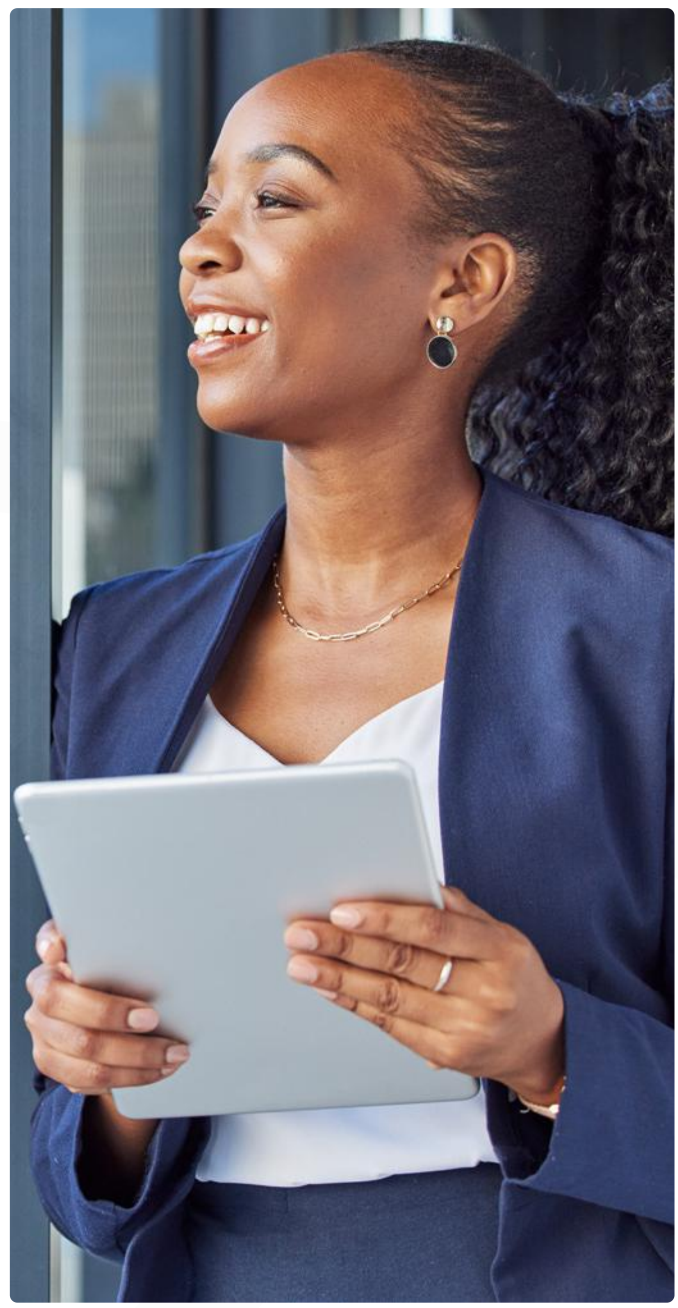
The Ministry of Revenue has the authority to issue a departure prohibition order when it has reasonable ground to believe that a taxpayer may leave Ethiopia without paying tax that is or will become payable by the taxpayer or a company in which the taxpayer is a controlling member.

A controlling member of a company has been defined in the FTAP as "a member who beneficially holds, directly or indirectly, either alone or together with a related person or persons, 50% or more of the voting rights attaching to membership interests in the company, 50% or more of the rights to dividends attaching to membership interest in the company or 50% or more of the rights to capital attaching to membership interest in the company".

The departure prohibition order would be effective until payment in full has been made by the taxpayer or a satisfactory arrangement to make the payment has been agreed to with the Ministry of Revenue. It shall expire after ten days from the date of issuance unless a court of competent jurisdiction, on application by the Ministry of Revenue, extends the order for the period determined by the court. The order will be issued by the Ministry of Revenue or a specifically authorised official.

Temporary Closure of Business

The Ministry of Revenue has the authority to close the business of a taxpayer temporarily, for a period not exceeding fourteen days, after serving notice to the person in question who has failed to maintain documents required by law or pay taxes by the due date.



Tax Dispute Settlement Appeal

Appeal to Review Committee

A taxpayer dissatisfied with a decision may file a notice of objection in writing within 21 days from the date of notice of the decision. The following conditions have to be fulfilled:

a. It precisely states the grounds of the taxpayer's objection to the tax decision, the amendment that the taxpayer believes is required to be made to correct the decision, and the reasons for making the amendment; and

b. When the taxpayer has paid the tax, it is not disputed in the objection.

The taxpayer also has the option to appeal the tax assessment after the tax in dispute has been fully paid. An appeal submitted to the Review Committee must fulfil the above requirements. Invalid objections would only be accepted if they have been correctly filed again within 21 days from the date of service of the notice of the tax decision or within ten days from the date of service of notice by the Ministry of Revenue for correction.

The taxpayer may apply in writing to the Ministry of Revenue for an extension of time to file a notice of objection before the end of the objection period, which is 21 days from the date of notice of the tax decision. In such a case, if the Ministry finds good reason to do so, it may extend the period for a maximum of ten days.

When a taxpayer has filed an objection to a tax decision, the Grievance Review Committee (GRC) conducts an independent review of the objection. The GRC makes a recommendation to the Ministry of Revenue. The Ministry of Revenue will then pass a decision based on the recommendation, referred to as an 'Objection Decision'. If the GRC does not finalise its recommendations on the taxpayer's objection within 180 days, the objection would be presumed to be rejected. The taxpayer can appeal to the Tax Appeal Commission. An Appeal to the Tax Appeal Commission is based only on the objection decision of the Ministry of Revenue.

Appeal to the Tax Appeal Commission.

An appeal is acceptable if a deposit of 50% of the disputed amount is made to the Ministry of Revenue. The calculation of the deposit is based on the disputed amount, exclusive of the administrative penalties and late payment interest imposed by the Ministry of Finance.

Regarding the percentage to be levied on the disputed amount, it is stated that the taxpayer has to pay 25% of the tax in dispute under tax assessment for an appeal against a deemed objection decision or 50% of the tax in dispute for any other tax. A deemed objection decision is the decision of the Ministry of Revenues, which is considered to be served to a taxpayer who has filed an appeal against a tax decision to the Review Committee but has not received an objection decision by the Ministry of Revenues within 180 days.

An Appeal to the Federal High Court

An appeal to the Federal High Court is to be instituted within 30 days of being served with notice of the decision of the Tax Appeal Commission on the question of law. The taxpayer is required to deposit 75% of the tax in dispute. The amount required to be deposited to file the appeal is the tax determined by the Tax Appeal Commission, which does not include administrative penalties and late payment interest payable in respect of the disputed tax.

Mutual Administrative Assistance Agreement

This scheme provides for the implementation of mutual administrative assistance agreements entered into by the Government. It also obliges the Ministry of Revenue to use the powers available under the tax laws or other legislation to meet Ethiopia's obligations under a tax treaty or mutual administrative assistance agreement. Mutual administrative assistance agreement, as defined under the FTAP, means a tax information exchange agreement or other international agreement for mutual administrative assistance in relation to taxation matters.

Advance Ruling

The Ministry of Finance is mandated to give written opinions or authoritative decisions regarding the tax consequences of a transaction or proposed transactions.

Binding public Ruling

Binding Public Ruling is binding on both the Ministries of Finance and the Ministry of Revenue until withdrawn in accordance with the law. However, the public ruling is not binding on taxpayers. Taxpayers can prepare their tax declarations (particularly self-assessment declarations) as they deem fit.

