

Foreign Agricultural Investment

Country Profile

Ethiopia



REGION	sub-Saharan Africa
INCOME GROUP	Low
POPULATION	84.9 million
TOTAL AREA	1 104 300 km ²
CAPITAL	Addis Ababa
LARGEST CITY	Addis Ababa
GNI PER CAPITA	US\$330
OFFICIAL LANGUAGE	Amharic
MAJOR EXPORTS	coffee, livestock products (skins and hides, leather, live animals and meat), pulses, oil seeds, spices, cotton, fruits, vegetables, textiles, natural gum, mineral products, petroleum products, civil aircraft, vehicles, spare parts, construction equipment, medical and pharmaceutical products, industrial equipment and machinery, agricultural and industrial chemicals, agricultural machinery, hybrid seed, fertilizers, irrigation equipment, consumer goods.
MAJOR IMPORTS	



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Acronyms

AGOA	African Growth and Opportunity Act
COMESA	Common Market for Eastern and Southern Africa
EIA	Ethiopian Investment Agency
FDI	foreign direct investment
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
MoARD	Ministry of Agriculture and Rural Development
MoFED	Ministry of Finance and Economic Development
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PPESA	Privatization and Public Enterprises Supervising Agency
SNNPR	Southern nations, nationalities and peoples region
TIN	tax identification number
WTO	World Trade Organizatio

1 General information

1.1 Foreign direct investment (FDI) in Ethiopia

Ethiopia is one of the fastest growing non-oil dependent countries in Africa. The inflow of foreign direct investment (FDI) rose in 1997 to US\$288 million, following political stabilization, but declined in 1998 (US\$261 million), 1999 (US\$70 million) and year 2000 (US\$135 million) as a result of the Eritrean-Ethiopian war. Following the end of conflict, FDI increased rapidly, peaking particularly in 2004 and 2006 at US\$545 million.¹ The latest estimates place it at US\$221 million after decline in 2007 and 2008.²

FDI inflows and stock annual data (Total US\$ millions)

	Year								
	1990	1995	1997	2000	2005	2006	2007	2008	2009
FDI inflows	--	14	288	135	265	545	222	109	221
FDI stock	--	165	476	941	2,821	3,366	3,588	3,697	3,790

Source: UNCTAD stat; World Bank

According to the Ethiopian Investment Agency (EIA), the areas with the most promising potential for investment are agriculture, agro-processing, textiles and garment, leather and leather products, tourism, mining and hydropower. Of the FDI projects licensed by 2003, 46.57 percent were in manufacturing and processing; 40.7 percent in trade, hotels and tourism; and 12.7 percent in agriculture and mining (UNCTAD, 2004). China, India, Sudan, Germany, Italy, Turkey, Saudi Arabia, Yemen, the United Kingdom, Israel, Canada and the United States are currently the major sources of FDI into Ethiopia.³

FDI into Ethiopia began increasing with the liberalization reforms that started in 1992 following the end of the Derg military regime and years of civil turmoil. The new democratic administration sought to eliminate constraints on foreign investment and to establish a more conducive business environment. Ethiopia has gradually shifted from a state-controlled economy towards a market-oriented one. New investment proclamations have been published and amended, and privatization of state enterprises is ongoing.

To facilitate private investment, both domestic and foreign, and to provide a “one-stop-shop” for investors, the Ethiopian Government established the Ethiopian Investment Agency (EIA) in 1992. The EIA is the principal government organ responsible for promoting, coordinating

¹ UNCTAD stat: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?scs_referer=&scs_ChosenLang=en

² World Bank database: <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

³ Ethiopian Investment Agency (EIA): http://www.ethioinvest.org/Operating_Environment.php

investment in Ethiopia in both the pre- and post-investment phases. Along with the Privatization and Public Enterprises Supervising Agency (PPESA), the EIA oversees the process of economic liberalization and the gradual shift to private ownership. State-owned enterprises, including state farms and plantations, have been and are sold under an economic programme agreed with the International Monetary Fund (IMF), (UNCTAD, 2006). In the Doing Business 2011 summary data for Ethiopia, the overall Ease of Doing Business status ranks the country 154th out of 183 economies. The table below lists the rankings by each topic and the following table displays the Enterprise Surveys results for perceived constraints to firm investment in Ethiopia.

Doing Business rankings by topics

Topic rankings	DB 2010 rank	DB 2011 rank	Change in rank
Starting a business	94	89	↑5
Dealing with construction permits	57	53	↑4
Registering property	111	109	↑2
Getting credit	125	128	↓-3
Protecting investors	119	120	↓-1
Paying taxes	41	47	↓-6
Trading across borders	159	157	↑2
Enforcing contracts	57	57	No change
Closing a business	78	82	↓-4

Source: World Bank, Doing Business: <http://www.doingbusiness.org/data/exploreeconomies/ethiopia>

Top 10 business environment constraints for firms

Business Environment Constraints	Percentage of Firms
Access to Finance	18.83 %
Access to Land	16.59 %
Practices Informal Sector	14.35 %
Tax Rates	13.90 %
Electricity	7.85 %
Courts	5.83 %
Tax Administration	5.38 %
Political Instability	4.26 %
Inadequately educated workforce	3.59 %
Corruption	2.91 %

Source: Enterprise Surveys: <http://www.enterprisesurveys.org/Custom/Default.aspx>

1.2 Agriculture sector and FDI

The Ethiopian economy is primarily based on agriculture and remains heavily dependent on it. According to the EIA, the sector accounted for about 43 percent of the gross domestic product (GDP) in 2008/2009 and 86 percent of foreign currency earnings.⁴ Overall, economic growth in Ethiopia has been closely associated with the performance of the agriculture sector. Agriculture is the main source of livelihood for more than eight out of ten people. However, agricultural production has fluctuated widely as a result of increased incidence and severity of drought.⁵ In 2005, 44 percent of the population was undernourished and 39 percent lived on less than US\$1 per day.⁶

Ethiopian agriculture is characterized by small-scale, rainfed farming with limited use of modern inputs. On average, 83 percent of rural households cultivate crops on less than 2 ha per household and 52 percent on less than 1 ha.⁷

Ethiopia's total land area is about 110 million ha of which 14 million was cultivated in 2008, which is about 13 percent of the country area.⁸ Endowed with abundant natural resources, with a large and diverse land area whose altitudes range from 125 metres below sea level to 4 620 metres above sea level, Ethiopia has great agricultural potential.⁹

Agriculture value added in 2009 was US\$13 632 million, increased from US\$5 280 million in 2005. The average growth rate of agriculture value added in 2005 to 2009 was 26.8 percent. The main agricultural products, in terms of value, are cattle meat, roots and tubers, maize, wheat, cereals, cow milk, and dried chillies and peppers.

