



INVESTING IN ETHIOPIA:

10 REASONS TO INVEST IN ETHIOPIA

1. Stable Economic Environment:

- Ethiopia has been able to achieve macro-economic stability
- Stable annual economic growth in double digits since 2003
- Stable exchange rate
- Government commitment to private sector
- Safe and secure working and living environments, identified by the U.N. and the International Chamber of Commerce (ICC) as key assets for investors in Ethiopia
- Absence of corruption - Ethiopia is described by the U.N. and ICC as "exceptional...in its almost complete absence of routine corruption."

2. Liberalized Economy:

- All major economic sectors are liberalized for investment and marketing
- Remittance out of Ethiopia from invested capital (dividends and interest) is permitted
- Remittance also permitted for principal and interest payment on external loans, payments associated with technology transfer, proceeds from sales or liquidation of an enterprise, salaries and other payments
- 100% foreign ownership of investment is permitted. \$100,000 minimum initial investment required from foreign investors to start a business, reducing to \$60,000 where the foreign investor is in a joint venture with a domestic partner (\$50,000 for consultancy or publishing business). This figure reduces to \$25,000 (in cash or in kind) for foreign investors working in partnership with a domestic investor in the areas of engineering, accountancy, architecture, auditing services or business/management consultancy.

3. Security of Investment:

- Government guarantees (Investment Code 1991) and constitutional protection from expropriation
- Ethiopia is a signatory to the main international investment related institutions, for example, it is a Member of the Multilateral Investment Guarantee Agency (MIGA)
- Ethiopia is also a signatory of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States
- Professional one-stop-shop for foreign investment through the Ethiopian Investment Agency (EIA)

4. Significant Tax Incentives:

- Customs Import Duty - 100% exemption on all import of investment capital goods (plant machinery, construction



materials, etc.) including spare parts worth up to 15% of the imported investment capital goods; plus exemption for import of raw materials needed for the production of export goods

- Export Customs Duty - Products and services developed in Ethiopia are exempt from export tax

5. Conducive Tax Environment:

- Corporate income tax (tax on profit) is 30%
- Excise tax is levied (minimum 10%) on selected local or imported products
- Turnover tax at 2% for priority sectors such as tractors, combine harvesting, grain mill etc. and 10% on other sectors
- Customs duty on unexempted imports ranges from 0 to 35%
- Income tax ranges from 10 to 35% on monthly income of \$16.50 and above
- Withholding tax is payable on imports at 3% of cost, insurance and freight
- 15% VAT is payable on businesses with a turnover above \$54,000
- Dividend tax (on income derived from dividends from a share company or withdrawals of profits from a private limited company) at 10%
- Royalty tax (on income derived from technology and intellectual property rights) at 5%
- Capital gains tax - share of companies 30%; business, factory or office buildings 15%; residences 0%
- Rental income tax (on annual rental income) between 0 and 35% dependent on level of rental income
- Stamp duty - Leasing 0.5% of value; registering title to property 2% of value; contract of employment 1% salary; bonds 1% of value, etc.
- Tax treaties to avoid double tax payment are signed with several countries, along with bilateral treaties for the protection and promotion of investments

6. Investment Opportunities:

- Agriculture and Agro-processing - New private investment is sought in the production and processing of agricultural crops such as coffee (the country's single most important cash crop), tea, sugar, flowers, fruits and vegetables, teff, wheat, maize, beans, peas, lentils, soybeans, chickpeas, starch production, oil crops such as rapeseed, linseed, groundnuts, sunflower, sesame, maize, Niger seed and cotton seed, as well as investment opportunities for introducing modern commercial livestock breeding and processing into the largest livestock population in Africa (cattle, sheep and goats), plus significant fresh water fishery and livestock resources. Investment is also required in the provision of agricultural support services such as pest and disease control, agricultural machinery, cold storage, etc. A number of crops are grown organically.
- Textiles - Opportunities for production and processing of cotton in Ethiopia, as well as producing and finishing textile fabrics and garment production
- Leather and Hide - Opportunities for investment in tanning up to finishing, manufacture of luggage items, handbags, saddlery and harness items, footwear, garment and other leather goods
- Horticulture/cut flowers - fruit, vegetable and cut flowers are fast-growing export businesses, with great potential for private investment. There are already some integrated agro-industrial processing plants.
- Building materials - Manufacture of cement, lime, gypsum, marble, granite, limestone, ceramics, etc.
- Tourism - Untapped tourism potential, particularly in the historic Northern route, with investment opportunities in hotels, lodges and international restaurants. Historic sites include the old capital of Gondar with its castles, the city of Lalibela and the island monasteries of Lake Tana.
- Privatization - 111 state-owned enterprises identified for privatization, with 43 state-owned enterprises already in the pipeline, mainly in the manufacturing, construction, agriculture/agro-industry, hotels, transport, trade and mining sectors.



