



ETHIOPIA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Ethiopia is one of the fastest growing economies in the world. It has registered impressive GDP growth for several years, ranging between 8% and 12%, depending on the data source. The World Bank and IMF forecast continued average growth of 7.5% to 8.5 % in 2015 and approximately 7% to 7.5% 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 realize these goals, the government is investing heavily in large-scale social, infrastructural and energy projects.

These developments are positive indicators for future private sector development, but translate into the flow of significant amounts of capital into public sector infrastructure projects, which can provide important opportunities but can also limit capital available to the private sector. World Bank estimates show that public infrastructure spending was 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 (FDI). Current challenges to the private sector include foreign exchange shortages and limited access to finance, long lead-times for inputs and exports due to the current logistic infrastructure and associated high land transportation costs, and bureaucratic delays. Areas closed to foreign investment are banking, insurance and accounting/assurance services, retail, telecommunications 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, healthcare, tourism, textile and apparel, leather products, telecommunication support services and products, and aviation support services and products.

The government of Ethiopia is currently pursuing accession to the World Trade Organization, while maintaining their goal of attaining least-developed country status, by 2015. In 2015, Ethiopia also became a full member of the Common Market for Eastern and Southern Africa (COMESA). It is actively pursuing improving the current investment climate through adopting more efficient bureaucratic processes in the areas of registration, logistics, 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

Attitude toward Foreign Direct 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 fifth 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. These

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 and a World Bank estimate of 4.3% collected tax revenues as a percentage of GDP, 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 FDI, the recent credit worthiness ratings by the international rating agencies has opened up Ethiopia's access to commercial foreign loans.

In May 2014, 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 their likely effect in improving trade conditions. The country's peace and stability also positively influenced the rating. The rating agencies noted however that the private sector remained weak and access to domestic credit restricted economic growth.

In December 2014, Ethiopia issued its first Euro-bond offering, raising USD 1 billion at a rate of 6.625%. The 10-year bond was oversubscribed indicating a continued market interest in high – growth sub-Saharan African markets, but did trigger the country to exceed its non-concessional borrowing threshold set by the World Bank, which could limit Ethiopia's access to additional concessional lending. According to the Ministry of Finance and Economic Development, the GOE will allocate these funds for additional infrastructure investment.

Other Investment Policy Reviews

Over the past three years, the Ethiopian Investment Commission (EIC) has undertaken an independent review of its investor services in an effort to streamline the investment process and is in the process of developing a more efficient one-stop-shop facility for foreign direct investors.

Laws/Regulations of Foreign Direct Investment

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. To date, the instructions for drafting the code are finalized; the actual revision and drafting of the new code has not started.

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, the investment code does prohibit foreign investment in some sectors -- please refer to 'Limits on Foreign Control' section.

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 raised the minimum capital requirement to USD 200,000 per project for wholly-owned foreign investments and USD 150,000 for joint investments with domestic investors (or USD 100,000/USD 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 or dividends may not be required to allocate minimum capital.

Industrial Promotion

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 and duty incentives as established in proclamation 769/2012.

A 2014 amendment to the investment proclamation restructured the existing regulatory investment body, the Ethiopian Investment Agency (EIA) under the Ministry of Industry, to a separate governmental body, the EIC, with the Ethiopian Prime Minister serving as Chairman of the EIC Board. The 2014 amendment also provides flexibility for the EIC to decide on appeals submitted to it by foreign and domestic investors on specific projects. In addition, the new EIC Investment Board is empowered to authorize the granting of new or additional incentives other than what is outlined under the existing regulations and authorize foreign investment in areas, otherwise exclusively reserved for domestic investors, if the exception is in the 'national interest.' The EIC's website, ethioinvest.net, outlines the GOE's key focus sectors as well as details registration processes and provides regulatory details for investors.