The purpose of public rulings is to achieve consistency in the administration of tax laws and provide guidance to taxpayers (particularly to make self-assessments). A public ruling will be of general application and not specific to a particular taxpayer or taxpayers. However, the circumstances of a particular taxpayer may be the initial reason for making the public ruling.

The Ministry of Finance makes a public ruling by publishing a notice of the ruling on the official website of the Ministry. It can also withdraw a public ruling by publishing a notice of withdrawal on the official website of the Ministry. However, such withdrawal has no retroactive - effect.

Binding Private Ruling

This procedure sets out the Ministry's opinion on the application of tax law to a transaction that the taxpayer has entered into or proposes to enter into. Private rulings provide taxpayers with an opportunity to discover the Ministry's view on the application of tax law to a transaction, particularly when the application of the law is uncertain. Like the public ruling, the private ruling is not binding on the taxpayer who applied for it.

A private ruling will usually be specific to a tax period or periods rather than having an open-ended application. A private ruling can be withdrawn on two bases. The Ministry can withdraw a private ruling, in whole or part, either by serving written notice of the withdrawal to the recipient of the ruling or if legislation is passed or a later public ruling is issued that is inconsistent with it. The private ruling has to be published on a confidential basis so that other persons can rely on it. The publication of a private ruling ensures that there is transparency in the making of private rulings and that the ruling system does not give a particular business taxpayer a competitive advantage.

Capital Gains Tax

Capital gains tax under the law is payable on gains obtained from the transfer of buildings used for business, factory, or office purposes at 15% and shares of companies at 30%. Any remittance made by a foreign investor in Ethiopia from the proceeds of a sale or transfer of shares or assets upon the liquidation or winding up of an enterprise is exempted from the payment of capital gains tax.

Withholding Tax

Imported goods are subject to a withholding tax. The rate of the tax is 3% of the sum of cost, insurance, and freight. However, in the case of business entities, non-governmental organizations, private non-profit institutions, and Government agencies, the tax rate is 2%. All entities are obligated to deduct withholding tax at a rate of 2% of the transaction value for domestic transactions. The deducted tax must be remitted to the tax authority on a monthly basis. The withholding tax rate on suppliers who fail to provide a valid Trade Identification Number (TIN) and trade license is 30%. The amount of tax that is withheld can be deducted from the tax payable by the supplier at the end of the year.

Other Taxes

Tax is applied to dividends at a rate of 10 %, and 5% on interest and royalties. Turnover tax is levied at a rate of 2% on the provision of goods to the local market as well as on construction, grain mill, tractor and combine-harvesting services. For all other services, the turnover tax rate is set at 10%. Businesses with an annual turnover of approximately USD 31,456 (ETB 1,000,000) or more are subject to a 15% Value Added Tax (VAT). However, all exported goods and basic services are exempted from VAT or zero-rated.

Stamp & Transfer Duty

The following financial instruments require payment of stamp duty:

- Memorandum and articles of association of any business organisation or any other form of association: flat rate of ETB 350 upon first execution
- and ETB 100 upon any subsequent execution;
- Memorandum and articles of association of cooperatives: flat rate of ETB 35 upon 1st execution;
- and ETB 10 upon any subsequent execution;
- Award: with determinable value 1% of the value and with undeterminable value ETB 35;
- Bonds, including loan transactions: 1% of the value;
- Warehouse bond: 1% of the value;
- Contract and agreements and memoranda thereof: flat rate of ETB 5;
- Security deeds: 1% of the value;
- Collective agreement: flat rate of ETB 350 upon 1st execution and ETB 100 upon any subsequent execution;
- Contract of employment: 1% of salary;
- Lease, including sub-lease and transfer of similar rights: 0.5% of the value;
- Notarial acts: flat rate of ETB 5;
- Power of attorney: flat rate of ETB 35; and
- Documents of title to property: 2% of the value.

55%
Others

30%
Companies shares

15%
Capital gains tax under the law is payable on gains obtained from the transfer of buildings used for business, factory, or office purposes at 15%

There are also instruments exempted from stamp duty by a directive issued by the Ministry of Finance. These are:

- Security deeds for investment loans, and
- Loan of money by Ethiopian Airlines

In the process of selling a property, the seller must obtain tax clearance from the Ministry of Revenue to confirm that all taxes, including Capital Gains Tax, have been paid.

Excise Tax

The excise tax proclamation was amended on 13 February 2020 after being in place for almost two decades. The new Excise Tax Proclamation No. 1186/2020 was drafted by the Ministry of Finance. The New Proclamation proposes to impose a tax on goods that are believed to be luxurious, hazardous to health or cause social problems, as well as on basic goods determined to be inelastic. The method of assessing excise tax changed from a production cost-based approach to an ex-factory price approach. This aimed to address challenges in the collection of excise tax that emanated from inadequacies of the previous proclamation. The new excise tax applies to 19 groups of items and 378 goods.

Transfer Pricing & Thin Capitalisation

Transfer Pricing

The Income Tax Proclamation grants the Ministry of Revenue the authority to distribute, apportion or allocate income, gains, deductions, losses or tax credits between the parties involved in a transaction that is not an arm's length transaction in a manner that reflects the income, gains, deductions, losses or tax credits of the parties if it was an arm's length transaction. The Ministry of Revenue has enacted a law governing transfer pricing and established a separate department for transfer pricing.

Thin Capitalisation

The Income Tax Proclamation stipulates that companies cannot deduct interest paid on their debt if the average debt-to-average equity ratio exceeds 2:1 for a tax year. However, this would not be applied to a foreign-controlled resident company of Ethiopia if the average debt amount of the company for the year does not exceed the arm's length debt amount.

Type of Tax	Rate
Corporate income tax	30%
Custom Duties	0% - 35%
Dividend Tax	10 %
Excise Tax	From 5%-500%. 5% that is applicable on rubber types, various types of new completely built-up cars and cars assembled by domestic industry, while 500% tax is applicable on various types of used cars of an age exceeding seven years.
Export Tax	Nil
Income tax from employment	0% - 35%
Royalty tax	5%
Turn Over Tax	2% and 10%
Value Added Tax	15%
Withholding tax	2%, or 30% for suppliers that do not provide a TIN and business license.
Capital Gains Tax	15% for building held for business, factory, office; 30% for the transfer of shares of companies

Protection for Investors

Because of Ethiopia's need for foreign currency and FDI, investment incentives and various protections for investors have been in place. Ethiopia has also been under economic reform for the past three years.

Some of the major highlights related to investor protection include,

- Ratification of the 1958 New York Convention on the Recognition and Enforcement of Arbitral Awards,
- Revision of the Commercial Code and the Investment law with the intent of making Ethiopia a business-friendly jurisdiction,
- An introduction of a new Arbitration Proclamation with the intent of making Ethiopia arbitration-friendly.

Ethiopia has also signed Bilateral Investment Treaties and Double Taxation Avoidance treaties with various countries that would afford the protection of investors. Ethiopia is a signatory of 29 Bilateral Investment Treaties and 6 Multilateral Investment Agreements that stipulate:

- Protection of private property rights,
- Principle of National Treatment,
- Repatriation of capital and profit, and
- Access to international dispute settlement.

Accounting Principles

A Proclamation to Provide for Financial Reporting, Proclamation No. 847/2014, was issued in December 2014 to establish a transparent and uniform financial reporting system in Ethiopia.

This law requires reporting entities to submit their financial reports to the Accounting and Auditing Board of Ethiopia following standards and schedules to be issued by the Board.

