ALN

INVESTMENT **GUIDE**

2017/2018

ALGERIA

ETHIOPIA

GUINEA

KENYA

MADAGASCAR

MALAWI

MAURITIUS

MOROCCO

MOZAMBIQUE

NIGERIA

RWANDA

SUDAN

TANZANIA

UGANDA

ZAMBIA

REGIONAL OFFICE:
UAE

MTA | ALN
MESFIN TAFESSE & ASSOCIATES

ABOUT ALN

ALN is an extensive alliance of Africa's most dynamic, independent and ambitious law firms that have come together to change the future of legal services on the continent. ALN firms are recognised as leading firms in their jurisdictions by the international legal directories and many have advised on ground breaking, first-of-a-kind deals in their markets. ALN is the largest grouping of its kind in Africa, with close working relationships across its fifteen members and an established network of Best Friends across the continent. The firms are located in four major regional economic groupings – EAC, ECOWAS, SADC, and COMESA – with a combined population of 700 million people. ALN firms are on the ground in some of Africa's fastest growing jurisdictions, including the continent's gateway economies: Algeria, Ethiopia, Guinea, Kenya, Madagascar, Malawi, Mauritius, Morocco, Mozambique, Nigeria, Rwanda, Sudan, Tanzania, Uganda and Zambia.

Chambers Global has consistently ranked the ALN alliance as Band 1 in the 'Leading Regional Law Firm Networks – Africa-wide' category.

ALN IN ETHIOPIA

Mesfin Tafesse & Associates

Mesfin Tafesse & Associates Law Office (MTA) was established in 2007 by Mr. Mesfin Tafesse, who has over 25 years of experience in areas of public and private law. MTA has since grown and expanded its client base and areas of expertise from general corporate law to specialised practice areas including cross border merger and acquisitions, banking, finance, mining and natural resources, tax and telecoms. MTA has consistently been ranked as a leading law firm in Ethiopia by international law directories. Chambers Global 2017 ranks MTA Band 1 firm in Ethiopia's General Business Law category and recognises that the firm has significant strength in energy and natural resources work, receiving particular commendation for its expertise in oil and gas and mining. As recognition of its work in the energy sector IFLR 1000 has ranked MTA as a Tier 2 law firm in the category of Energy and Infrastructure. MTA is also ranked by Legal 500 as a Tier 1 law firm.

Ethiopia is one of the most attractive markets in Sub-Saharan Africa on account of its promising economic outlook, large pool of available labour and abundant natural resources. **– BMI View, Ethiopia Operational Risk Report; July 2016**

Ethiopia has moved from the second poorest nation in the world in 2000 and, if it can keep the current pace, it's on its way towards becoming a middle income country by 2025. **– World Bank Overview, 2016**

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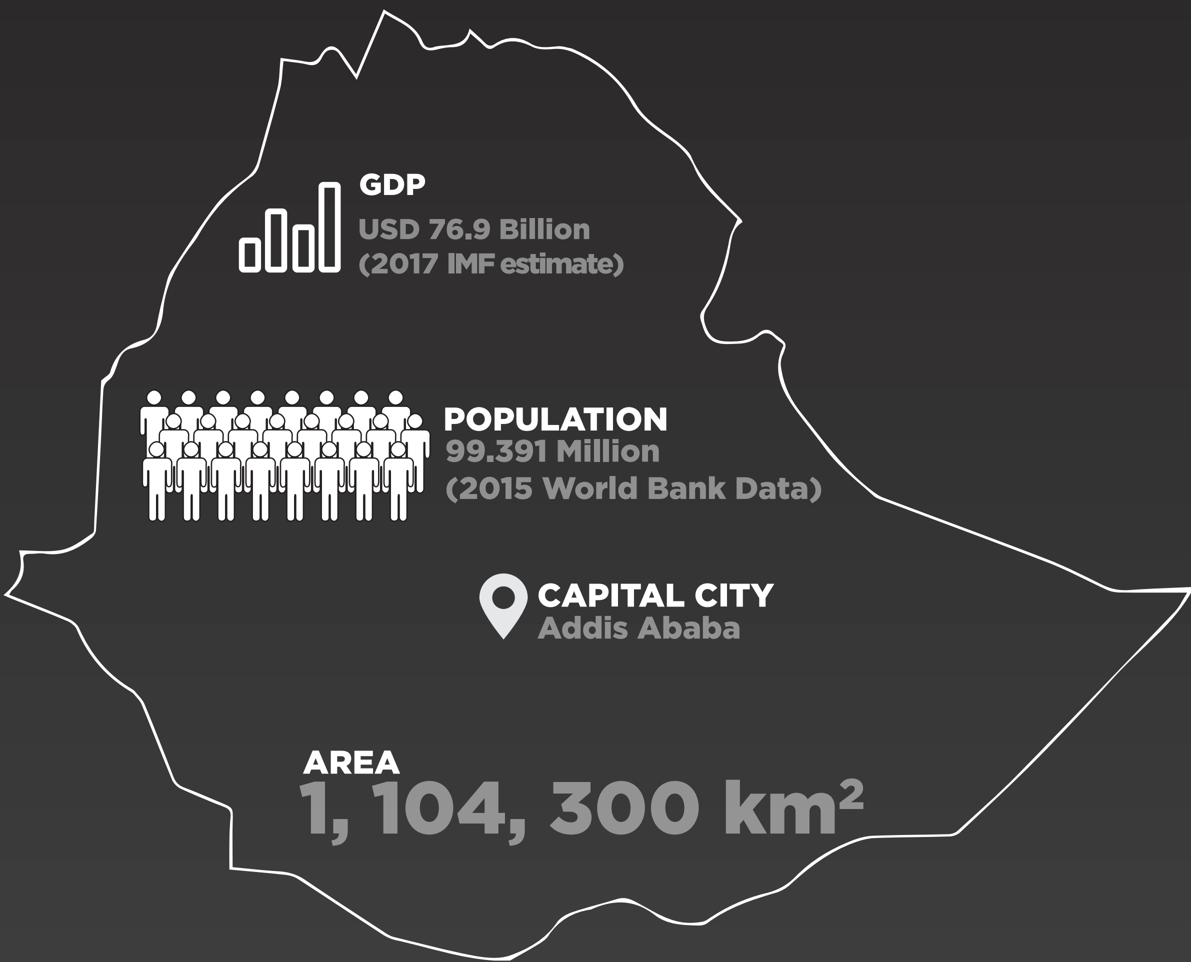
OVERVIEW