In alignment with GTP goals to further develop medium and large scale industries, the government established the Ethiopian Industrial Zones Corporation (EIZC) under the Ministry of Industry in 2012 to oversee the construction and regulation of the zones. Currently the EIZC is preparing the first Industrial park proclamation with the aim of decreasing environmental pollution, enhancing export of manufactured goods and ensuring sustainability.

As of April 2014, Bole Lemi-I is the only operational industrial zone developed by the government. For Bole Lemi- II and Qilinto industrial zone developments, the government is in the process of design selection with the support of the World Bank financing and technical advice. Two additional industrial zones, the Eastern Industrial Zone and George Shoe Factory, are developed by Chinese and Taiwanese private businesses. There is also plan to develop industrial zones in Dire Dawa and Hawasa.

Limits on Foreign Control

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, khat, 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.

Privatization Program

The government continues 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 370 public enterprises since 1995. Most of these enterprises were small companies in the trade and service sectors. The agency privatized three enterprises in 2014 and currently around 27 public enterprises remain under PPESA control.

Screening of FDI

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) from the EIC, 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 EIC 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 EIC 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 EIC.

Competition Law

Currently, within the sectors allowing foreign investment, there are no laws restricting competition for foreign companies or foreign-owned subsidiaries. The EIC reviews investment transactions for compliance with FDI requirements and restrictions as outlined by the investment proclamation and amendments. However, companies have complained that state-owned enterprises receive favorable treatment in the government 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.

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. The Federal Trade Competition and Consumer Protection Appellate Tribunal which is formed under TPCPA saw 45 consumer protection and unfair trade cases in 2013/14. In addition the Authority is providing market information on some goods to the public using print and electronic media.

Investment Trends

Because of its consistent GDP growth of between 8% - 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:

- 1) Equity investment terms are usually for 8 – 10 years with inputs being not only capital inflows, but also capacity building and knowledge transfer.
- 2) Manufacturing companies are taking advantage of the special industrial zones, skilled labor and tax incentives for initial start-up imports and export-related expenditures.

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 costs.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	33/110th of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	132nd of 189	doingbusiness.org/rankings
Global Innovation Index	2014	25.43/126 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD amount	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

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 per capita gross national income (GNI) or USD 4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015>.

2. Conversion and Transfer Policies**Foreign Exchange**

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 USD 50,000.

Remittance Policies

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 and still remain at low levels. By the end of FY14, the gross reserves are estimated at USD 2.8 billion, covering approximately 1.9 months of

prospective imports. According to the IMF, heavy government infrastructure investment has fueled the need for forex for the associated imports. In addition, the forex reserve decrease is further exacerbated by weaker than expected exports of coffee, Ethiopia's main export crop, a trend that had begun to reverse by mid-2014 and exports actually increased by 5.5% during the 2013/2014 fiscal year. Still, businesses usually expect delays of foreign exchange supply of 6 weeks to 3 months and slow-downs in manufacturing due to foreign exchange shortages are common. Delays of repatriation for 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.

According to data from the National Bank of Ethiopia, the birr depreciated approximately 130% against the U.S. Dollar between November 2006 and January 2015, through a series of controlled step-downs, including 20% devaluation in September 2014. As of January 2015, the exchange rate was approximately 20.14 birr per dollar. The illegal parallel market exchange rate was approximately 22.80 per dollar in January 2015, a premium of 13.2% 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 USD 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

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

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.

Bankruptcy

The Ethiopian Commercial Code (Book V.) does outline Bankruptcy provisions and proceedings and references that the Ethiopian court system will have jurisdiction over bankruptcy filings and proceedings subject to international conventions. The primary purpose of the law is to protect creditors, equity shareholders and other contractors and bankruptcy is not criminalized according to the law . In practice, there is currently limited application of the bankruptcy procedures due to lack of knowledge of the procedures by the private sector.

The 2015 World Bank Ease of Doing Business index sub-category 'Resolving Insolvency' outlines some average expectations for insolvency proceedings in Ethiopia
<http://www.doingbusiness.org/data/exploreeconomies/ethiopia/#resolving-insolvency>.