7. Strong Market with Excellent Market Access:

- Strong internal market with second largest population in Sub-Saharan Africa at 75 million (July 2006)
- Located in the Horn of Africa at the crossroads between Africa, the Middle East and Asia, within easy reach of the major ports of the Horn
- Membership of the Common Market for Eastern and Southern Africa (COMESA) embracing 23 countries with a population more than 300 million. Ethiopia enjoys the benefits of preferential tariff rates on exports to these countries.
- Ethiopia is an ACP member (African, Caribbean and Pacific Group) and accession to the WTO is under negotiation.
- Duty and quota free access into the U.S. (AGOA) and EU (EBA) markets. Export products from Ethiopia to the EU market are entitled to duty reductions or exemptions and are free from all quota restrictions under the terms of the Lome Convention. The trade preference accorded Ethiopia includes duty free entry of all industrial manufactured products. Under the generalized system of preferences (GSP), a wide range of Ethiopia's manufactured products are entitled to preferential duty treatment in the United States, Canada, Japan and most EU countries.
- The large and fast growing domestic market offers good prospects for investment in and the development of consumer goods industries such as food, beverages, tobacco, plastic products, soap and detergents, drugs and pharmaceuticals, paper and paper products and electrical and electronic products.

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8. Strong Natural Resource Base:

- Good rainfall, rich soils, and favorable temperature ranges. Climate is identified by the U.N. and ICC as “exceptional” offering “an excellent environment for various agricultural activities.”
- Unexploited mineral deposits, specifically gold, tantalum, platinum, nickel, potash and soda ash
- Urban and rural land available on a leasehold basis. Lease rights over land can be transferred, mortgaged or sub-leased together with on-build facilities. Leaseholders have the right to use urban land for up to 60 years in Addis Ababa and up to 80 years in other smaller towns, with leasehold renewal permitted (generally the range in the country is between 50-99 years depending on purpose and location).

9. Trainable Labor:

- Ethiopia presently turns out more than 10,000 university graduates per year, including business, management, economics, accounting, law and engineering graduates
- 151 technical and vocational education and training schools in Ethiopia
- Private universities and colleges flourishing in Addis and regional cities
- The average private sector wage is about \$25 per month, with graduate salaries ranging from approximately \$85 to \$105.
- Expatriate employees permitted in senior positions, with prior consent from the Ethiopian Investment Commission (where employer is sole or major owner or shareholder of enterprise). Expatriate experts are also permitted, as long as the investor trains his/her replacement within a designated time period.
- Good standards of spoken and written English

10. Good Infrastructure Standards:

- Air Transport: Three international and 18 domestic airports, with international flight links to over 45 cities on four continents (12 in Africa, 12 in Asia, five in Europe and two in North America), and domestic links to 26 destinations
- The national airline Ethiopian Airlines has an outstanding safety record and modern fleet.
- Modern air cargo terminal and maintenance hangar in Addis soon to be completed
- Road Transport: Investment in road infrastructure a high priority, with an expanding road network and international highways linking Ethiopia with its neighbors
- Railways and Ports: 500 mile rail service linking Addis to the port of Djibouti (on the Red Sea coast) via the eastern cities of Dire Dawa and Nazareth. Ethiopia also has access to Berbera in the East and Mombassa in the south.
- Telecoms: Microwave links connect all regional cities and a number of smaller towns have automatic telephone services. International communications links are maintained through two satellite earth stations, providing telephone, internet, telex, fax and TV services. Microwave links exist with Kenya, Djibouti and the Sudan.
- Power Supply: Ethiopia has vast hydropower and promising geothermal energy resources, with nine hydro-electric power plants. To date, the aggregate electricity generated is less than 2% of the potential, and developing this area is a Government focus. The main industrial towns are all connected to the national grid, and electricity is relatively cheap. The Government has liberalized the sector, allowing foreign investors to participate in generating electric power by setting up hydroelectric power plants, although national grid transmission and distribution remains with the state-owned Ethiopian Electric Power Corporation.

INVESTING IN ETHIOPIA: SUCCESS STORIES

Many companies have had successful experiences in Ethiopia, after making the decision to invest:

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

Richard Ponsford, Managing Director, Unilever Ethiopia PLC

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

Arega Yirdaw, Chief Executive Officer, MIDROC Ethiopia

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

Ryaz Shamji, General Manger, Golden Rose Agrofarms Limited

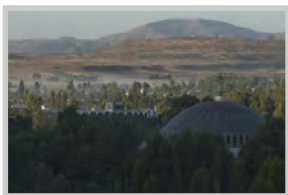
"During my two years in Ethiopia, I have seen great progress towards good governance and economic liberalization. Although a lot remains to be done, the path is now set. And all this has been done during a severe drought, which absorbed a tremendous amount of energy and resources. Even though purchasing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

Chris De Muyneck, Managing Director, MOENCO S.C.

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

Worku Zewde, Managing Director, Garment Express Private Limited

For further information or to arrange a meeting to discuss existing investment opportunities in Ethiopia in more detail, please contact:



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