



## **Executive Summary**

Ethiopia is one of the fastest-growing economies in the world. It has registered impressive GDP growth for several years, ranging between 6% and 12%, depending on source data. The World Bank and IMF forecast continued average growth of 7% over the next three years. With a population of roughly 90 million, Ethiopia is the second most populous country in sub-Saharan Africa, after Nigeria.

The government of Ethiopia follows an integrated 5-year development plan, the Growth and Transformation Plan (GTP), which aims to achieve 11.2 – 14.9% GDP growth annually as well as achieve the Millennium Development Goals and attain middle-class income status by 2025. To achieve these goals, the government is investing heavily in large-scale social, infrastructural and energy projects.

While these developments are positive indicators for future private sector development, it translates into the flow of significant amounts of capital into public sector projects. World Bank estimates show that infrastructure spending requires approximately 19% of Ethiopia's total GDP in fiscal year 2011 – 2012.

Competitive labor and energy costs as well as the budding consumer markets are key pulls for foreign direct investment. Current challenges to the private sector include foreign exchange shortages and limited access to finance capital, long lead-times for inputs and exports due to the current logistic infrastructure, and bureaucratic delays. Areas closed to foreign investment are banking, retail, tele-communications and transportation. Businesses interested in entering the market should focus on aligning operations to complement the overall goals of the GTP. Key growth sectors include renewable energy, construction, tourism, textile and leather products, tele-communication support services and products, and aviation support services and products. The government of Ethiopia is currently working on World Trade Organization ascension with the goal of attaining least developed country status by 2015. It is actively pursuing improving the current investment climate through adopting more efficient bureaucratic processes in the areas of registration, logistic, and tax processes. Key energy generation and distribution projects as well as transportation infrastructure projects are scheduled for completion by the end of 2015.

### **1. Openness to, and restrictions upon, foreign investment**

Ethiopia's five-year Growth and Transformation Plan (GTP) – 2010 to 2015, which was approved by the Ethiopian Parliament in November 2010 and is currently in its fourth year, is driving Ethiopia's demand for and openness to foreign investment. The GTP overarching goals are to achieve the Millennium Development Goals and middle-income status by 2025. The plan's overarching goals translate to a focus on improving the quantity and quality of social services

and infrastructure, ensuring macro-economic stability with targeted GDP growth of 11 to 14.9%, and enhancing productivity in agriculture and manufacturing.

Given the scale of public investment required to support GTP targets, coupled with the current negative domestic savings rate, Ethiopia requires significant inflows of foreign financial resources. While tax incentives for investment in the high priority sectors of heavy and light manufacturing, agribusiness, textiles, sugar, chemicals and pharmaceutical and mineral and metal processing underscore the government's focus and openness to foreign direct investment (FDI), the recent credit worthiness ratings by the international rating agencies has opened up Ethiopia's access to commercial foreign loans.

After six months of research, Moody's rated Ethiopia's credit worthiness a 'B+', while S&P and Fitch gave a 'B' in May 2014. The rating agencies underscored Ethiopia's stable outlook and positive prospects for continued economic growth in the short and medium term. Key drivers of their ratings were the huge investments in infrastructure and power generation and its likely effect in improving trade conditions. The country's peace and stability was also positively influenced the rating. The rating agencies noted however that the private sector remained weak and access to domestic credit still restricted economic growth.

The government of Ethiopia is currently revising its 1960 commercial code in an effort to facilitate investment and ease of operations. Areas of focus include clarifying regulations for potential investors, standardizing appropriate accounting practices to more accurately assess tax and other operating liabilities, increasing protection for shareholders and provisions for bankruptcy filings as well as modernization of trade and registration processes.

The revised Investment Code of 1996, as well as the Investment Proclamation provide incentives for development-related investments and have gradually removed most of the sectorial restrictions on investment.

However, Ethiopia's investment code prohibits foreign investment in banking, insurance, and financial services. The remaining state-owned sectors include telecommunications, power transmission and distribution, and postal services with the exception of courier services.

Manufacturing of weapons and ammunition can only be undertaken as joint ventures with the government.