The value of agricultural exports in 2008 was US\$1 352 million, increased from US\$821 million in 2005. The average growth rate of exports in 2005 to 2008 was 21.6 percent. The share of agricultural exports in total exports in 2008 was 84.4 percent. The main agricultural exports, in terms of value, are coffee, sesame seeds, vegetables, beans, oilseeds and dry salted sheep skins.

The value of food imports in 2008 was US\$1 347 million, increased from US\$494 million in 2005. The average growth rate of imports in 2005–2008 was 39.7 percent. The share of agricultural imports in total imports in 2008 was 16.8 percent. The main agricultural imports in terms of value are: wheat, palm oil, coffee, sorghum, sugar and vegetable oil.⁷

Some of the main crops are produced in the following areas:¹⁰

- Maize: in the mid-highland areas; mainly in Southern Nations, Nationalities and Peoples Region (SNNPR) and Oromia region: 1.77 million ha under cultivation.
- Wheat and barley: in the highlands and mid-highland areas; mainly in Oromia region and some parts of Amhara region: 1.10 million ha and 1.40 million ha under cultivation respectively.

⁴ EIA: http://www.ethioinvest.org/Operating_Environment.php

⁵ IFAD, Rural Poverty Portal: <http://www.ruralpovertyportal.org/web/guest/country/home/tags/ethiopia>

⁶ Millennium Development Goals Indicators: <http://mdgs.un.org/unsd/mdg/Data.aspx>

⁷ FAOSTAT: <http://faostat.fao.org/default.aspx>

⁸ FAO AQUASTAT:

<http://www.fao.org/nr/water/aquastat/data/query/index.html;jsessionid=4394545F724D5D606CBBB2C1F2EBF21B>

⁹ EIA: http://www.ethioinvest.org/why_Ethiopia.php

¹⁰ EIA: <http://www.ethioinvest.org/agriculture.php>

- Rice: predominant potential areas are: west-central highlands of Amhara region, north-west lowland of Amhara region and Benishangul region, Gambella regional state; south and southwest lowlands of SNNPR; Somali region; and southwestern highlands of Oromia region.
- Coffee: grown over 0.6 million ha; the main growing areas are Harrar, Ghimbi, Sidama/Yirgacheffe and Jimma/Keffa.

During the fiscal year 2008/2009, a total of 2 469 investment projects, which include public, domestic private and foreign private projects, were approved by the EIA in the agriculture, hunting and forestry sector. Among these, 865 projects (35.0 percent) were invested in Oromia region; 845 projects (34.2 percent) in Amhara region; 190 projects (7.7 percent) in SNNPR; and 163 projects (6.6 percent) in Benishangul and Gumuz.¹¹

For economic development and the attainment of the Millennium Development Goals (MDGs), the Ethiopian Government has established medium-term plans/programmes. The plan for the period of 2005/2006–2009/2010 was the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP). It places a major focus on economic growth with greater commercialization of agriculture and enhancing private-sector development, industry, urban development and a scaling-up of efforts to achieve the MDGs.¹²

In its new five-year development plan, the Growth and Transformation Plan (GTP), initiated in 2010, agriculture continues to be regarded as a major source of economic growth. Its strategy includes the shift to produce high-valued crops, a special focus on high-potential areas, facilitating the commercialization of agriculture, supporting the development of large-scale commercial agriculture (MoFED, 2010).

Infrastructure

Electricity: Installed power generating capacity is 1 562.2 MW. Two hydropower plants with generating capacity of over 2 000 MW are under construction.

Port: Ethiopia is connected with the port of Djibouti at the Gulf of Aden by road and rail for international trade. The port of Barbara in Somaliland and Port Sudan are other external trade routes.

Roads: In 2008/2009, total road was 47 085 km, of which 46 percent was track roads and 54 percent was rural roads. Among them, more than 20 429 km was in the federal network, of which 30 percent was asphalt road.¹³

Railway: A 778-km long railway line links Addis Ababa with Djibouti.¹⁴

Air transport: Bole international airport, Addis Ababa, is the main airport. Ethiopian Airlines covers 62 international destinations and 17 domestic destinations. Ethiopian cargo operates at 25 destinations.¹⁵

¹¹ Ministry of Finance and Economic Development: <http://www.mofed.gov.et/Uploaded/Publication/MEDR-EFY2001-Annual-2.DOC>

¹² World Bank, Ethiopia Poverty Reduction Strategy Papers: <http://go.worldbank.org/WSVY4W8510>

¹³ EIA: http://www.ethioinvest.org/Operating_Environment.php

¹⁴ Ethiopia Embassy in Sweden: http://www.ethemb.se/ee_ethiopia.html

¹⁵ Ethiopian Airlines: <http://www.ethiopianairlines.com/en/corporate/default.aspx>

For more information on infrastructure, consult the EIA website:

http://www.ethioinvest.org/Operating_Environment.php

For additional information on FDI and agriculture in Ethiopia:

UNCTAD Stat: <http://unctadstat.unctad.org/>

World Investment Report 2010: <http://www.unctad.org/wir>

FDI in brief: http://www.unctad.org/sections/dite_fdistat/docs/wid_ib_et_en.pdf

Country Factsheet: http://www.unctad.org/sections/dite_dir/docs/wir10_fs_et_en.pdf

Country Profile: http://www.unctad.org/sections/dite_fdistat/docs/wid_cp_et_en.pdf

Ethiopia Investment Agency (EIA)