Investment Disputes

Currently, there is no data to track investment dispute trends or patterns.

International Arbitration

While disputes can be resolved in international arbitration forums at the agreement of both parties, enforcement is contingent on the Ethiopian court system.

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.

ICSID Convention and New York Convention

Since 1965, Ethiopia has been a member state to the International Centre for Settlement of Disputes (ICSID Convention) but has not ratified the convention on The Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution

Due to an overloaded court system, dispute resolution can last between several months and several years. According to the World Bank, Ease of Doing Business report, the average for Enforcing Contracts is 530 days.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Ethiopia is currently an observer of the World Trade Organization (WTO) https://www.wto.org/english/thewto_e/acc_e/a1_ethiopia_e.htm and is in the process of developing its services offer and revising its goods offer. Ethiopia currently does not maintain formal measures that are inconsistent with Trade Related Investment Measure requirements.

Local and Foreign investors have asserted that informal priority for foreign exchange has been given to export-oriented businesses and/or those that provide a higher local input content.

Investment Incentives

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.

Research and Development

The Ethiopian government does encourage technology and knowledge transfer to further develop the Ethiopian workforce via corporate-financed corporate social responsibility programs and/or training programs incorporated into investment proposals. Currently, there are no government financed research and development programs however.

Performance Requirements

Ethiopia does not formally impose performance requirements on foreign investors.

Data Storage

There is currently no forced localization or data storage requirements for private investors. However, in the case of joint ventures with SOE's, investors have reported requirements of up to 30% domestic content in goods and/or technology.

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. Small scale rural landholders have an indefinite period of use rights, but cannot lease out whole holding for a longer period of time, except in Amhara Region. 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

Real Property

Secured interests in property are protected and enforced, although all land ownership remains in the hands of the state with use rights to landholders. Certain residents have been relocated (and usually compensated for properties on land) 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. As land is a public property, the law doesn't allow mortgaging land.

Intellectual Property Rights

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. The government does not publicly track counterfeit goods seizures, and no estimates are available.

Resources for Rights Holders

The Ethiopian Intellectual Property Office (EIPO) oversees the administration and advises on IPR issues. Contact and office information is available at <http://www.eipo.gov.et/> For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en>.

Embassy POC: Economic Officer, Helena Schrader, SchraderHP@state.gov
Post also has a list of local lawyers at http://ethiopia.usembassy.gov/attorney_information.html

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. Investment decisions can involve multiple government ministries lengthening the registration and investment process.

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.

Ethiopia is a member of UNCTAD's international network of transparent investment procedures [<http://ethiopia.eregulations.org/>]. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time and legal bases justifying the procedures.

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.

Money and Banking System, Hostile Takeovers

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.

Based on the most recently available data, the state-owned Commercial Bank of Ethiopia typically mobilizes about two-thirds of total bank deposits and half of total bank loans. 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.

Currently, there are no restrictions for foreigners to own a local bank account.

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 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.

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 (EEPCO) 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, has held six workshops to date focusing on various business issues such as company registration, business licensing, legal structures, access to finance, procurement, manufacturing, and protecting property rights. The private sector was represented by the Ethiopian Chamber of Commerce and Sectorial Associations (ECCSA) and the government by the Ministry of Trade (MOT). Additionally, Prime Minister Hailemariam Desalegn, together with the full Council of Ministers, meets with representatives of the private sector annually 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 2014 and currently around 27 public enterprises remain under PPESA control.

OECD Guidelines on Corporate Governance of SOEs

Currently, Ethiopia is not a member to the Organization for Economic Cooperation and Development (OECD). They also do not adhere to the guidelines on corporate governance of SOEs. Corporate governance of state-owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically-affiliated individuals.

Sovereign Wealth Funds

Ethiopia has no Sovereign Wealth Funds.

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.