Other areas of investment reserved for Ethiopian nationals include: broadcasting; air transport services; travel agency services, forwarding and shipping agencies; retail trade and brokerage; wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their locally-produced products); most import trade; capital goods rentals; export trade of raw coffee, chat, oilseeds, pulses, hides and skins bought from the market; live sheep, goats, and cattle not raised or fattened by the investor; construction companies excluding those designated as grade 1; tanning of hides and skins up to crust level; hotels (excluding star-designated hotels); restaurants and bars (excluding international and specialized restaurants); trade auxiliary and ticket selling services; transport services; bakery products and pastries for the

domestic market; grinding mills; hair salons; clothing workshops (except garment factories); building and vehicle maintenance; saw milling and timber production; custom clearance services; museums, theaters and cinema hall operations; and printing industries. However, the government of Ethiopia has indicated an interest in bringing foreign private sector expertise to some of the above sectors. Ethiopian-Americans can obtain a local resident card from the Ministry of Foreign Affairs that allows them to invest in many sectors closed to foreigners. Foreign firms can supply goods and services to Ethiopian firms in the closed sectors. The 2012 amendment to Ethiopia's investment proclamation introduced provisions for the establishment of industrial development zones, both state-run and private, with favorable investment, tax, and infrastructure incentives. The amendment also raised the minimum capital requirement to US\$200,000 per project for wholly-owned foreign investments and US\$150,000 for joint investments with domestic investors (or US\$100,000/US\$50,000 respectively in the areas of engineering, architectural, accounting and auditing services, business and management consultancy services and publishing). A foreign investor reinvesting profits / dividends may not be required to allocate minimum capital.

In alignment with GTP goals to further develop medium and large scale industries, the government established the Ethiopian Industrial Zones Corporation under the Ministry of Industry in 2012 to oversee the construction and regulation of the zones. Bole Lemi industrial zone located on the outskirts of Addis Ababa is the first area scheduled for manufacturers to begin operations in the first half of 2014.

Under the GTP, key priority industries include: textile and garment industry, leather and leather products, sugar and sugar-related products, cement, metal and engineering, chemical, pharmaceutical and agro-processing. Investments in this area are accompanied with additional tax incentives as established in proclamation 769/2012.

The government continued to implement its **privatization program** for some government-owned entities, which were largely nationalized by the Derg military regime in the 1970s. The current government's position is that property seized "lawfully" by the Derg (i.e., by court order or government proclamation published in the official gazette) remains the property of the state. Nearly all tenders issued by the Ethiopian government's Privatization and Public Enterprises Supervising Agency (PPESA) are open to foreign participation. In some instances, the government prefers to engage in joint ventures with private companies rather than sell an entire entity. The government has sold over 300 public enterprises since 1995. Most of these enterprises were small enterprises in the trade and service sectors. The agency privatized 3 Enterprises in 2013 and currently around 30 public enterprises remain under PPESA control. With the exception of the restricted areas of investments, the regulations governing the investment registration policy is consistently referenced for foreign investors. While, investors have complained about different interpretations (particularly relating to accounting for in-kind investments) within the Ethiopian Investment Agency's staff, foreign investors generally do not face undue **screening of FDI**, unfavorable tax treatment, denial of licenses, discriminatory import or export policies, or inequitable tariff and non-tariff barriers.

The Ethiopian Investment Agency (EIA) is working to establish an expedited "one-stop shop" service that it hopes will significantly cut the time and cost of acquiring investment and business licenses. However, bureaucratic hurdles continue to affect project implementation and some U.S. investors report that the EIA still lacks capacity to meet its own stringent deadlines. A business license can be obtained in one day if all requirements are met, though in practice this is uncommon. A foreign investor intending to buy an existing private enterprise or buy shares in an existing enterprise needs to obtain prior approval from the EIA.

Currently, **within the sectors allowing foreign investment, there are no laws restricting to competition** for foreign companies or foreign-owned subsidiaries. The Ethiopian Investment Agency reviews investment transactions for compliance with FDI requirements and restrictions. However, companies have complained of favorable treatment of the state-owned enterprises in the governmental tender process. As the public sector is heavily involved in the economic development, this translates into a sizeable portion of the open tenders on the market.

Because of its consistent GDP growth of between 6% - 12 % over the past 10 years, its population of over 90 million and its stable investment climate, Ethiopia is becoming an increasing priority for foreign investment and foreign companies. **Investment trends** show the following two key features. Firstly, equity investment terms are usually for 8 – 10 years with inputs being not only capital inflows but also capacity building and knowledge transfer.

Secondly, manufacturing companies are taking advantage of the special industrial zones, skilled labor and tax incentives for initial start-up imports and export related expenditure. While foreign exchange shortages for import of inputs and logistic costs remain high both in actual cost and lead time requirements, most manufacturing companies still identify a cost advantage on the whole due to low power, labor and customs cost.