<http://www.ethioinvest.org/index.php>

Ethiopia Privatization and Public Enterprises Supervising Agency

<http://www.ppesa.gov.et/>

Addis Ababa Chamber of Commerce

<http://www.addischamber.com/aaccsa/inv/inv.php>

UNCTAD An Investment Guide to Ethiopia (2004)

http://www.unctad.org/en/docs/iteiia20042_en.pdf

U.S. Dept. of State 2010 Investment Climate Statement – Ethiopia

<http://www.state.gov/e/eeb/rls/othr/ics/2010/138801.htm>

World Bank Private Sector at a Glance

http://devdata.worldbank.org/PSD/eth_psd.pdf

World Bank Investing Across Borders

<http://iab.worldbank.org/Data/Explore%20Economies/Ethiopia>

World Bank Business Environment Snapshot

<http://rru.worldbank.org/BESnapshots/Ethiopia/default.aspx>

Enterprise Surveys Snapshot Report (2006)

<http://www.enterprisesurveys.org/ExploreEconomies/?economyid=66&year=2006>

Ethiopian Business Development Services Network (EBDSN)

<http://www.bds-ethiopia.net/index.html>

2 Information on specific areas

2.1 Legal and regulatory framework¹⁶

The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia.

The Investment Proclamation of 2002, as amended in 2003, and the Regulation on Investment Incentives and Investment Areas Reserved for Domestic Investors of 2003, as amended in 2008, constitute the main legal framework for both foreign and domestic investment in Ethiopia (Ethiopia Investment Guide, 2010).

2.1.1 Major laws and regulations affecting foreign investment

Investment Proclamation No. 280/2002

<http://www.erca.gov.et/Proc%20No.%20280-2002%20Investment.pdf>

Amendment Proclamation No. 375/2003

[http://www.erca.gov.et/Investment\(amendment\).pdf](http://www.erca.gov.et/Investment(amendment).pdf)

**Investment Incentives and Investment Areas Reserved for Domestic Investors
Regulation No. 84/2003**

<http://www.erca.gov.et/Reg%20No.%2084-2003%20Investment%20Incentives%20and%20Investment%20Areas%20.pdf>

Amendment Regulation No. 146/2008

[http://www.ethioinvest.org/docs/Investment%20Laws/Specific%20Laws/Regulation.%20146-2008\(Amendment\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/Specific%20Laws/Regulation.%20146-2008(Amendment).pdf)

The Proclamation was enacted with a view to:

- encourage and promote the role of the private sector in the economic development of the country;
- widen the scope of participation of foreign investors;
- create a transparent and efficient system of investment administration.

The Proclamation and the Regulation mainly provide:

- capital requirements for foreign investors (see 2.6);
- areas of investment reserved for the government or joint investment with the government, reserved for domestic investors and open for foreign investors (see 2.6);
- areas of investment eligible for investment incentives as well as the type and extent of entitlement to the incentives (see 2.5)

¹⁶ This section provides information on laws and regulations recognized during the preparation of this paper and does not provide a comprehensive list of laws and regulations related to agricultural investment in Ethiopia.

Investment Proclamation No. 15/1992

This Proclamation first established the Ethiopian Investment Agency (EIA). The EIA is an autonomous body accountable to the Investment Board chaired by the Minister of Trade and Industry. With respect to foreign and domestic investment, the EIA is responsible for the following:

- Promoting the country's investment opportunities and conditions to foreign and domestic investors;
- Issuing investment permits, work permits, trade registration certificates and business licenses;
- Registering technology transfer agreements and export-oriented non-equity-based foreign enterprise collaborations with domestic investors;
- Negotiating and, upon government approval, signing bilateral investment promotion and protection treaties with other countries;
- Advising the government on policy measures needed to create an attractive investment climate for investors;
- Assisting investors in the acquisition of land, utilities, etc., and providing other pre- and post-approval services to investors.¹⁷

Other relevant laws

Commercial Code, 1960

[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Commercial%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Commercial%20Code%20(English).pdf)

The Code governs company formation, operation, dissolution, etc., and provides the legal framework for undertaking business activities in Ethiopia. It contains detailed provisions for traders and businesses; business organizations; carriage and insurance; negotiable instruments and banking transactions; bankruptcy; etc. The Code is in the process of being revised with a view to accommodating modern business concepts.

Civil Code, 1960

[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Civil%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Civil%20Code%20(English).pdf)

Law governing various types of contracts.

Commercial Registration and Business Licensing Proclamation No. 67/1997

http://www.ethiopar.net/type/English/hopre/bills/2004_2005/Proc%20No.%2067-1997%20Commercial%20Registration%20and%20Business%20Licens.pdf

The Proclamation provides for the registration and licensing procedures of commercial activities.

Commercial Registration and Business Licensing Proclamation No. 686/2010

http://www.ethiopar.net/type/English/hopre/bills/2004_2005/686.ae..pdf

The new Proclamation repeals the Proclamation No. 67/1997. However, public notices and directives issued pursuant to the Proclamation No. 67/1997 will be implemented until public notices and directives to be issued pursuant the Proclamation No. 686/2010 replace them.

¹⁷ EIA: <http://www.ethioinvest.org/index.php>

Labour Proclamation No. 377/2003

http://www.ethiobar.net/type/English/hopre/bills/2004_2005/Proc%20No.%20377-2003%20Labour.pdf

Amendment Proclamation No. 466/2005

[http://www.ethiobar.net/type/English/hopre/bills/2004_2005/Proc%20No.%20466-2005%20Labour%20\(Amendment\)%20.pdf](http://www.ethiobar.net/type/English/hopre/bills/2004_2005/Proc%20No.%20466-2005%20Labour%20(Amendment)%20.pdf)

Amendment Proclamation No. 494/2006

[http://www.ethioinvest.org/docs/Laws%20Related%20to%20Investment/Labour%20and%20Mining%20Laws/Proc%20No.%20494-2006%20Labour%20\(Amendment\)%20Proclamation.pdf](http://www.ethioinvest.org/docs/Laws%20Related%20to%20Investment/Labour%20and%20Mining%20Laws/Proc%20No.%20494-2006%20Labour%20(Amendment)%20Proclamation.pdf)

Immigration Proclamation No. 354/2003

http://www.ethiobar.net/type/English/hopre/bills/2004_2005/Proc%20No.%20354-2003%20Immigration.pdf