They are also required to ensure that their financial statements are audited as per the International Standard for Auditing approved by the Board or, in the case of reporting entities constituted or incorporated outside of Ethiopia, according to auditing standards applicable in the country where those reporting entities are incorporated or constituted, so long as it is substantially the same with the Ethiopian law.

Furthermore, the law imposes an obligation on directors of reporting entities to make sure that the aforementioned obligations of the entities are fulfilled.

The New Commercial Code of Ethiopia indicates that modern technology may be utilised to support bookkeeping. It eliminates provisions detailing how journals, balance sheets and inventories are to be organised. Company directors are responsible for keeping accounts and books, preparing financial statements and ensuring that audits are conducted.

Insurance penetration in Kenya is however low at 2.17% in 2020 against a world average of 7.4%, according to Insurance Industry Annual Report 2021.

Industrial Relations

All eight of the International Labour Organisation's conventions have been ratified by Ethiopia, and most of the Core Labour Standards have been enacted into law. The recently enacted Labour Proclamation No. 1156/2019 regulates the employer-employee relationship in private undertakings and sets minimum work standards.

This legislation provides for the formation of contracts of employment, conditions of work, termination of a contract of employment, occupational safety and working environment, labour unions, dispute settlements, the establishment of wage boards etc. The labour law only applies to non-managerial employees. Managerial employees who are vested with the power to formulate and execute management works, and to hire, transfer, suspend, or take disciplinary measures against other employees, are governed by the appropriate section of the Civil Code of Ethiopia.

Employers may not hire persons under 15 years of age and are subject to certain restrictions with respect to the hiring of persons aged 15 to 18, although these restrictions are not often enforced. The maximum number of working hours per week is 48.

Currently, there is no national minimum wage in Ethiopia. However, the intention of the establishment of a Wage Board (in the near future) comprising of representatives of government, employees and trade unions together with other stakeholders that will carry out studies for setting and periodically revising minimum wages. The definition of 'wages' in the Labour Proclamation does not include allowances, bonuses or overtime pay.

Under legislation promulgated in 2022, the pension contributions are based on 7% of the employee's salary and an 11% contribution from the employer.

Import and Export Regulations

The import and export of prohibited and restricted goods is controlled by the Ethiopian Customs Commission. Banned imports include goods which are socially or morally harmful such as habit-forming drugs, military weapons, explosives, fireworks, poisons, toxic substances and pornographic materials. Plants, plant products and seeds can only be imported with the prior consent of the Ministry of Agriculture or such other nominated Government agency.

The Quality and Standards Authority of Ethiopia is the quality and standards accreditation and certification authority in the country. All medicines and medical supplies must be registered, prior to use and distribution, with the Food, Medicine and Health Care Administration and Control Authority.

Imports may be subject to taxes and duties based on the Harmonised Commodity Description and Coding System. If goods are from a preferred country, they may receive a preferential tariff rate. The applicable rates are based on the day of the customs office's acceptance of the declaration of goods. High import tariffs are applied to protect certain local industries, such as the leather and textile industries. Ad valorem tariffs range from 0 to 35%.

The Ethiopian Government has introduced a 10% surtax on certain imported goods, with the proceeds being attributed to the distribution of subsidised wheat in urban areas. There is no export tax under Ethiopian law. Ethiopia is a member of COMESA, and goods imported from COMESA countries are afforded a 10% tariff preference.Importers must obtain import permits and letters of credit for the total amount imported. Tax certification is required for the repatriation of dividends or investment income.

Regulations govern the repayment of loans and foreign partner credits. There are also rules governing import permit issuance by commercial banks, and a clearance certificate from the National Bank of Ethiopia is required to obtain an import permit.

Competition Regulation

The Ethiopian Government enacted the Trade Competition and Consumers Protection Proclamation No. 813/2013 (TCCPP). The Proclamation aims to promote competitive practices in the local market and eliminate or prevent anti-competitive and unfair trade practices.

Amongst other things, the Proclamation regulates anti-competitive practices such as price-fixing; collusive tendering; market and consumer segregation; refusals to deal, sell or render services; practices intended to eliminate competitors; and practices regarded as abuse of dominance.

With the Proclamation on Definition of Powers and Duties of the Executive Organs Proclamation No. 1263/2021, the powers and duties entrusted to Trade Competition and Consumer Protection Authority are vested in the Ministry of Trade and Regional Integration.

Under the TCCPP, a merger is deemed to have occurred (a) when two or more business organisations previously having independent existence, amalgamate or pool their resources to carry on a certain commercial activity or (b) when an individual or a group of people acquire shares, assets, or securities of a business organisation, or take over the management of another person's business through purchase or other means.

Pre-merger notification is only required to be given to the Ministry of Trade and Regional Integration if a minimum threshold for merger is fulfilled. Notifiable mergers in Ethiopia are mergers that have an effect in Ethiopia and mergers that involve companies whose capital, annual turnover or assets surpass the minimum threshold of ETB 30,000,000 (approx. USD 697,674.) The term 'effect in Ethiopia' is not defined in any law and is left to the discretion of the Ministry of Trade and Regional Integration. In calculating the threshold, the Ministry of Trade and Regional Integration will use as a reference point the company's audited financial statement of the preceding year. Therefore, mergers (as defined) must be notified to the Ministry of Trade and Regional Integration prior to their implementation, disclosing the details of the proposed merger.

The Ministry of Trade and Regional Integration will then investigate the possible adverse effect of the proposed merger on trade competition, during which time it may request additional documentation or information and seek comments (through a notice in a newspaper) from any businessperson who is likely to be adversely affected by the merger. During the review period, the merger cannot take effect. Failure to give notice of a merger may expose any businessperson who participates in the merger to a fine of 5% up to 10% of their annual turnover. However, no filing fee is payable to the Ministry of Trade and Regional Integration for notifying a merger.

The New Commercial Code includes a section on mergers. An explicit definition of mergers and divisions is provided, along with the various ways that they take place. A merger or division plan is required with contents prescribed by the law, and the plan has to be drawn up by an independent expert. Merger or division needs to be publicised in a newspaper with national circulation. The effects of merger or division is also clearly stated. The New Commercial Code has made it clear that a company that does not survive a merger does not need to go through the process of liquidation.

Consumer Protection

Under the TCCPP, consumers have the right to be provided with accurate information on the quality and type of goods or services being provided and to claim damages in relation to such transactions. As per this legislation, commercial advertisements for goods and services announced by any means may not be false or misleading in any manner.

It is prohibited for any business to fail to sell goods and services as advertised or in the quantity consumers demand unless the advertisement discloses a limitation of quantity. In addition, the Ministry of Trade and Industry may ban the distribution of goods and services that do not fulfil the standards of health and safety.

The Ministry may, when it deems necessary, submit to the Council of Ministers its study on basic goods and services that shall be subject to price regulation and, upon approval, announce its list and prices by public notice. The Authority is accountable to the Ministry of Trade and Industry.

Adjudication of disputes will be in line with the Civil and Criminal Codes.

Legal Forms of Incorporation

The Ethiopian House of Peoples Representatives approved a new Commercial Code on 12 April 2021 (Proclamation No. 1243/2021). The New Commercial Code introduces changes to the six recognized forms of business organizations from the pre-existing Commercial Code.

The first change eliminates the Ordinary Partnership form, while the second change adds two new business forms: the Limited Liability Partnership (LLP) and the One Person Company (OPC). A Holding Company is also introduced, but despite being called a "Holding Company," the shareholders of the Holding Company bear joint and several liabilities, which defeats the purpose of having a Holding Company in the first place.