Ethiopia's ranking among key indices is as follows:

| Measure                   | Year | Index/Ranking                             |
|---------------------------|------|---|
| TI Corruption Index       | 2013 | 33/111 out of 177 countries               |
| Heritage Economic Freedom | 2014 | 50/151 <sup>st</sup> out of 178 countries |
| World Bank Doing Business | 2014 | 125 <sup>th</sup> out of 189 countries    |
| MCC Gov't Effectiveness   | 2014 | 0.49/91 <sup>st</sup> percentile          |
| MCC Rule of Law           | 2014 | 0.24/73 <sup>rd</sup> percentile          |
| MCC Control of Corruption | 2014 | 0.31/73 <sup>rd</sup> percentile          |
| MCC Fiscal Policy         | 2014 | -1.4/70 <sup>th</sup> percentile          |
| MCC Trade Policy          | 2014 | 64.2/33 <sup>th</sup> percentile          |
| MCC Regulatory Quality    | 2014 | -0.32/27 <sup>th</sup> percentile         |
| MCC Business Start Up     | 2014 | 0.831/36 <sup>th</sup> percentile         |

|                           |      |                                  |
|---------------------------|------|----------------------------------|
| MCC Land Rights Access    | 2014 | 0.76/87 <sup>th</sup> percentile |
| MCC Natural Resource Mgmt | 2014 | 93.2/79 <sup>th</sup> percentile |

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a 2012 per capital gross national income (GNI) of \$4,085 or less. A list of countries / economies with MCC scorecards and links to those scorecards is available here. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/selection/scorecards>. To access Ethiopia's scorecard, please use the following link: <http://www.mcc.gov/documents/scorecards/score-fy14-english-et-ethiopia.pdf>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

## 2. Conversion and Transfer Policies

All foreign currency transactions must be approved by Ethiopia's central bank, the National Bank of Ethiopia (NBE). The local currency (Birr) is not freely convertible. A 2004 NBE directive allows non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and operate foreign currency accounts up to US\$50,000.

Ethiopia's Investment Proclamation allows all registered foreign investors, whether or not they receive incentives, to remit freely profits and dividends, principal and interest on foreign loans, and fees related to technology transfer. Foreign investors may also remit proceeds from the sale or liquidation of assets, from the transfer of shares or of partial ownership of an enterprise, and funds required for debt service or other international payments. The right of expatriate employees to remit their salaries is granted in accordance with NBE foreign exchange regulations.

Forex reserves were heavily depleted during 2012 but showed signs of stabilizing towards the end of 2012. By the end of 2013 the gross reserve coverage was at 2 months. According to the IMF, the use of forex sales as a means of sterilizing local currency liquidity is the main cause of the shortfall; though it has been further exacerbated by weaker than expected exports of coffee, Ethiopia's main export crop, a trend that had begun to reverse by mid-2014. Businesses usually expect delays of foreign exchange supply of 6 weeks to 3 months. However, slow-downs in manufacturing due to foreign exchange shortages is common and delays of repatriation of high USD sales amounts of up to 2 years have been reported. Localization of inputs and partnering with export-oriented partners are strategies employed by the private sector to address the foreign exchange shortage.

The birr depreciated approximately 100% against the U.S. Dollar between November 2006 and November 2012, through a series of controlled step-downs, including 20% devaluation in September 2010. As of December 2013, the exchange rate was approximately 19.02 birr per

dollar. The illegal parallel market exchange rate was approximately 19.61 birr per dollar, a premium of 3.11% over the official rate.

Ethiopia's Financial Intelligence Unit monitors suspicious currency transfers, including large transactions exceeding 200,000 birr (roughly equivalent to U.S. reporting requirements for currency transfers exceeding US\$10,000).

### **3. Expropriation and Compensation**

Per Ethiopia's 1996 Investment Proclamation and subsequent amendments, assets of a domestic investor or a foreign investor, enterprise or expansion cannot be nationalized wholly or partly, except when required by public interest and in compliance with the laws and with payment of adequate compensation. Such assets may not be seized, impounded, or disposed of except under a court order.

The Derg military regime nationalized many properties in the 1970s. The current government's position is that property seized "lawfully" by the Derg (i.e., by court order or government proclamation published in the official gazette) remains the property of the state. In most cases, property seized by oral order or other informal means is gradually being returned to lawful owners or their heirs through a lengthy bureaucratic process. Claimants are required to pay for improvements made by the government during the time of its control over the property.

Ethiopia's Privatization and Public Enterprises Supervising Agency (PPESA) stopped accepting requests from owners for return of these formerly expropriated properties in July 2008.