Income Tax Proclamation No. 286/2002

<http://www.erca.gov.et/Proclamation%20No.286-2002.pdf>

Amendment Proclamation No. 608/2008

<http://www.erca.gov.et/Negarit2.pdf>

Value Added Tax Proclamation No. 285/2002

<http://www.erca.gov.et/Proclamation%20No.285-2002.pdf>

Amendment Proclamation No. 609/2008

<http://www.erca.gov.et/Negarit3.pdf>

Excise Tax Proclamation No. 20/2002

<http://www.erca.gov.et/proclamation%20no.307-2002.pdf>

Amendment Proclamation No. 570/2008

http://www.ethiobar.net/type/English/hopre/bills/2004_2005/570.pdf

Amendment Proclamation No. 610/2008

<http://www.erca.gov.et/Negarit5.pdf>

Customs Proclamation 622/2009

<http://www.erca.gov.et/proclamtion.php>

Revised Export Trade Duty Incentive Scheme Establishing Proclamation No.543/2007

http://www.ethiobar.net/type/English/hopre/bills/2004_2005/543.ae..pdf

Most recent law governing duty drawback, voucher and bonded manufacturing warehouse incentive schemes.

Maritime Code, 1960

[http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Maritime%20Code%20\(English\).pdf](http://www.ethioinvest.org/docs/Investment%20Laws/General%20Laws/Maritime%20Code%20(English).pdf)

Regulates sea trade.

2.1.2 Agriculture and related laws and regulations

Rural Land Administration and Use Proclamation No. 456/2005

<http://faolex.fao.org/docs/pdf/eth95459.pdf>

The Proclamation, among other things: provides rules relative to acquisition and use of rural land by peasant farmers or pastoralists, transfer of rural land use rights, distribution of rural land, resolution of

disputes, restrictions on the use of rural land; and defines responsibilities of the Federal Ministry of Agriculture and Rural Development and Regions.

Re-enactment of Urban Lands Lease Holding Proclamation No. 272/2002

<http://faolex.fao.org/docs/pdf/eth44184.pdf>

The objectives of this Proclamation are to develop optimum conditions in which lease will become exclusive urban land-holding system, and to remove obstacles of and expedite the process of permitting and holding urban land by lease.

Expropriation of Land Holdings for the Public Proclamation No. 455/2005

http://www.ethiobar.net/type/English/hopre/bills/2004_2005/Proc%20No.%20455-2005%20Expropriation%20of%20land%20holdings%20for%20Public.pdf

Provides for the expropriation of land holdings for public purposes and delineates payment of compensation.

Cooperative Societies Proclamation No. 147/1998

<http://faolex.fao.org/docs/pdf/eth44002.pdf>

Amendment Proclamation No. 402/2004

<http://faolex.fao.org/docs/pdf/eth95537.pdf>

The Proclamation provides for the organization and management of cooperative societies.

Coffee Quality Control and Marketing Proclamation No. 602/2008

<http://faolex.fao.org/docs/pdf/eth85163.pdf>

The Proclamation is to establish an improved system for coffee quality control and marketing.

Seed Proclamation No. 206/2000

<http://faolex.fao.org/docs/pdf/eth61953.pdf>

The Proclamation introduces rules and measures to ensure production and availability of high quality seeds for agricultural and horticultural purposes in Ethiopia. It creates a legal framework for the protection and control of the interests of users of seeds, originators, processors and traders of seeds.

Plant Breeders' Right Proclamation No. 481/2006

<http://faolex.fao.org/docs/pdf/eth80476.pdf>

Animal Diseases Prevention and Control Proclamation No. 267/2002

<http://faolex.fao.org/docs/pdf/eth44186.pdf>

This Proclamation provides for the prevention and control of diseases affecting animals.

Fisheries Development and Utilization Proclamation No. 315/2003

<http://faolex.fao.org/docs/pdf/eth44402.pdf>

The objectives of this Proclamation are to conserve fish biodiversity and its environment, to avoid over-exploitation of fish resources, to increase the supply of fish of good quality and to expand the development of aquaculture.

Forest Development, Conservation and Utilization Proclamation No. 542/2007

<http://faolex.fao.org/docs/pdf/eth95247.pdf>

The Proclamation provides for the conservation, development and sustainable utilization of forest resources in Ethiopia. It defines various measures for the promotion of forest development including the grant of rural land to private individuals and organizations, and development of state production forests on concession basis.

Quality and Standards Authority of Ethiopia Establishment Proclamation No. 102/1998

<http://faolex.fao.org/docs/pdf/eth43989.pdf>

Amendment Proclamation No. 413/2004

<http://faolex.fao.org/docs/pdf/eth95535.pdf>

The Proclamation re-establishes the Quality and Standards Authority as an autonomous Federal Government organ. Objectives of the Proclamation are: to promote and assist the establishment of appropriate quality management practices; to assist the improvement of the quality of products and processes through the promotion and application of Ethiopian Standards; to promote and co-ordinate standardization; to establish a sound national meteorological system; and to strengthen, promote and enhance the reliability of testing laboratories.

Ethiopian Water Resources Management Proclamation No. 197/2000

<http://faolex.fao.org/docs/pdf/eth44004.pdf>

The purpose of this Proclamation is to ensure that all surface and ground waters of Ethiopia are properly protected and managed.

Environmental Impact Assessment Proclamation No. 299/2002

<http://faolex.fao.org/docs/pdf/eth44281.pdf>

This Proclamation prescribes that no person shall commence any new development activity under any category listed in any directive issued pursuant to this Proclamation ("project") which requires an environmental impact assessment without authorization of the Environmental Protection Authority or the relevant regional environmental agency.

For more information on laws and regulations:

FAOLEX

<http://faolex.fao.org/>

Ethiopia Investment Agency (EIA) Legal Framework

http://www.ethioinvest.org/Legal_Framework.php

Ethiopian Parliament

<http://www.ethiopar.net>

World Bank Doing Business Law Library

<http://www.doingbusiness.org/law-library>

Ethiopian Law Network

<http://www.ethiopian-law.com/index.php>

Lexadin Law Guide

<http://www.lexadin.nl/wlg/legis/nofr/oeur/lxweeth.htm>

2.2 Registration and approval procedures

The EIA is the first and main contact point for foreign investors and provides an expedited “one-stop shop” service.