The third change of new the Commercial Code acknowledges the structuring option of setting up Groups of Companies, including Wholly Owned Subsidiaries. Furthermore, a more nuanced definition is given for the Branch Company form. Foreign investment can also be registered in the form of a branch office or a subsidiary. Branches or subsidiaries, as forms of business, are not defined in the Commercial Code. Nor are they defined in the Commercial Registration and Business Licensing Proclamation No. 980/2016.

The New Commercial Code defines a Group as consisting of a set of companies comprising of the parent company and all its national and foreign subsidiaries, unless otherwise indicated, whereas a Subsidiary is defined as a company subject to the control of another company, the "Parent" company, either directly or indirectly through another subsidiary. The New Code defines control as the power to govern, alone or with other shareholders, the financial and operating policies of a subsidiary.

One of the situations in which a parent company is considered to have control over a subsidiary is where a company owns, directly or indirectly, more than half of the voting rights in that subsidiary. As a variation of a subsidiary company, a Wholly Owned Company is defined to mean a company with no other shareholders except its parent company and any other subsidiary of its parent company or persons acting on behalf of its parent or such subsidiaries. In principle, a subsidiary has a separate legal personality from its parents.

While the New Code presumes that a Wholly Owned Company is governed by the parent and takes instruction from it, it requires a not-wholly-owned subsidiary to disclose in the Commercial Register kept by the Ministry of Trade and Industry or another pertinent authority whether its management is directed by the parent. It is unclear what tax advantages any of these forms offer, as the tax law is yet to consider them.

The Branch company, unlike subsidiaries, is not considered autonomous and does not have its own legal personality. It is defined as a fixed establishment of a foreign business organisation or a similar entity that is staffed and set up to pursue an economic activity for gain on behalf of and for the account of the said business organisation or similar entity for a definite or indefinite period. It can have its own manager, who is expected to fulfil the eligibility requirements for directors of a share company.

A Branch will be cancelled from registration:

- if its parent is dissolved; or
- if its parent decides to close it; or
- if the branch manager has failed to file, as soon as reasonably possible, accounting documents and other statements regarding the foreign business organisation or entity: or d) if a branch creditor establishes that its claim cannot be satisfied using the assets of the foreign business organization within Ethiopia. One of the significant changes introduced by the New Commercial Code is related to corporate governance. The code allows the existence of a non-shareholding board of directors in share companies. The non-shareholding board of directors can make up to one-third of the total board membership.

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Another notable change is the improved protection of minority shareholders. the Old Commercial Code had significant drawbacks interms of protecting minority shareholders.

The New Code includes various protections like empowering minority shareholders to assign a representative to the Board of Directors. Additionally, minority shareholders now have the right to transfer their shares to a dominant shareholder who owns 90 % or more of the shares of a company. A dominant shareholder who owns 90% or more shares also has the right to purchase the remaining shares from minority shareholders. Moreover, there also are protections through improved corporate transparency and disclosure, shareholders' rights, and board of directors' responsibility.

The New Code includes detailed obligations on the Board of Directors when it comes to transparency, conflict of interest, and disclosure. Companies must maintain records of their shareholders and Board members, executive managers, auditors, and executive secretaries. A supervisory board is also introduced for share companies that oversee the activities of the Board of Directors with the aim of ensuring transparency.

Intellectual Property

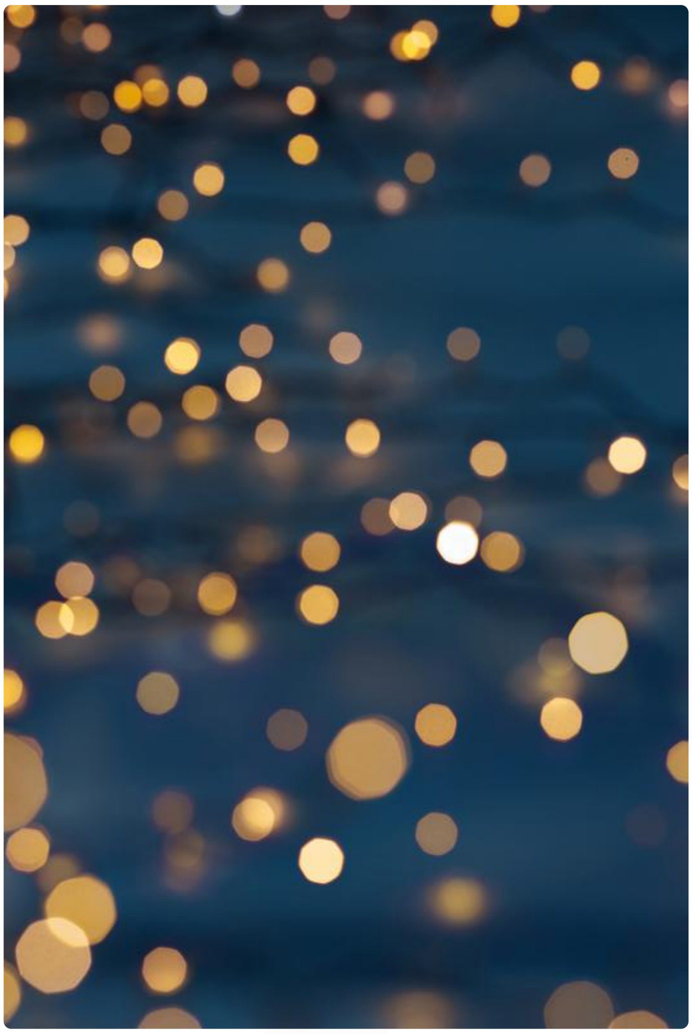
In 1998, Ethiopia acceded to the Convention establishing the World Intellectual Property Organisation (WIPO). The Ethiopian Constitution (1995) provides the foundation for intellectual property rights. The Government also recognises the protection of intellectual property rights as a key factor in economic growth.

As a result, there is in place:

- The Inventions, Minor Inventions and Industrial Designs, Proclamation No. 123/1995 and regulation No.12/1997;
- Copyright and Neighbouring Rights Protection Proclamation No. 410/2004 (as amended) and Registration;
- Works Entitling Copyright and Neighbouring Rights Council of Ministers Regulation No. 305/2014; and
- Trademark Registration and Protection Proclamation No. 501/2006 and Regulation No.273/2012, which regulates the acquisition, registration, and protection of trademarks in Ethiopia.

These Proclamations are in accordance 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,and the WIPO Treaty. The Ethiopian Intellectual Property Rights Office, established in 2003, is responsible for the administration of patents, trademarks, copyrights and other intellectual property policies and legal issues.

Patents are protected for 10 to 15 years, with an additional five years if there is proof that it is properly utilised. Industrial designs are protected for five years, with two possible five-year extensions. Copyrights are protected throughout the lifetime of the author and 50 years after their death; 50 years for the producers of sound recordings and performers; and 20 years for broadcasting entities. Trademarks are protected after the publication of a cautionary notice.



Dispute Settlement

Ethiopia has signed but not ratified the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States. In terms of the Investment Law, disputes concerning foreign investment may be settled by mutually agreeable means, failing which the dispute may be referred to a court or international arbitration in terms of a bilateral or multilateral agreement to which Ethiopia and the investor's state are parties.