### **4. Dispute Settlement**

According to the Investment Proclamation, disputes arising out of foreign investment that involve a foreign investor or the state may be settled by means agreeable to both parties. A dispute that cannot be settled amicably may be submitted to a competent Ethiopian court or to international arbitration within the framework of any bilateral or multilateral agreement to which the government and the investor's state of origin are contracting parties.

Both foreign and domestic investors involved in disputes have expressed a lack of confidence in the judiciary to objectively assess and resolve disputes. Ethiopia's judicial system is overburdened, poorly staffed and inexperienced in commercial matters, although efforts are underway to strengthen its capacity. While property and contractual rights are recognized and there are commercial and bankruptcy laws, judges often lack understanding of commercial matters and case scheduling suffers from extended delays. The Addis Ababa Chamber of Commerce has an Arbitration Center dedicated to assist those with the arbitration process. There is no guarantee that the award of an international arbitral tribunal will be fully accepted and implemented by Ethiopian authorities. Ethiopia has neither signed nor ratified the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards, commonly known as the "New York Convention."

Ethiopia's Trade Practice and Consumers Protection Authority (TPCPA), is accountable to the Ministry of Trade, and is tasked with promoting a competitive business environment by regulating anti-competitive, unethical, and unfair trade practices to enhance economic efficiency and social welfare. Some of the Commission's powers include: investigating complaints by aggrieved parties; compelling witnesses to appear and testify at hearings; and searching the premises of accused parties. Since 2011, the TPCPA has conducted 15 workshops for over 5000 government and private sector attendees. However, since its inception, the TPCPA has been primarily focused on self-organization and administrative work, and had not conducted any significant enforcement activities as of January 2013.

## **5. Performance Requirements and Investment Incentives**

Ethiopia does not formally impose performance requirements on foreign investors. The 2003 amendment to the Investment Proclamation outlines investment incentives for investors in specific areas. New investors engaged in manufacturing, agro-processing activities, or the production of certain agricultural products, who export at least 50% of their products or supply at least 75% of their product to an exporter as production inputs, are exempt from income tax for five years. An investor who exports less than 50% of his product or supplies his product only to the domestic market is income tax exempt for two years. Investors who expand or upgrade existing enterprises and export at least 50% of their output or increase production by 25% are eligible for income tax exemption for two years. An investor who invests in the "developing regions" of Gambella, Benishangul Gumuz, South Omo, Afar or Somali Region will be eligible for an additional one-year income tax exemption. An investor who exports hides and skins after processing only up to crust level will not be entitled to the income tax incentive. A special loan fund through the Development Bank of Ethiopia (DBE) provides land at low lease rates for priority export areas such as floriculture, leather goods, textiles and garments, and agro-processing related products. An investor can borrow up to 70% of the cost of the project from this special fund without collateral upon presenting a viable business plan and 30% personal equity.

Investors are allowed to import duty-free capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion of an existing enterprise. In addition, spare parts worth 15% of the value of the capital goods can be imported duty-free. This privilege may not be granted if comparable capital goods or construction materials can be produced locally and have competitive prices, quality, and quantity. Imported duty free capital goods can no longer be used as loan collateral. Travel agencies/tour companies have increased duty-free privileges for the importation of goods such as vehicles, provided they are used solely in tourism activities.

The Ministry of Agriculture's (MOA) Agricultural Investment Support Directorate offers grace periods of up to seven years on land rents. The Directorate is currently focused on land deals in the remote regions of Gambella, Benishangul Gumuz, Southern Nations, and Afar.

## **6. Right to Private Ownership and Establishment**

Both foreign and domestic private entities have the right to establish, acquire, own and dispose of most forms of business enterprises. There is no right of private ownership of land. All land is owned by the state and can be leased for up to 99 years. In November 2011, the government enacted a controversial urban land lease proclamation that allows the government to determine the value of land in transfers of leasehold rights, in an attempt to curb speculation by investors.

## **7. Protection of Property Rights**

Secured interests in property are protected and enforced, although all land ownership remains in the hands of the state. Certain residents have been relocated (and usually compensated) when the government decides that the land they are living on should be used for a road or other public use. Land leasehold regulations vary in form and practice by region. Mortgages are uncommon as loan terms are generally quite short.