2.2.1 Investment permit

All foreign investors are required to obtain investment permits from the EIA by submitting required documents. The investment permit is valid for one (1) year and must be renewed annually until the investor commences the marketing of his output or services. The investor is also required to submit progress reports on the implementation of the project at the end of every six months.

Consult the following EIA webpage for a list of documents required for foreign investors to apply for an investment permit: http://www.ethioinvest.org/foreign_investor.php

2.2.2 List of additional licenses and services rendered by the EIA

In addition to issuing investment permits, as a one-stop shop, the following supplementary services are rendered by the EIA:

- Issuance of commercial registration certificates;
- Notarization of memorandum and articles of associations of business organizations;
- Issuance of work permits for expatriate employees;
- Issuance of business licenses;
- Grading of construction contracting companies;
- Issuance of domestic status certificates to foreign nationals permanently residing in Ethiopia taken for domestic investors;
- Registration of technology transfer agreements;
- Registration of export-oriented non-equity based foreign enterprise collaborations.

Consult the EIA website for more information, in particular, the following web pages:

http://www.ethioinvest.org/service_types.php (licensing and registration services)

<http://www.ethioinvest.org/clientcharter.php> (deliver times and costs)

http://www.ethioinvest.org/principal_registration.php (required documents for application)

For more information on business procedures:

Ethiopia Investment Agency (EIA)

<http://www.ethioinvest.org/index.php>

Ethiopia investor

<http://www.ethiopiainvestor.com/>

2.3 Tax schemes

The Ethiopian tax laws provide for the imposition of direct and indirect taxes. The direct taxes are divided into five categories: personal income tax, rental tax, withholding tax, business profit tax and other taxes. The main types of indirect taxes are: VAT, customs duty, excise tax and turnover tax.

2.3.1 Tax Identification Number (TIN)

Under Article 43 of Income Tax Proclamation No. 286/2002, every person having a tax obligation is required to obtain a tax payer identification number (TIN) from the Ethiopian Revenue and Customs Authority.

2.3.2 Major taxes relevant to FDI

Income tax from employment

According to the Proclamation 286/2002, the first 150 Birr of monthly personal income is excluded from taxable income. For monthly income of 151 Birr and above, the marginal tax rates range from 10 to 35 percent with six income brackets.

Business income tax

Taxable business income of corporate businesses is taxed at the rate of 30 percent.

Taxable business income of other business taxpayers (unincorporated or individual businesses) with yearly taxable business income ranging from 1 801 to 60 000 Birr is taxed at the rate between 10 and 30 percent. Yearly taxable business income beyond 60 000 Birr is charged 35 percent.

Agricultural income tax and rural land use fee

The former tax on income from agricultural activities and the land use rent was revised in 1995.

Because income tax from this source is allocated to Regional States in compliance with the provisions of the new constitution of 1994, each Regional State is entitled to issue a Proclamation providing for such a tax and rent (Ethiopian Chamber of Commerce, 2005).

Capital gains tax

Income tax is payable on gains obtained from the transfer of buildings held for business factory or office purpose at 15 percent and shares of companies at 30 percent.

Other income taxes

Royalties 5 percent; Income paid for services rendered outside of Ethiopia 10 percent; Income from games of chance 15 percent; Dividends 10 percent; Income from rental of property 15 percent; Interest income on deposits 5 percent.

Withholding tax

Withholding tax is payable on import of goods and is set at 3 percent of the sum of cost, insurance and freight. In case of organizations having legal personality, government agencies, private non-profit institutions and non-governmental organizations (NGOs), the amount withheld is 2 percent of the gross amount of payment.

Value added tax (VAT)

The rate of VAT is 15 percent of the value of every taxable transaction by a registered person and every import goods and services other than those exempted. VAT is charged on those businesses whose total annual turnover exceeds 500 000 Birr per year.

Taxable transactions that are charged with Zero Rate are the export of goods or services to the extent provided in regulation; the rendering of transportation or other services directly connected with international transport of goods or passengers; as well as the supply of lubricants and other technical supplies taken on board for consumption during international flights.

Excise tax

Excise tax is imposed and payable on selected goods, such as luxury goods and basic goods that are demand inelastic. In addition to this, it is believed that imposing the tax on goods that are hazardous to health and cause a social problem will reduce the consumption of them. The tax rate ranges from 10 to 100 percent and is prescribed in Schedule of the Proclamation No. 307/2002: <http://www.erca.gov.et/proclamation%20no.307-2002.pdf>.

Turnover tax

Turnover tax is imposed to those who are not registered for VAT because their annual taxable transactions are under the total value of 500 000 Birr. A 2 percent tax is payable for goods sold locally and for services rendered locally. The services rendered include contractors, grainmills, tractors and combine-harvesters. A 10 percent tax is payable on other sectors.

Stamp duty

Stamp duty is levied on specific instruments. Depending on the type of the instrument, the rate of stamp duties ranges from 0.5 to 2 percent for those instruments whose basis of valuation is flat; and from 5 to 350 Birr, for those instruments whose basis of valuation is value.

Customs duties

Customs duties are payable on imports by all persons and entities that have no duty-free privileges. The main regulation on customs duty has introduced a harmonized system of classification of goods and the rate of customs duty ranges from 0 to 35 percent.

Additional information on taxation of customs:

Ethiopia Ministry of Revenues and Customs Authority

www.erca.gov.et

Ethiopian Government Portal, Taxation Procedures

<http://www.ethiopia.gov.et/English/Information/Pages/TaxationProcedures.aspx>

Ministry of Finance and Economic Development, Tax Synopsis

<http://www.ethiopia.gov.et/English/MOFED/Information/Pages/TaxSynopsis.aspx>

Ethiopian Chamber of Commerce, Taxation in Ethiopia (2005)

<http://www.bds-forum.net/bds-reader/handbooks/taxation-in-ethiopia.pdf>

2.4 Land procedures

According to the Ethiopian Constitution, land is public property and thus owned by the state. Hence, land cannot be sold or exchanged. However, investors, foreign or local, have the right to use urban and rural land on lease or rental basis respectively. The EIA has the mandate to facilitate the allocation of land for FDI projects throughout the country.