OECD Guidelines for Multinational Enterprises

The host government does encourage CSR programs for both local and foreign direct investors but does not maintain specific guidelines for these programs. In early 2015, the Ethiopian Chamber of Commerce & Sectorial Associations published a 'Model Code of Ethics for Ethiopian Businesses' that was endorsed by the GOE's President Mulatu Teshomme as the model for the business community.

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 May 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. In the lead up to the May 2015 national elections, several opposition party leaders have been detained and charged under the ATP.

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 2012 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 described as 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 2014, 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.

The campaign season in the run-up to the May 2015 general parliamentary elections has been generally peaceful. Although there have been some small-scale clashes between protestors and security officials and, generally, when opposition parties proceed with unauthorized protests, they usually resulted in minor injuries and temporary detentions.

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 2014 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 110 out of 175 countries in 2014 and 111 out of 175 rated countries in 2013.

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.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

In 2003, Ethiopia signed the UN Anticorruption Convention which was later ratified in November 2007. Ethiopia is currently not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

The Ministry of Justice has primary responsibility for combating corruption, largely through the Federal Ethics and Anticorruption Commission (FEACC) that handles reports of corruption <http://www.feac.gov.et>.

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.

Bilateral Taxation Treaties

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 work 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 results, urban unemployment was estimated to be 17.5% as of 2012. (24.9% of people between the ages of 15-24 are unemployed.)

Ethiopia has ratified all eight core ILO conventions. 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.

The constitution and law provide workers, except for civil servants and certain categories of workers primarily in the public sector, with the right to form and join unions, conduct legal strikes, and bargain collectively. Other laws and regulations that explicitly or potentially infringe upon workers' rights to associate freely and to organize include the CSO law, Council of Ministers Regulation No. 168/2009 on Charities and Societies to reinforce the CSO law, and Proclamation No. 652/2009 on Antiterrorism. Such laws and detailed requirements make legal strike actions difficult to carry out. In practice, labor strikes are rare.

Labor unions, organized under the umbrella Confederation of Ethiopian Trade Unions (CETU), are formed as enterprise-based units and not around specific sectors. There is no formal requirement for unions to join the CETU, however.

Child labor is widespread in Ethiopia, and the Ethiopian Government in collaboration with the international community has established programs to combat the worst forms of child labor, particularly in the southern regions. While not a pressing issue in the formal economy, child labor is common in rural agrarian areas and the informal economy in urban areas. Ethiopian traditional woven textiles are included on the U.S. government's Executive Order 13126 list of goods that have been known to be produced by forced or indentured child labor. 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/Trade Facilitation

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, khat (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

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013/14	54,910	2013/14	49,707	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2013	0.6	2013	10	http://bea.gov/international/factsheet/factsheet.cfm?Area=411
Host country's FDI in the United States (\$M USD, stock positions)	2013	0	2013	-1	http://bea.gov/international/factsheet/factsheet.cfm?Area=411
Total inbound stock of FDI as % host GDP	2013/14	1.25%	2013/14	2.7	www.worldbank.org/en/country

*Source : Ethiopian Investment Commission. Please note the EIC previously reported FDI in projects under implementation/development as well as in operation. Recently, EIC has changed the reporting methodology to include only the FDI in projects in operation. This can create data discrepancy between local and international sources.

*Table 3: Sources and Destination of FDI***Direct Investment from/in Counterpart Economy Data****From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**

Inward Direct Investment			Outward Direct Investment		
Total Inward	1,360	100%	Total Outward	NA	100%
Turkey	846.3	62.2%			
China	259.1	19.1%			
Pakistan	221.3	16.3%			
Mauritius	13.6	1.0%			
India	4.4	0.32%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: Ethiopian Investment Commission

Table 4: Sources of Portfolio Investment

Currently, data regarding the equity/debt breakdown of portfolio investment assets is not available for Ethiopia via the IMF's Coordinated Portfolio Investment Survey (CPIS) and is not available for external publication by the GOE.

19. Contact for More Information

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