Ethiopia has yet to sign a number of major international intellectual property rights (IPR) treaties, such as: the Paris Convention for the Protection of Industrial Property; the World Intellectual Property Organization (WIPO) copyright treaty; the Berne Convention for Literary and Artistic Works; the Madrid System for the International Registration of Marks; and the Patent Cooperation Treaty. The GOE has expressed its intention to accede to the Berne convention and Madrid protocol by 2015. The Ethiopian Intellectual Property Rights Office (EIPO) has been tasked primarily to protect Ethiopian copyrighted materials and pirated software. Generally, EIPO has weak capacity in terms of manpower and none in terms of law enforcement. In addition, a number of businesses, particularly in the tourism and service industries, operate in Ethiopia freely using well-known trademarked names or symbols without permission.

## **8. Transparency of the Regulatory System**

Ethiopia's regulatory system is generally considered fair, though there are instances in which burdensome regulatory or licensing requirements have prevented the local sale of U.S. exports, particularly health-related products. Government ministries often pass decisions and associated paperwork to various ministries before any decision is finalized. In many cases, this paperwork gets stuck in one ministry and no decision is made.

In 2011, the central bank issued a directive for all banks and insurance companies to adhere to International Financial Reporting Standards (IFRS).

Foreign investors have complained about the abrupt cancellation of some government tenders, a perception of favoritism toward vendors who provide concessional financing, and a general lack of transparency in the procurement system. In September 2009, the government established a

new public procurement and property administration agency. This agency is an autonomous government organ, has its own judicial arm, and is accountable to the Ministry of Finance and Economic Development.

## 9. Efficient Capital Markets and Portfolio Investment

Access to finance is an impediment to increased Ethiopian domestic private investment. While credit is available to investors on market terms, a 100% collateral requirement limits the ability of some investors to take advantage of business opportunities. Additionally, an April 2011 measure forcing non-government banks to invest the equivalent of 27% of each loan made in National Bank of Ethiopia (NBE) bonds has contributed to liquidity shortages that have reduced the ability of banks to lend to the private sector.

Ethiopia currently has nineteen banks--three state-owned, and sixteen privately-owned. In September 2011, the NBE raised the minimum paid up capital required to establish a new bank from Birr 75 million to 500 million which effectively stopped the entry of most new banks into the market. Foreign banks are not permitted to provide financial services in Ethiopia. The state-owned Commercial Bank of Ethiopia mobilized 65.1% of the total bank deposits and provided more than 50.4% of total bank loans in the fiscal year 2012/13. Ethiopia does not have a securities market, and sales/purchases of debt are heavily regulated. The GOE is drafting legislation to regulate the over-the-counter market for private share companies. In addition, Moody's rated Ethiopia's credit worthiness a 'B+', while S&P and Fitch gave it a 'B'. The NBE controls the bank minimum deposit rate, which now stands at 5%, while loan interest rates are allowed to float. Real interest rates have been negative in recent years mainly due to high inflation. The government offers a limited number of 28 days, 3-month, and 6-month Treasury bills, but prohibits the interest rate from exceeding the bank deposit rate. The government began to offer a one year Treasury bill in November 2011. The yields on these T-bills are below 2%. This market remains unattractive to the private sector and over 95% of the T-bills are held by the state-owned Commercial Bank of Ethiopia and public enterprises. The Ethiopia Commodity Exchange (ECX), launched in 2008, trades commodities such as coffee, sesame seeds, maize, wheat, and haricot beans. The GOE launched ECX to increase transparency in commodity pricing, alleviate food shortages, and encourage the commercialization of agriculture. However, critics allege that ECX policies and pricing structures are inefficient compared to direct sales at prevailing international rates.

## 10. Competition from State-Owned Enterprises

State-owned enterprises and ruling party-owned entities dominate major sectors of the economy. There is state monopoly or state dominance in sectors such as **telecommunications, power, banking, insurance, air transport, shipping, and sugar**. Ruling party-affiliated "endowment"

companies have a strong presence in the **ground transport, fertilizer, and textile sectors**. Both state-owned enterprises and "endowment" companies dominate the **cement** sector.

State-owned enterprises have considerable advantages over private firms, particularly in the realm of Ethiopia's regulatory and bureaucratic environment, including ease of access to credit and speedier customs clearance. Local business owners as well as foreign investors complain of the lack of a level playing field when it comes to state-owned and party-owned businesses. While there are no conclusive reports of credit preference for to these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders, and marketing assistance. Ethiopia publishes aggregate financial data of state-owned enterprises, but detailed information is not included in the national budget, and few state-owned enterprises outside of Ethiopian Airlines publicly release detailed financial statements.