Rural land is rented mainly for agriculture. The rental price of rural land is generally low. There is strong commitment from the government to avail the country's fertile land for investment.

According to the Rural Land Administration and Land Use Proclamation No. 456/2005, private investors that engage in agricultural development activities are entitled to have the right to use rural land in accordance with the investment policies and laws at federal and regional levels. The rural land use right of peasant farmers, semi-pastoralists and pastoralists has no time limit. The duration of rural land use right of other holders is determined by the rural land administration laws of regions.

Urban land is divided into land for industrial use and land for other activities. Industrial land in industrial zones is allocated to investors at fixed prices. Land for export-oriented industries is generally available at concessionary rate. Urban land for other activities is available on an auction basis. The auction prices vary, depending on demand. The lease and rental prices of urban and rural land vary according to location, type of investment and class of land.¹⁸

2.5 Investment benefits and incentives

The Regulation No. 84/2003, as amended by the Regulation No. 146/2008, specifies the areas of investment eligible for incentives as well as the type and extent of entitlements to incentives that equally apply to both domestic and foreign investors.

2.5.1 General incentives

Exemption from import customs duty

For investors engaged in the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise in the eligible investment areas, which include agriculture and agro-industry, 100 percent exemption from the payment of import customs duties and other taxes levied on imports is granted to import all investment capital goods such as plant, machinery and equipment, and construction materials. These goods may be transferred to another investor enjoying similar privileges. For a list of areas not eligible for the exemption, consult the EIA webpage.¹⁹

The investors granted with the exemption privilege for capital goods are also allowed to import duty-free spare parts whose value is no greater than 15 percent of the total value of the capital goods to be imported.

¹⁸ Ethiopia Investment Guide: http://www.ethioinvest.org/docs/Investment_Guide.pdf

¹⁹ EIA: http://www.ethioinvest.org/Investment_Regime.php

The investors granted with the exemption privilege are allowed to import capital goods duty-free during operational phase of their enterprise.

Exemptions from customs duties or other taxes levied on imports are also granted for raw materials necessary for the production of export goods.²⁰

Exemption from the payment of income tax

Investors engaged in new manufacturing, agriculture, agro-industry, information and communication technology development are exempted from the payment of income tax for different periods, depending upon the volume of export and the location in which the investment is made.

- When at least 50 percent of its production is to be exported or when at least 75 percent of its production will be an input for the production of export items: 5 years; and
- under special circumstances, the Investment Board may grant up to 7 years.
- When less than 50 percent of the production is to be exported or when all production is for the local market: 2 years; and
- under special circumstances, the Investment Board may grant up to 5 years.
- In the case of an expansion or upgrading of the activity, which results in an increase of the existing production by 25 percent in value and at least 50 percent is to be exported: 2 years.

For each case mentioned above, investors who invest in the relatively underdeveloped regions, such as Gambella, Benishangul and Gumuz, South Omo, Afar or Somali Region, will be eligible for an additional one-year income tax exemption.

Investors who invest in priority areas, such as agro-processing, textile and garments, and leather products to produce mainly export products, will be provided land necessary for their investment at reduced lease rates. Investors who invest in areas of agriculture, agro-industry and manufacturing will also be eligible to borrow up to 70 percent of their investment capital from the Development Bank of Ethiopia.²¹

Ministry of Agriculture and Rural Development's (MoARD) new Agricultural Investment Support Directorate offers tax grace periods of up to 7 years on land rents (US Department of State, 2010).

Foreign investors are guaranteed to make any remittance made by a foreign investor from the proceeds of the sale or transfer of shares or assets upon liquidation or winding up of an enterprise in convertible foreign currency.

Export incentives

In accordance with the Revised Export Trade Duty Incentive Scheme Establishing Proclamation No. 543/2007, three export incentive schemes are available for exporters. They are Duty Draw-Back Scheme, Voucher Scheme and Bonded Manufacturing Warehouse Scheme.²²

²⁰ Ethiopia Embassy in United Kingdom: http://www.ethioembassy.org.uk/trade_and_investment/investment_incentives.htm

²¹ Ethiopia Investment Guide: http://www.ethioinvest.org/docs/Investment_Guide.pdf

²² EIA: http://www.ethioinvest.org/Investment_Regime.ph

2.5.2 Investment guarantees and settlement of disputes

The Investment Proclamation provides guarantee and protection to foreign investors. Accordingly, no private investment may be nationalized or expropriated except when required by public interest and only in compliance with the requirements of the law. In case of expropriation or nationalization of an investment for public interest, adequate compensation is paid in advance. Capital repatriation and remittance of dividends and interest is guaranteed to foreign investors.

Ethiopia has signed bilateral investment promotion and protection agreements with several countries and is a member of the Multilateral Investment Guarantee Agency (MIGA), which provides guarantee for non-commercial risks such as expropriation.

2.6 Restrictions and requirements

Ethiopia does not formally impose performance requirements on foreign investors. However, administrative practices reportedly encourage the use of domestic inputs as much as possible.

The Investment Proclamation stipulates the following capital requirements for foreign investors:

- A minimum capital of US\$100 000 per project for a fully foreign owned investor; however, a minimum capital of US\$60 000 for a foreign investor investing jointly with domestic investors.
- In areas of engineering, architecture, accounting and auditing services, project studies or business and management consultancy services or publishing, a minimum capital of US\$50 000 per project for a fully foreign owned investor; however, a minimum of US\$25 000 for a foreign investor investing jointly with domestic investors.
- A foreign investor re-investing his profits or dividends or exporting at least 75 percent of his profits is not required to allocate a minimum capital.