On February 13, 2020, the Ethiopian parliament approved the ratification of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. This convention is widely recognised as the basic legal instrument governing international arbitration. Since its inception, the Convention's regime for recognition and enforcement of foreign arbitral awards has developed significantly, contributing to the wide use of international arbitration as the preferred means of resolving commercial disputes. State parties to the Convention are obliged to recognise and enforce arbitration agreements as binding and enforce arbitral awards per the rules and conditions laid down in the Convention.

The Convention sets out the maximum level of control by Member States over the recognition and enforcement of foreign arbitral awards, although Member States are free to apply more liberal rules and procedures than those provided in the Convention.

However, States may only refuse to recognise and enforce foreign arbitral awards on grounds that are provided under the Convention.

Ethiopia made two reservations that are permitted under the Convention. These are: (a) Ethiopia will apply the Convention only for arbitral awards made in the territory of another state that is a party to the Convention, and (b) Ethiopia will apply the Convention only to differences arising out of legal relationships, whether contractual or not, which are considered as commercial under the laws of Ethiopia. A declaration states that the convention will only apply to arbitration agreements concluded after the date of Ethiopia's accession. The Convention will oblige Ethiopia to recognise and enforce foreign arbitral awards made in the jurisdiction of other states without reviewing the merits of the award.

Industry Sectors

Agriculture

The agricultural sector constitutes approximately 32.7% of GDP and approximately 72.7% of total employment. Approximately 65.62% of the labour force is involved in subsistence agriculture as farmers or herders. Ethiopia's main crops are coffee, pulses, oilseeds, cereals, sugarcane, potatoes and vegetables.

Horticulture and floriculture are popular areas for foreign direct investment. Ethiopia is Africa's second-largest maize producer, and its livestock population is believed to be the largest in Africa.

Ethiopia is Africa's leading producer and exporter of coffee Arabica and ranks 5th in the world. It is known as the 'birthplace of coffee'. Ethiopia is home to some of the world's best speciality coffee varieties such as Harrar, Sidama, Yirgacheffe and Limmu. The nation is also the 2nd largest flower-exporting country in Africa, after Kenya. Other notable agricultural achievements include being the regional lead in livestock resource and among the top 10 in the world and being a continental lead in honey and beeswax production.

Since 2009, the Ethiopian Government has been focusing on encouraging investment in large-scale commercial farms. The Ministry of Agriculture has been given the responsibility of providing support to private investors investing in agriculture. The support ranges from providing land above 5000 ha, provision of information, technical support, and facilitation of other public services.

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Banking & Financial Services

The provision of Banking and Financial services is an area of business reserved for domestic investors and foreigners of Ethiopian origin. The business can only be undertaken by establishing a share company. The capital leasing business is open to foreign investors. Currently, there are 16 private and 2 Government-owned banks, 17 private and 1 Government-owned insurance company, and approximately 35 microfinance institutions as of May 2012.

The Council of Ministers made a historic decision in early September 2022 by adopting a policy document allowing foreign banks to enter the Ethiopian banking industry for the first time since the overthrow of the imperial regime. The National Bank of Ethiopia is also in the process of drafting an amendment to the Banking Business Proclamation, which will serve as a basis for the implementation of the policy, opening the banking sector for foreign investors. The policy has been developed with a key objective of providing policy directions and outlining the next steps to enable foreign investors to participate in the banking sector.

The policy aims to ensure the sustainability of economic growth by opening up the banking sector to foreign investors, increasing credit and foreign currency supply, and providing diversified and modern banking services that are supported by advanced technologies, specialized products, and marketing know-how. Currently, the policy seems to be mainly focused on banks as there is no mention of other financial sector players such as microfinance institutions, insurance companies, etc. The National Bank of Ethiopia (NBE) is the country's Central Bank and regulates all foreign currency transactions. It is the regulatory organ in the sector and licenses, and supervises financial institutions more rigorously.

The local currency, 'Birr' or 'ETB', is not freely convertible. There are 5, 10, 50, 100 and 200 birr notes and a 1 birr coin. There are also 5, 10, 25 and 50 cents coins. Since 2004, the NBE has permitted non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and maintain foreign currency accounts up to USD 50,000. Due to the ongoing reform program, there is a recent development that removed the limits on Diaspora foreign exchange account. A capital market proclamation was enacted in July 2021, and a capital market authority has been established. The stock market is expected to be operational in the coming months.

An amendment to the National Payment System Proclamation No. 1282/2022 has been enacted, opening the payment instrument issuing and payment systems operating sectors for foreign investors. A directive regulating the details of licensing and requirements is being prepared by the National Bank of Ethiopia and is expected to be approved soon.

The Ethiopia Commodity Exchange was initiated in 2008 with the intention of increasing transparency in commodity pricing, encouraging the commercialisation of agriculture and alleviating food shortages. It offers trading on commodities such as coffee, sesame seeds, corn, wheat, red kidney bean, white pea bean, green mung bean, chickpeas and soyabeans.

The Government offers 28-day, three-month and six-month treasury bills, but the interest rate thereon is prevented from exceeding the bank deposit rate. The yields on these bills are low, and the market is fairly unattractive to the private sector, with 95% of the bills being held by the Commercial Bank of Ethiopia.

Education

Ethiopia is the second-most populous country in Africa, with an estimated population of over 110 million.
Despite Ethiopia's booming economy, the country's education system remains underdeveloped and plagued by low participation rates and quality problems. School education is now mostly administered by local authorities in sub-districts or woredas within the individual regions, a move designed to better accommodate local needs.

Nevertheless, Ethiopia has made tangible progress in the education sector. The system expanded from having 10 million learners a decade ago to more than 25 million learners today. The country has been able to maintain and improve learning achievement in key subjects. For instance, in 4th grade, the total number of students achieving basic proficiency or higher in all subjects increased from 505,000 in 2011 to 792,000 in 2015.

To bolster this upward trend, Ethiopia developed a sector plan for 2015/16 to 2019/20. The Education Sector Development Program V (ESDP V) is guided by the vision to maintain the momentum of expanding equitable access to quality general education, establish technical and vocational education and training institutes in all woredas (districts), strengthen tertiary education institutions and provide lifelong learning opportunities, so that all can contribute and benefit from rapid growth and economic change in Ethiopia.

The ESDP V also focuses on eight cross-cutting issues that affect education, including gender, special needs, HIV/AIDS, environmental protection, education in emergencies, school health and nutrition, and drug and substance abuse prevention.

Funding is shared between the regions and the federal government, which provides about 50 to 60% of the funding through non-itemized block grants to regional governments, as well as grants given directly to schools. To ensure consistency, the federal government manages the education system with multi-year development programs that set performance targets and reform agendas for the entire system. School curricula are standardised nationwide. Schools use a national curriculum framework that includes textbooks developed by the General Education Curriculum Framework Development Department of the Federal Ministry of Education. (MOE).

The federal MOE in Addis Ababa oversees and funds Ethiopia's higher education, exercising far-reaching control over public institutions. The autonomy of public HEIs is limited since the MOE sets admission standards, enrolment quotas, and curricula; systematically curtails academic freedoms; and frequently appoints university administrators based on political allegiance. Private HEIs are regulated less tightly but must be accredited by the Higher Education Relevance and Quality Agency, a nominally autonomous body under the purview of the MOE. Quality control in technical and vocational education and training (TVET) is provided by a federal TVET agency, which the MOE also oversees.

In 2018, the Ministry of Science and Higher Education was established. It took over the supervision of higher education and TVET in Ethiopia. Quite recently, the MOE has begun projects to improve and introduce technology to alleviate chronic problems faced in the educational sector. In April 2021, the government signed a deal to create a national database of student-teacher IDs in the largest Block-Chain deal by a government.