Corporate governance of state-owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically-affiliated individuals. In 2010, the Ethiopian government "corporatized" state-owned enterprise Ethiopian Telecommunications Corporation (ETC) by turning over its management to France-Telecom per a two-year contract. As part of this process, a new company, Ethio Telecom (ET), was formed to replace ETC. In January 2013, France-Telecom handed back the management of Ethio Telecom after completion of the contract. Similar to the "corporatization" of ETC, a tender for the management of Ethiopian Electric Power Company (EEPSCO) was advertised in 2011. After splitting the power corporation into two entities, the management contract of the Ethiopian Electric Utility has been given to an Indian company for two years contract beginning December 2013.

The Public-Private Dialogue Forum (PPDF), a joint consultative forum between the private sector and the government, held two meetings in 2013 focusing on Tourism sector and company registration and business licensing. The private sector was represented by the Ethiopian Chamber of Commerce and Sectoral Associations (ECCSA) and the government by the Ministry of Trade (MOT). Additionally, Prime Minister Hailemariam Desalegn met with representatives of the private sector in June 2013 to discuss their commercial concerns. Nearly all tenders issued by the Ethiopian government's Privatization and Public Enterprises Supervising Agency (PPESA) are open to foreign participation. In some instances, the government prefers to engage in joint ventures with private companies rather than sell an entire entity. The government has sold over 300 public enterprises since 1994. Most of these enterprises were small enterprises in the trade and service sectors. The agency privatized 3 Enterprises in 2013 and currently around 30 public enterprises remain under PPESA control.

## **11. Corporate Social Responsibility**

Some larger international companies have introduced corporate social responsibility (CSR) programs; however, most local companies do not practice CSR. There is a movement to develop CSR programs by the Ministry of Industry in collaboration with the World Bank, U.S. Agency for International Development, and others.

CSR programs supporting workforce capacity-building and services, community-building and infrastructure investment programs by foreign corporation can serve to further align company objectives with the government of Ethiopia's overall GTP development goals.

## **12. Political Violence**

Ethiopia has been relatively stable and secure for investors. Insurgents operating in parts of the Somali Region of Ethiopia have warned investors against exploring for oil or natural gas resources in this area. Some elements of the outlawed Ogaden National Liberation Front continue to operate in parts of the Somali Region and there are reports of sporadic clashes with security forces.

Beginning in 2008, the government enacted a series of laws that effectively constrained opposition parties, the media, and civil society. The Ethiopian People's Revolutionary Democratic Front (EPRDF), which is the ruling party coalition, and its allied parties subsequently took close to 90 percent of the popular vote and won 545 out of 547 parliamentary seats in the 2010 national elections, which were judged to have lacked a level playing field. Regional-level elections (including for seats in the Addis Ababa and Dire Dawa city councils) were held in 2013 and national parliamentary elections are scheduled in 2015.

In 2009, the Ethiopian government passed the Anti-terrorism Proclamation (ATP), granting executive branch-controlled security services virtually unlimited authority to take unilateral action to disrupt suspected terrorist activities. Terrorist activities are broadly defined in the legislation. The law has been cited in the convictions of twelve Ethiopian journalists, political opposition leaders, and activists, and an Ethiopian employee of the UN. Two Swedish journalists were found guilty of "providing support for terrorists" and illegally entering the country in 2011 and were sentenced to eleven years in prison, but received a pardon in September 2012.

Five European tourists were killed and two were kidnapped in January 2012 by the Afar Revolutionary Democratic Unit Front (ARDUF), an extremist group backed by Eritrea. In retaliation, the Ethiopian military made incursions into Eritrea in March targeting the ARDUF and the Eritrean military. An attack on a farm operated by Saudi Star Development in the Gambella Region in April 2013 left five people dead, and was blamed on the Gambella Nilotic Union. The Ethiopian government regards these incidents as terrorist attacks.

In February 2012, the Ethiopian government announced that it had arrested al-Qaida operatives with links to Kenya, Sudan, the Philippines, Saudi Arabia, and South Africa in the Bale area of Oromia Region in December 2011. In October 2013, in Addis Ababa, two suspected al-Shabbab operatives died in an explosion thought to be a failed terrorist attack and were thought to have been targeting a crowded sports event occurring near the explosion.

Isolated protests broke out on several university campuses in Ethiopia's Oromia region in late April, resulting in at least eleven deaths, following reports that a draft development plan for Addis Ababa would expand the capital's territory into the Oromia region. Ethnic conflict, including among university students, occurs at times and occasionally becomes violent.

### **13. Corruption**

Ethiopia ratified the United Nations (UN) Anticorruption Convention in 2007. The UN Investment Guide to Ethiopia (2004) asserted that routine bureaucratic corruption is virtually nonexistent in Ethiopia. The guide added that bureaucratic delays certainly exist, but are not devices by which officials seek bribes. It is a criminal offense to give or receive bribes, and bribes are not tax deductible.