In general, all areas of investment are open for foreign investors. But some areas are not allowed to be invested by foreign investors. The areas reserved for the government include postal services and air transport using aircraft with more than 20 passengers. The areas reserved for joint ventures with the government include telecommunication. The areas reserved for Ethiopian nationals include banking, broadcasting and air transport using aircraft with up to 20 passengers. The areas reserved for domestic investors include retail trade, wholesale trade, export trade of coffee, chat, oil seeds and pulses, bakery products and pastries for the domestic market. For a complete list of the areas, consult the EIA webpage.²³

2.7 Investment opportunities

Ethiopia is located in the horn of Africa at a crossroads between Africa, the Near East and Asia. Its comparative advantage lies primarily in its abundant labour force and agricultural resources, and the

²³ EIA: http://www.ethioinvest.org/Investment_Regime.ph

numerous river basins affording great potential for irrigation and hydropower generation. The country also has a large population and thus potentially one of the biggest domestic markets in Africa. By virtue of its membership in the Common Market for Eastern and Southern Africa (COMESA), embracing 19 countries with a total population of 430 million, Ethiopia also enjoys preferential market access to these countries.

According to the EIA, below are top ten reasons to do business in Ethiopia:

- political and social stability;
- macro-economic stability and growing economy;
- adequate guarantees and protections;
- transparent laws and streamlined procedures;
- ample investment opportunities;
- abundant and trainable labour force;
- wide domestic, regional and international market opportunity;
- competitive investment incentive packages;
- welcoming attitude of the people to FDI;
- pleasant climate and fertile soils.

2.8 Investment and trade agreements

As stated above, Ethiopia is a member of COMESA. Under the African Growth and Opportunity Act (AGOA), a variety of Ethiopia's manufactured export products are entitled to duty-free and quota-free access to the United States market. Ethiopia is also a beneficiary of the Cotonou Agreement with the EU and is eligible for the "Everything But Arms" initiative, benefiting from the generalized system of preferences. Ethiopia's World Trade Organization (WTO) accession process has been underway since 2003.

Bilateral investment treaties (BIT)

Algeria 2002; Austria 2004; Belgium 2006; Luxembourg 2006; China 1998; Denmark 2001; Egypt 2006; Equatorial Guinea 2009; Finland 2006; France 2003; Germany 2004; India 2007; Iran 2003; Israel 2003; Italy 1994; Kuwait 1996; Libya 2004; Malaysia 1998; Netherlands 2003; Nigeria 2004; Russia 2000; South Africa 2008; Spain 2009; Sudan 2000; Sweden 2004; Switzerland 1998; Tunisia 2000; Turkey 2000; United Kingdom 2009; Yemen 1999.²⁴

Double taxation treaties (DTT)

Algeria 2002; China 2009; Czech Republic 2007; Iran 2005; Israel 2004; South Africa 2004; Tunisia 2003; Turkey 2005; United Kingdom 1977.²⁵

²⁴ UNCTAD BIT database: http://www.unctad.org/sections/dite_pcbp/docs/bits_ethiopia.pdf

²⁵ UNCTAD DTT database: http://www.unctad.org/sections/dite_pcbp/docs/dtt_Ethiopia.PDF

2.9 Authorities and contact points

<i>Ethiopian Investment Agency (EIA)</i> Addis Ababa P.O. Box 2313 Tel: 251-11-551 0033 Fax: 251-11-551 4396 Email: ethiopian.invest@ethioinvest.org Website: http://www.ethioinvest.org/	<i>Ministry of Agriculture and Rural Development</i> Addis Ababa P.O. Box 62347 Tel: 251-11-551 8040 Fax: 251-11-551 1543 Email: vmoasc@ethio.et Website: http://www.moard.gov.et/
<i>Ministry of Trade & Industry</i> Addis Ababa P.O. Box 704 Tel: 251-11-551 8025 Fax: 251 11-551 4288 Website: http://www.ethiopia.gov.et/English/MOTI/Pages/Home.aspx	<i>Ministry of Finance & Economic Development</i> Addis Ababa P.O. Box 1905 Tel: 251-11-155 2400 Fax: 251-11-156 0124 Email: medac2@telecom.net.et Website: http://www.mofed.gov.et/
<i>Revenues and Customs Authority</i> Addis Ababa P.O. Box 2559 Tel: 251-11-466 7666 Fax: 251-11-466 8244 Email: erca@ethionet.et Website: http://www.erca.gov.et/	<i>Ministry of Labour & Social Affairs</i> Addis Ababa P.O. Box 2056 Tel: 251-11-551 7080 Fax: 251-11-551 8396 Email: moisa-comt@telecom.net.et Website: http://www.molsa.gov.et/
<i>Ministry of Water and Energy</i> Addis Ababa P.O. Box 5673 Tel: 251-11-661 1111 Fax: 251-11-661 0710 Email: mowrl@telecom.net.et Website: http://www.mowr.gov.et/	<i>Privatization and Public Enterprises Supervising Agency (PPESA)</i> Addis Ababa P.O. Box 517 Tel: 251-11-552 1834 Fax: 251-11-551 3955 Email: pesa.et@ethionet.et Website: http://www.ppesa.gov.et/
<i>Ethiopian Institute of Agricultural Research</i> Addis Ababa P.O. Box 2003 Tel: 251-11-432633 Fax: 251-11-461294 Email: iar@telecom.net.et Website: http://www.eiar.gov.et/	<i>Ethiopian Quality and Standards Authority</i> Addis Ababa P.O. Box 2310 Tel: 251-11-646 0525 Fax: 251-11-460880 Email: qsae@ethionet.et Website: http://www.qsae.org/
<i>Environmental Protection Authority</i> P.O. Box 12760 Addis Ababa Tel: 251-11-646 5007 Fax: 251-11-646 4882 Email: envpa@telecom.net.et Website: http://www.epa.gov.et/default.aspx	<i>National Bank of Ethiopia</i> Addis Ababa P.O. Box 5550 Tel: 251-11-551 7430 Fax: 251-11-551 4588 Email: nbe.excd@ethionet.et Website: http://www.nbe.gov.et/
<i>Ethiopian Chamber of Commerce</i> Addis Ababa P.O. Box 517 Tel: 251-11-551 8240 Fax: 251-11-551 7699 Email: etchamb@ethionet.et Website: http://www.ethiopianchamber.com/	<i>Addis Ababa Chamber of Commerce</i> P.O. Box 2458 Tel: 251-11-552 8120 Fax: 251-11-551 1479 Email: aachamber1@ethionet.et Website: www.addischamber.com

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UNCTAD. 2011. *Double Taxation Agreements database* (available at http://www.unctad.org/sections/dite_pccb/docs/dtt_Ethiopia.PDF)