Healthcare

The Ethiopian healthcare sector is a largely untapped market. Ethiopia has a population of more than 110 million people. However, the healthcare facilities and health posts are around 29,000. This indicates the high demand for healthcare in Ethiopia. Ethiopia is expected to become a middle-income country by 2025, with an average economic growth of 10% per year, resulting in the increase of disposable income of the population. This increase in disposable income is expected to influence spending on healthcare and pharma products. With plans to expand healthcare coverage to its large rural population, the Ethiopian government is undertaking a Health Extension Programme. This program is a community-based strategy that aims to deliver health promotion and awareness creation among the public.

A social health insurance scheme has been introduced to the public, aiming to increase access to health care. Except for primary and middle-level health services, all other healthcare institutions are open to foreign investors. Moreover, investment in speciality clinics, centres, and hospitals is open to foreign investors. The Ministry of Health is the government body tasked with regulating health institutions. Minimum standards for practices, premises, professionals and products of the speciality centres are regulated. The regulated things include:

- Registration and licensing,
- Organisation and management,
- Human Resource Management,
- Infection Prevention Mechanism,
- Sanitation and Waste Management Mechanism
- Rights of Patients, and
- Service Standards (practice, premise, professionals and products)

For pharmaceuticals, the Ethiopian Food and Drugs Administration (EFDA) is a regulatory body in charge of food and drugs in Ethiopia. It is responsible for drug registration, inspection, surveillance, and licensing of pharmaceutical manufacturers and importers. It controls the entry/exit of pharmaceuticals, quality control, and pharmacovigilance services. EFDA is organised into several offices and directorates. Its headquarters is in Addis Ababa, Ethiopia. It has seven branch offices and 19 entry-exit port control offices. The scope of EFDA's regulatory authority is very broad. It regulates food, drugs, biologics, medical devices, and cosmetics. It regulates all organisations involved in the manufacturing, import-export and distribution of the aforementioned products.

There are also regional regulatory bodies responsible for health and health related products. Most of them are organised under Regional Health Bureaus, and some of them are separate Regional Regulatory Authorities.
One of the strategic pillars of the recently adopted ten-year path to prosperity development plan is the production of quality and competitive pharmaceutical products. However, registration is mandatory if one wishes to manufacture, import, export, store, distribute, and transport medicine. Registered manufacturers must comply with good manufacturing practices. Moreover, safety, quality, efficacy and efficiency standards set by the authority must be fulfilled. Registration is to be renewed every five years.

There is a national drug list. Medicines produced or imported must be those included in this list unless a special circumstance requires them to not be included. The list can be found at http://www.fmhaca.gov.et/wp-content/uploads/2020/12/EML-sixth-edition.pdf

Energy

Approximately 90% of Ethiopia's electricity is produced through hydropower. Apart from the use of water and wood in electricity production, the Ministry of Water, Irrigation and Energy is seeking investment in the energy sector to promote the development of energy in the country.

The Ministry is particularly interested in renewable energy sources. A draft feed-in tariff Bill establishing rates and conditions for private entities to supply power to the national grid is being finalised. A number of high-profile energy projects are also expected to be completed. Ethiopia is currently exporting electricity to Sudan, Kenya and Djibouti.

The potential of Ethiopia's renewable and non-renewable energy resources is large, with the economically feasible hydropower potential estimated at 45,000 MW. It also has a large potential for geothermal energy generation. The governing law on geothermal energy is the Geothermal Resource Development Proclamation No. 981 / 2016. The private sector can participate in electricity generation from any source and without any capacity limit. Transmission and supply of electrical energy through the national grid is, however, exclusively reserved for the Government. Private investors, both foreign and domestic, are, however, allowed to operate an off-grid transmission and distribution of electric power.

Petroleum requirements are met through imported refined products. Oil exploration has been ongoing since September 1945 when Emperor Haile Selassie granted a 50-year concession to SOCONY-Vacuum. There are natural gas reserves of four trillion cubic feet in the South-Eastern lowlands of the country. Currently, there are oil and gas exploration activities in the Gambella Region in the country's South- West, adjacent to the border of southern Sudan.
Ethiopia began producing crude oil at Kalub and Hilala fields on 27 June 2018 in the eastern part of the country. Poly-GCL Petroleum Investment Limited is a Chinese company engaged in both oil and gas exploration in the Somali regional state.

Public Private Partnership

Public Private Partnership (PPP) is an important instrument for the Government to attract private investment and provide better public services. The PPP Policy was issued in 2018; PPP Proclamation Number 1076/2018 enacted in 2018. An amendment to the Public Private Partnership Proclamation was enacted in 2023. The Amended PPP Proclamation brings a significant change by introducing a direct negotiation mechanism. Under this mechanism, the Public Private Partnership Board can approve a project proposal based on the understanding reached through bilateral inter-governmental economic diplomacy or through direct contact with a foreign company.

However, in order to use direct negotiation, the public body/ enterprise and the Ministry of Finance must first approve the project's significance. Additionally, the board must be satisfied that the project proposal's implementation will lead to the benefit of public service.

To be eligible for the direct negotiation mechanism, companies must meet the minimum requirements as per the Amended PPP Proclamation. These requirements include having experience in completing three or more projects in the same sector, and demonstrating good financial standing to show that they have the necessary financial and technical capability to deliver the project.

Ethiopia has a good prospect for the development of PPPs in the infrastructure, particularly roads railways, energy, telecommunications and transport sectors.
Both the PPP Policy Document and the PPP Proclamation provide a definition of PPP. A contract which is made with a public body or public enterprise be classified as a PPP agreement upon the fulfilment of the following elements:

- Agreement with the Contracting Authority;
- A long-term agreement;
- Public Service Activity;
- Compensation; and
- Transfer of risk to the private party.

The scope of application of the PPP Proclamation and Policy is limited to Federal public bodies wholly financed by the Federal Government and public enterprises fully owned by the Federal Government.
According to the PPP legislation the following are excluded from the scope of application of PPP:

- Oil, mines, minerals, rights of airspace;
- Privatisation or divestiture of public infrastructure of public enterprises; and
- PPP projects where the contracts were under negotiation or were already concluded at the time of the enactment of the PPP Proclamation

The PPP proclamation provides that the partnership can take on different models. These are:

- The design, construction, financing, maintenance or operation of new infrastructure facilities;
- The rehabilitation, modernisation, financing, expansion, maintenance or operation of existing infrastructure facilities; and/or
- The administration, management, operation or maintenance of new or existing infrastructure facilities.

Manufacturing

The Growth and Transformation Plan (GTP) aims to turn the economy into an industrialized one and raise the per capita income of its citizens by 2025. To achieve this goal, the government has adopted a policy that focuses on developing the manufacturing sector by establishing industrial parks to attract foreign direct investment (FDI) and support small and medium-sized enterprises (SMEs). Despite the government's focus and attention, the manufacturing sector's current capacity to contribute to the country's export income is low.In the past decade, the manufacturing sector has generated an export income of USD 357 million.

Although the sector's contribution to the country's overall export earnings is small, it has been making swift progress, thanks to favourable policies, the growth of industrial parks, and the improved competitiveness of products such as apparel in the global market. Among the various products in the manufacturing sector, leather goods contribute the most to the earnings.

The new ten-year plan (homegrown economic reform agenda) dubbed 'Path to Prosperity' outlines 12 focus areas.