Transparency International's 2013 Corruption Perceptions Index, which measures perceived levels of public sector corruption, ranked Ethiopia as 33 (with 0 indicating "highly corrupt" and 100 indicating "very clean"). Ethiopia's rank on the corruption perception index was 111 out of 175 countries in 2013 and 113 out of 176 rated countries in 2012.

The Ministry of Justice and the Federal Ethics and Anti-Corruption Commission (FEACC) are charged with combating corruption. Since its establishment, the Commission has arrested dozens of officials on charges of corruption, including managers of the Privatization Agency, Ethiopian Telecommunications Corporation, National Bank of Ethiopia, Ethiopian Geological Survey, the state-owned Commercial Bank of Ethiopia, Ethiopian Revenue and Customs Authority and private businessmen.

### **14. Bilateral Investment Agreements**

Ethiopia has bilateral investment and protection agreements with China, Denmark, Italy, Kuwait, Malaysia, Netherlands, Russia, Sudan, Switzerland, Tunisia, Turkey, Yemen, Spain, Algeria, Austria, UK, Belgium/Luxemburg, Libya, Egypt, Germany, Finland, India, and Equatorial Guinea and a protection of investment and property acquisition agreement with Djibouti. A Treaty of Amity and Economic Relations, which entered into force in 1953, governs economic and consular relations with the United States. Ethiopia also has avoidance of double taxation treaties with fourteen countries, including Italy, Kuwait, Romania, Russia, Tunisia, Yemen, Israel, South Africa, Sudan and the UK. There is no avoidance of double taxation treaty between the United States and Ethiopia.

### **15. OPIC and Other Investment Insurance Programs**

The Overseas Private Investment Corporation (OPIC) has offered risk insurance and loans to U.S. investors in Ethiopia in the past. In past years, it has not originated any investment in Ethiopia however, recently, has begun to initial reviews for qualifying investment opportunities.

### **16. Labor**

Approximately 85% of Ethiopia's 90 million people worked in agriculture. The Ethiopian government is the most important sector of employment outside of agriculture. According to the

Central Statistical Agency's urban employment and unemployment survey result, urban unemployment was estimated to be 17.5 % as of 2012. (24.9% of people ages 15-24 are unemployed.)

Ethiopia has ratified all eight core ILO conventions, including most recently, the Palermo Convention. The Ethiopian Penal Code outlaws work specified as hazardous by ILO conventions. The Ethiopian Parliament ratified ILO Convention 182 on the Worst Forms of Child Labor in May 2003. The U.S. Government produces an annual report on labor conditions in Ethiopia, including an assessment of child labor.

According to the 2014 Index of Economic Freedom (produced by the Heritage Foundation), Ethiopia scored a 54.7 out of 100 for labor freedom, 0.6 points above the 2013 score and 0.8 points above 2012. The index rating states that "The underdeveloped labor market traps much of the labor force in informal economic activity." The Confederation of Ethiopian Trade Unions has been expanding its membership and, along with the Ethiopian Employers' Federation, actively supports foreign direct investment.

Ethiopia generally enjoys labor peace. The right to form labor associations and engage in collective bargaining is constitutionally guaranteed for many workers, but excludes managerial employees, teachers, and civil servants. Although the constitution and law provide workers with the right to strike to protect their interests, detailed provisions make legal strike actions difficult to carry out. In practice, labor strikes are rare.

Child labor is widespread in Ethiopia. While not a pressing issue in the formal economy, child labor is common in rural agrarian areas and the informal economy in urban areas. Both NGO and Ethiopian government sources concluded that goods produced (in the agricultural sector and traditional weaving industry in particular) via child labor are largely intended for domestic consumption, and not slated for export. Employers are statutorily prohibited from hiring children under the age of 14. In 2013, Ethiopia produced a list of "Activities Prohibited for Young Workers" and launched its National Action Plan (NAP) on the Elimination of the Worst Forms of Child Labor. The laws defining what sectors may hire "young workers," defined as workers aged 14 to 18, are infrequently enforced due to the lack of capacity of labor inspectors within the country.

Labor remains readily available and inexpensive in Ethiopia. Skilled manpower, however, is scarce in many fields. Approximately 60% of Ethiopians over the age of 15 are illiterate (defined by UNESCO as "[in]ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with varying contexts"). There is no national minimum wage standard.