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US Department of State. 2010. *Investment Climate Statement* (available at <http://www.state.gov/e/eeb/rls/othr/ics/2010/138801.htm>)

Appendix

Key social and economic indicators

Population	
Total population (millions) (2010)	85.0
Population growth (annual %) (2009)	2.6
Life expectancy at birth (years) (2009)	55.7
Rural population (%) (2010)	82
Rural population growth rate (annual %) (2009)	2.2
Employment in agriculture (% of total employment) (2005–2007)	80.2
Unemployment (% of total labour force) (2009)	20.5
Proportion of undernourished in total population (%) (2007)	41
Dietary energy consumption (cal/person/day) (2005–2007)	1 952
Mortality rate under 5 (per 1 000) (2009)	104.4
Mortality rate, infant (per 1 000 live births) (2009)	67.1
Adult literacy rate, ages 15 and above (%) (2008)	29.8
HDI value (2010)	0.328
HDI rank (out of 169) (2010)	157
Land and input	
Country area (1 000 ha) (2009)	110 430
Land area (1 000 ha) (2008)	100 000
Agricultural area (1 000 ha) (2008)	34 513
Arable land (1 000 ha) (2008)	13 606
Permanent crops (1 000 ha) (2008)	907
Pastures (1 000 ha) (2008)	20 000
Forest area (1 000 ha) (2010)	12 296
Agricultural area irrigated (1 000 ha) (2007)	164
Share in total water (%) use by:	
- Agricultural (2002)	93.6
- Industrial (2002)	0.4
- Municipal (2002)	6.0
Fertilizer consumption (tonnes) (2008)	104 700
Tractor in use (numbers)	-
Economic	
GDP (current US\$ billions) (2009)	28.5
GDP per capita (current US\$) (2009)	344.4
GDP growth (annual %) (2009/2010)	8.7
GNI per capita, Atlas method (current US\$) (2009)	330
Inflation, Consumer prices (%) (2009)	8.5
Agriculture, value added (% of GDP) (2009)	50.7
Value of agricultural exports (US\$ millions) (2008)	1 352
Share of agricultural exports (% of total exports) (2008)	84.4
Value of agricultural imports (US\$ millions) (2008)	1 347
Share of agricultural imports (% of total imports) (2008)	16.8
Crop production index (1999–2001=100) (2009)	153

Sources: FAO, World Bank, UNDP

For overviews of Ethiopia:

FAO Country Profile

<http://www.fao.org/countryprofiles/index.asp?lang=en&ISO3=ETH>

FAO Country Brief

<http://www.fao.org/countries/55528/en/eth/>

Ethiopia National Website

<http://www.ethiopiannationalcongress.org/>

Ethiopian Parliament Website

<http://www.ethiopar.net/>

IFAD Rural Poverty Portal

<http://www.ruralpovertyportal.org/web/guest/country/home/tags/ethiopia>

World Bank Country Brief

<http://go.worldbank.org/WA1RL12OLO>

CIA World Factbook

<https://www.cia.gov/library/publications/the-world-factbook/geos/et.html>

US Dept. of State Background Note

<http://www.state.gov/r/pa/ei/bgn/2859.htm>

African Economic Outlook Country Profile

<http://www.africaneconomicoutlook.org/en/countries/east-africa/ethiopia>

For additional development data for Ethiopia:

FAO CountrySTAT

<http://www.countrystat.org/eth>

UN Millennium Development Goals Indicators

<http://unstats.un.org/unsd/mdg/Data.aspx>

UNDP Human Development Indicators

<http://hdrstats.undp.org/en/countries/profiles/ETH.html>

World Bank World Development Indicators

<http://data.worldbank.org/country/ethiopia>

World Bank Ethiopia at a Glance

http://devdata.worldbank.org/AAG/eth_aag.pdf

Key agricultural production and trade data

Production quantity of major agricultural commodities

Major crops (2008)	Quantity (tonnes)	Major crops (2008)	Value (Int \$1 000)
Roots and tubers	4 950 000	Roots and tubers	592 762
Maize	3 776 440	Maize	424 389
Wheat	2 463 064	Wheat	368 315
Sorghum	2 316 041		
Sugar cane	2 300 000		

Yield (2008)	Yield (hg/ha)
Maize	21 367
Wheat	17 288
Sorghum	15 102
Barley	13 728
Sugar cane	1 070 663

Livestock (2008)	Number of live animals	Meat production (2008)	Quantity (tonnes)
	385 049 000	Cattle meat	380 000
Cattle	49 297 900	Chicken meat	48 589
Goats	21 798 500	Goat meat	67 870
Sheep	25 017 200	Game meat	83 000
		Sheep meat	81 500

Imports of major agricultural commodities (2008)

	Quantity (tonnes)		Value (current US\$1 000)
Wheat	1 100 050	Wheat	465 194
Sorghum	252 697	Palm oil	201 572
Palm oil	142 650	Coffee, green	85 234

Exports of major agricultural commodities (2008)

	Quantity (tonnes)		Value (current US\$1 000)
Wheat	131 129 512	Coffee, green	561 511
Maize	102 114 115	Sesame seed	209 929
Soybeans	79 015 831	Vegetables, fresh	83 616

For additional statistics on agriculture and production:

FAOSTAT for statistics on agricultural production, trade, food supply, prices, agricultural resources and other

<http://faostat.fao.org/>

World Bank Agriculture & Rural Development Statistics

<http://data.worldbank.org/topic/agriculture-and-rural-development>

USDA Agricultural Production, Supply and Distribution (PSD) database

<http://www.fas.usda.gov/psdonline/psdQuery.aspx>

For information on food security in Ethiopia:

FAO Food Security Statistics

http://www.fao.org/fileadmin/templates/ess/documents/food_security_statistics/country_profiles/eng/Ethiopia_E.pdf

Food Security Portal for Ethiopia

<http://www.foodsecurityportal.org/ethiopia>

Global Information and Early Warning System (GIEWS) on food and agriculture Country Brief

<http://www.fao.org/giews/countrybrief/country.jsp?code=ETH>

USAID Famine Early Warning Systems Network (FEWSNET)

<http://www.fews.net/pages/country.aspx?gb=et&l=en>