They are:

- Enhancing capital utilisation;
- Strengthening coordination;
- Raising production and productivity from existing industrial establishments;
- Satisfying domestic demand as well as supplying export markets by producing competitive industrial products;
- Encouraging manufacturing industries that utilise locally produced inputs;
- Raising the variety, quantity and quality of exportable industrial commodities;
- Strengthening the value chain, interlinkages, and interdependencies within the manufacturing industries;
- Attracting new investments in large numbers;
- Coordinating the development of heavy metal and engineering industries, chemical and pharmaceutical industries, and other high-tech industries;
- Strengthening the cluster organisation system;
- Expanding small and medium scale industries and creating an enabling environment for transitioning to the next stage of development; and
- Expanding job opportunities.

The ten-year plan outlines several goals for Ethiopia, including establishing a foundation for domestic industrialisation, creating more value through inter-sectoral linkages, and boosting productivity with private sector leadership. The plan seeks to increase the share of the manufacturing sector in the country's GDP by involving the private sector more extensively. For the first five years of the plan, the focus will be on manufacturing industries that use agricultural products as inputs. This decision is based on Ethiopia's current economic activity, workforce, and technological capabilities, as well as the high demand for food and related products. The plan will also target industries that produce inputs for agriculture, such as fertilisers. Additionally, construction-related industries like cement and metals will receive attention.

The second five years of the plan will concentrate on industries that require significant capital investment and specialised labour. These industries include those producing chemical products, transportation equipment, medical supplies, electrical parts, and manufacturing machinery. The goal of this phase is to maintain the gains made in the first five years by improving quality control and expanding the industries with the most potential for import substitution.

The objective of the plan is to create job opportunities for the youth who reside in urban areas, primarily in the manufacturing industries. The main focus is to improve the production and productivity of the current manufacturing plants while attracting new high-quality investments. This may be achieved by revising the standards set by the Ethiopian Standard Authority.

The plan also intends to produce commodities that can compete in the international market upon exportation. The production of this sector is also aimed at helping with import substitution. The plan intends to achieve all the targeted objectives in a manner that is environmentally conscious, and consistent with the country's sustainable and green economic development strategy.

The identified targets of this plan include,

- Increment of capacity utilisation of the manufacturing industry from 50% to 85%;
- Raising the domestic market share of locally manufactured industrial products from 30% to 60% through the expansion of manufacturing industries engaged in the production of products that substitute imports;
- Raising the competitiveness of the manufacturing industry by improving the quality of products;
- Raising the number of small and medium-scale manufacturing enterprises from 2,000 to 11,000 by attracting high-quality investments and focusing on those industries that employ advanced technologies; and
- Creating a total of 5 million new job opportunities in the manufacturing industry during the ten-year period by raising the number of jobs created annually from 175,000 to 850,000 in 2029/30.

Mining

Ethiopia's mining sector is regulated by Mining Operations Proclamation No. 678/2010 (as amended), Mining Operations Council of Ministers Regulation No. 423/2018, Federal Income Tax Proclamation 979/2016 and Transaction of Precious Minerals Proclamation No. 651/2009. According to the legislation, private investors are allowed to carry out all types of mining operations, including exploration, mining, processing, and export. Investors can obtain a one-year exclusive prospecting licence and a three-year exclusive exploration licence, which can be renewed for two years each time. If required, further extension periods can also be considered based on the prevailing circumstances during exploration activities. Investors can also obtain a one-year exclusive mining licence, which can be renewed for unlimited periods of ten years each time.

The right to sell minerals in Ethiopia and abroad is guaranteed. If any minerals are discovered that were not originally specified, they can be added to the licence. Additionally, there is an exemption from customs duties and taxes on the importation of equipment, machinery, vehicles, and spare parts that are necessary for mining operations. The institutions involved in the sector are the Ministry of Mines., State Mining bureaus/ Offices and the Council of Ministers.

The Ministry of Mines is responsible for processing of license applications, regulation of mining operations and the promotion of investment opportunities in the sector. According to this Ministry, Ethiopia has a substantial deposit of gold, tantalum, platinum, nickel, potash and soda ash.Various construction and industrial minerals such as marble, granite, limestone, clay, gypsum, gemstone, iron ore, coal, copper, silica, diatomite, etc., are available in abundance.

Along with this, geothermal energy resources are also present in significant quantity. Sedimentary basins offer ample opportunities for exploration and development of fossil energy resources like oil and natural gas.

The state mining bureaus are in charge of granting mining licenses to domestic investors. These licenses include artisanal mining, special small-scale mining, and construction minerals licenses for reconnaissance, exploration, and retention purposes. In addition to these, small and large-scale mining licenses are also issued. For industrial minerals, domestic investors can obtain reconnaissance, exploration, and retention licenses, as well as small-scale mining licenses.
The Council of Ministers is responsible for approving mining licenses issued by the Ministry of Mines. It also carries out legislative activities related to mining and issues regulations governing the industry.

Telecommunications

Currently, the government is under a comprehensive reform program. Full and partial privatisation of state-owned enterprises is one of the core reform agendas of the government. An additional telecom license has been provided to Safaricom Ethiopia.

A Request for Qualifications (RFQ) for a Second New Telecommunications License has also been issued in July 2023. The government also had a plan to partially privatise Ethio Telecom. A tender process started in 2021 for a 40% stake in Ethio Telecom. This was, however, suspended.

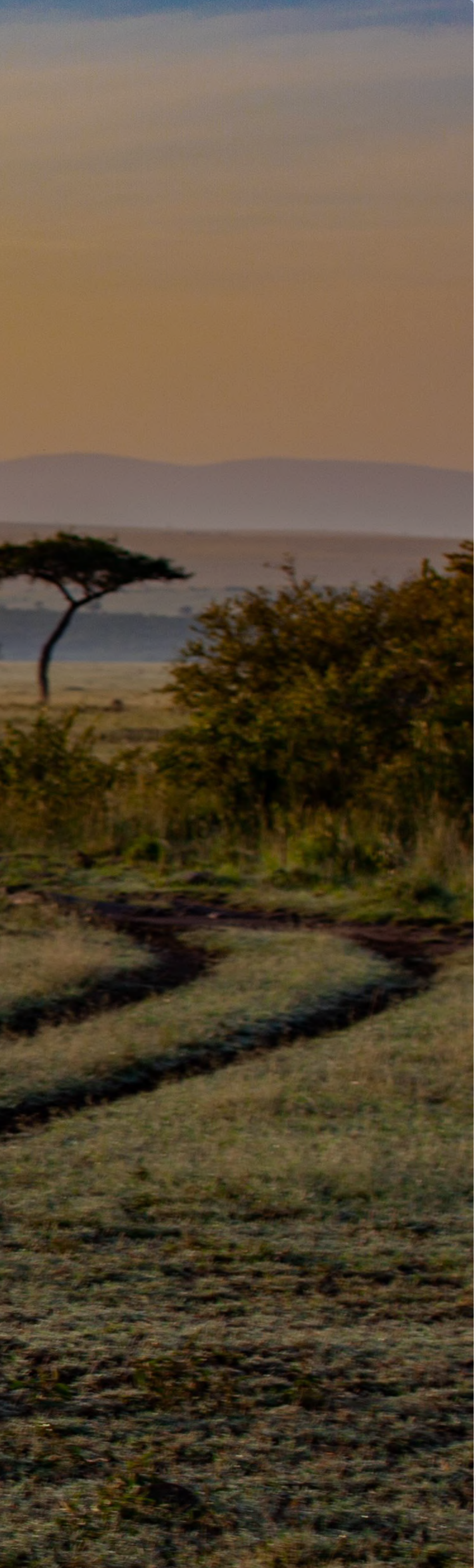
The telephone system in Ethiopia has been described as 'inadequate', and the combined fixed and mobile-cellular teledensity is comparatively low. There are approximately 22.74 million internet users and a total of approximately 45.6 million customers (estimate of 2020).