To increase the skilled labor force, the government of Ethiopia has undertaken a rapid expansion of the university system in the last 8 years, increasing the number of higher education institutions from one to 33. It has also adopted an education policy that 70% of the annual student intake in Public Universities must focus on science, engineering and technology.

## **17. Foreign Trade Zones/Free Ports**

There are no areas designated as foreign trade zones and/or free ports in Ethiopia. Because of the 1998-2000 Ethiopian-Eritrean war, Ethiopian exports and imports through the Eritrean port of Assab are prohibited. As a result, Ethiopia conducts almost all of its trade through the port of Djibouti with some trade via the Somaliland port of Berbera and Sudan's Port Sudan. Despite Ethiopia's efforts to clamp down on small-scale trade of contraband, unregulated exports of coffee, live animals, chat (a mildly narcotic amphetamine-like leaf), fruit and vegetables, and imports of cigarettes, alcohol, textiles, electronics and other consumer goods continues.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Foreign direct investment (FDI) flows into Ethiopia have gradually increased in the last few years. According to estimates by the World Bank (August 2012), the annual inflow of FDI increased from US\$0.5 billion in 2007 to US\$1.2 billion in 2011. Floriculture, horticulture, textile, and leather are the sectors that have attracted the most FDI. Recently, commercial farming has attracted Indian, Saudi, European, and U.S. investors. According to the Ethiopian Investment Agency, the stock of U.S. foreign direct investment since 1993 in Ethiopia reached nearly US\$1.5 billion as of November 2013, which includes both projects under implementation and in operation.

U.S. companies with a presence and participation in Ethiopia's economy include (either through direct presence or licensing/distribution agreement): Boeing, Coca-Cola, Pepsi-Cola, Caterpillar, John Deere, Proctor & Gamble, Johnson & Johnson, Ford, Mack Trucks, General Motors, Deloitte, Ernst & Young, Grant Thornton, Radisson, Sheraton, Hilton, Motorola, Microsoft, IBM, Cessna, Bell Helicopters, Perkins, Massey Ferguson, Case III, 3M, Lucent Technologies, Cisco, Federal Express, United Parcel Service, Rank/Xerox Corporation, HP, Cargill, Navistar, Hughes Network, DuPont, Oracle, Pfizer, MWH and General Electric.

**Table 2: Key Macroeconomic data, U.S. FDI in host country / economy**

| In USD millions, unless otherwise noted. | Per Ethiopian Government* |          | External Sources |           |
|--|---------------------------|----------|------------------|-----------|
|  | Year                      | Amount   | Year             | Amount    |
| Economic Data                            |                           |          |                  |           |
| Gross Domestic Product (GDP)             | 2012 / 2013               | \$46,597 | 2013             | \$48,100* |
| Foreign Direct Investment (FDI)          | 2012/2013                 | \$1,300  | 2012             | \$1,100** |
| U.S. cumulative FDI                      | 1993 - 2013               | \$1,500  | N/A              | N/A       |
| Ethiopia's FDI in                        | N/A                       | N/A      | N/A              | N/A       |

|  |           |      |      |      |
|--|-----------|------|------|------|
| the U.S.                                       |           |      |      |      |
| Total inbound stock of FDI as % Ethiopia's GDP | 2012/2013 | 2.8% | 2012 | 2.6% |

\*) Per World Bank Economic Data

\*\*\*) Per United Nations Conference on Trade and Development

Figures from the Government of Ethiopia cover the fiscal year of July 2012 to June 2013 while the international indicators measure performance by the calendar year.

**Table 3: Sources of FDI (July 9, 2012 – July 5, 2013)**

| No          | Country of Origin       | No of Projects | Capital in '000' USD |
|-------------|-------------------------|----------------|----------------------|
| 1           | Turkey                  | 34             | 1,513,503            |
| 2           | China                   | 155            | 358,642              |
| 3           | Saudi Arabia / Ethiopia | 11             | 318,189              |
| 4           | India                   | 47             | 302,993              |
| 5           | Sudan                   | 97             | 125,008              |
| 6           | Britain                 | 2              | 114,326              |
| 7           | South Africa / Ethiopia | 2              | 112,494              |
| 8           | Saudi Arabia            | 19             | 107,669              |
| 9           | Germany/Ethiopia        | 5              | 100,693              |
| 10          | Netherlands/Ethiopia    | 4              | 40,944               |
| Total       |                         | 376            | 3,094,461            |
| Others      |                         | 345            | 458,235              |
| Grand Total |                         | 712            | 3,552,697            |

**Source: Ethiopian Investment Agency**

## 19. Contact Point at Post

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