In August 2019, the Communication Services Proclamation was enacted, liberalising the Telecom sector fully for foreign participation. The government also announced its intention to issue two licenses to foreign operating in parallel to the planned privatisation of Ethio-Telecom by mid-2020.

ECA also issued directives on different areas:

- Telecommunications Wholesale National Roaming Directive No. 800-2021
- Telecommunications Quality of Service Directive No. 794-2021
- SIM Card Registration Directive No. 799-2021
- Telecommunications Competition Directive No. 798-2021
- Telecommunications Consumer Rights and Protection Directive No. 832-2021
- Telecommunications Dispute Resolution Directive No. 796-2021
- Telecommunications Infrastructure Sharing and Collocation Directive No. 793-2021
- Telecommunications Interconnection Directive No. 791-2021
- Telecommunications Numbering Directive No. 795-2021
- Telecommunications Licensing Directive No. 792-2021
- Telecommunications Lawful Tariffs Directive No. 797-2021

The country's moderate dry climate, historical and religious sites, and ecological beauty make tourism a promising area for potential investors.



Tourism

Tourism accounts for approximately 9.4% of Ethiopia's GDP and employs 8.3% of the workforce (as of 2018 estimates). The country's moderate dry climate, historical and religious sites, and ecological beauty make tourism a promising area for potential investors. Ecotourism, in particular, has great growth potential.

Foreign investors can take advantage of these opportunities through direct investments or joint ventures with Ethiopians, but only grade 1 tour operation service is allowed for foreign investors in this area. There are also opportunities for the construction of star-designated hotels and resort hotels throughout the country.

90.6%
Other Ethopian GDP Sectors

9.4%
Tourism

- Employs 8.3% of workforce

Key Developments

Change in Government Policies/ Agenda

The Ethiopian Government has formulated and started two initiatives, namely, the Homegrown Economic Reform Agenda and the Ease of Doing Business Initiative. The Homegrown Economic Reform Agenda aims to attain high quality, sustainable economic growth and vast job creation by building on past achievements as well as overcoming macroeconomic challenges by identifying bottlenecks and coming up with measures and reforms.

Ethiopia has made significant strides in infrastructure and human capital over the past decade. The Homegrown Economic Reform Agenda has the objective of sustaining these gains while focusing on the creation of high-quality jobs while at the same time overcoming emerging challenges by correcting emerging macroeconomic imbalances, easing structural bottlenecks, and creating new opportunities. Upgrading policies and institutional frameworks is also an aim of this reform agenda.

The Ease of Doing Business Initiative is the second initiative launched by the Prime Minister of Ethiopia. It aims to simplify business processes and improve Ethiopia's ranking in the World Bank Ease of Doing Business, from its current 157th to the top 100. Several new laws, such as commercial registration and licensing directives, have been amended to eliminate procedures that are considered to be burdensome. Since the launch of this initiative, critical milestones have been achieved in implementing regulatory reforms that aim to improve the overall investment climate in Ethiopia.

Financial Sector Regulation

In accordance with the Proclamation for the Establishment of the National Bank of Ethiopia("NBE") (Amendment) Proclamation No. 591/2008, Ethiopia follows strict exchange control regulations. All foreign exchange transactions must be authorised by the NBE or done through licensed financial institutions under the NBE's supervision (authorised dealers). Furthermore, all capital brought in and invested in Ethiopia must be registered by the Ethiopian Investment Commission and the NBE to ensure repatriation. The NBE has the authority to enact exchange control directives because it is the primary regulatory body for the financial industry.

The following are some of the specific NBE directives dealing with foreign exchange.

External Loan and Supplier's Credit Directive (Directive No. FXD/82/2022):

The directive allows foreign investors and other eligible borrowers to debt finance their investments by sourcing an external loan from abroad. Foreign investors and eligible borrowers are required to get approval from the NBE and register the loan with the NBE. Failure to obtain approval or to register the loan will result in the denial of a request for foreign currency for repayment of the loan or credit supply by local commercial banks.

Retention and Utilisation of Export Earnings and Inward Remittances (Directive No. FXD/79/2022):
This directive authorises banks to open foreign exchange retention accounts for eligible exporters of goods, services, and inward remittances. Eligible customers are regular recipients of foreign exchange remittances from abroad or exporters of goods or services who have not been labelled as delinquent. Customers become delinquent when they do not settle their forex commitments with NBE. This directive will apply to foreign investors who are interested in the export business or those engaged in businesses that allow them to receive foreign exchange transfers from abroad.

Establishment and Operation of Foreign Currency Account for Non-Resident Ethiopians and Non-Resident of Ethiopian Origin Directives No. FXD/69/2021:
The Directive outlines the requirements for opening and maintaining foreign currency accounts and permits the account holder, as well as their spouses, employers, and business entities, to credit their account with foreign currency. Only priority items, such as those for agriculture and manufacturing, medicines and related supplies, educational materials, chemicals, and some other essential commodities, may be imported using foreign currency by account holders.

A non-resident foreign currency current account will not receive interest payments. Exceptionally, interest may be paid to a fixed non-resident foreign currency account and non-repatriable ETB accounts. However, the rate of interest may not be less than the London Interbank Offered Rate (LIBOR) and the minimum saving deposit rate set by the NBE, respectively, for the above-stated foreign currency accounts.

Foreign Exchange Directive in Industrial Parks Directive No. FXD/59/2019: The Directive allows investors to utilize funds from their foreign currency and retention accounts to buy raw materials manufactured by another investor within the same industrial park or from another industrial park. Additionally, they can offer their own manufactured goods to other investors in the same industrial park in exchange for foreign currency, which will be credited to the industrial park's retention account.

Furthermore, they can use their retention or foreign currency accounts to pay their expatriate employees' salaries in foreign currency. Transparency in Allocation of Foreign Currency and Management Directive No. FXD/77/2021:
The directive establishes a framework for allocating the country's foreign currency based on its social and economic needs. The allocation is divided into four categories: 1st priority, 2nd priority, 3rd priority, and served on demand. The first three categories are allocated on a first-come-first-served basis. Therefore, anyone who wishes to obtain foreign currency from commercial banks must register and wait for their turn to receive it.

However, the last category, which is 'served on demand', is exempt from the registration process. This category applies only to those with foreign currency accounts and for the salary transfer of foreign employees.

Anti-Bribery & Corruption

It is considered a criminal offence to give or receive bribes in Ethiopia. The country ratified the United Nations Anti-Corruption Convention back in 2007. The Attorney General and the Federal Ethics and Anti-Corruption Commission are the governing bodies responsible for fighting against corruption.

Ethiopia has also introduced the Anti-Corruption Proclamation for the private sector, which aims to include any corruption committed by the private sector, particularly by those who handle funds collected from the public or for public purposes.

In December 2009, the Proclamation on Prevention and Suppression of Money Laundering and Financing of Terrorism was enacted, leading to the establishment of a national financial intelligence center.

To address the issue of transparency in the procurement system, the Ethiopian government has set up a public procurement and property administration agency. This agency is meant to be an independent organ of the government with its own judicial branch, accountable to the Ministry of Finance.

ALN
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