PRESIDENT
Dr. Mulatu Teshome
(Head of State)

CURRENCY
Birr (ETB)

DRIVES ON
The Right

GOVERNMENT
Federal Republic

LANGUAGE
Amharic

TOP LEVEL DOMAIN
.et

TIMEZONE
GMT + 3

CALLING CODE
+251

POLITICAL OVERVIEW

The Constitution of Ethiopia, adopted in 1995, provides for a multi-party political system. Ethiopia has a Parliamentary form of government with a Bicameral Parliament which comprises of the House of the Peoples' Representative (HPR) and the House of the Federation (HoF). The HPR is the highest authority of the Federal Government. Power of government is assumed by the political party or a coalition of political parties that constitutes a majority in the HPR. Executive power is vested on the Prime Minister, elected from among the members of the HPR, for a five-year term.

The current Prime Minister is Hailemariam Desalegn. The Prime Minister appoints the Council of Ministers, which is then approved by the HPR.

ECONOMIC OVERVIEW

The Ethiopian Government has formulated and started the implementation of the second five year Growth and Transformation Plan (GTP) to carry forward the important strategic directions to maintaining a fast growing economy in all sectors.

Ethiopia's economy is largely based on agriculture, which in 2016 was estimated to account for 36.2 percent of the GDP, 90 percent of foreign currency earnings, and 85 percent of employment. Coffee is the most important commodity to the Ethiopian economy. The other important export products include, gold, oil seeds, chat, flowers, pulses, live animals, leather and leather products, meat products, and fruits and vegetables. The services sector is the fastest expanding sector and also constituted close to 46.8 percent of the GDP in 2016. The industrial sector, which mainly comprises small and medium enterprises, accounted for about 17 percent of the GDP in 2016.

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

BILATERAL & MULTILATERAL TREATIES

Ethiopia commenced its accession to the World Trade Organisation in 2003 and submitted its Memorandum of Foreign Trade Regime in 2006. Ethiopia has also entered bilateral investment and protection agreements with more than 30 countries, including Algeria, Austria, Belgium and Luxumberg, China, Denmark, Egypt, Equatorial Guinea, Finland, France, Germany, India, Iran, Israel, Italy, Kuwait, Libya, Malaysia, Morocco, Netherlands, Russia, South Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, the United Kingdom, USA and Yemen. It has ratified a Protection of Investment and Property Acquisition Agreement with Djibouti.

The country has also concluded double taxation avoidance treaties with Algeria, Czech Republic, France, India, Israel, Italy, Kuwait, Romania, Russia, South Africa, Tunisia, Turkey and Yemen.

Ethiopia is a member of the World Intellectual Property Organisation (WIPO), Multilateral Investment Guarantee Agency (MIGA), the African Union (AU), the Common Market for Eastern and Southern Africa (COMESA) and the United Nations (UN).

REGULATORY ENVIRONMENT

The Ethiopian Investment Commission (EIC) is the autonomous Government body which regulates investments in Ethiopia. The EIC is responsible for promoting the country's investment opportunities and conditions to foreign and domestic investors, and for issuing investment permits and business licenses. The EIC also provides services of facilitating the acquisition of land and utilities, loan and residence permit applications, and other services which are essential to engage in investment activities. The National Bank of Ethiopia (NBE) and the Ministry of Trade are also the main Governmental institutions which play an essential role in the activities of investors.

The Investment Proclamation 769/2012 (as amended), the Investment Incentives and Investment Areas reserved for Domestic Investors Council of Ministers Regulation No. 270/2012 (as amended) and the Ethiopian Investment Board and Ethiopian Investment Commission Establishment Council of Ministers Regulation No. 313/2014, are the main legal frameworks for both foreign and domestic investments in Ethiopia.

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

a. prospecting and mining of minerals;
b. various water works services, excluding water works construction services;
c. banking, insurance and microfinance services;
d. air transport services and other aviation services;
e. commercial activities involving the use of radioactive materials and radiation emitting equipment;
f. telecommunication services;
g. the business of generating, transmitting, distributing or selling electricity;
h. repairing and maintaining of arms and firearms and sale of explosives;
i. sea and inland water ways transportation services;
j. multimodal transport services;
k. the business of warehouse receipt system; and
l. trade in tobacco and tobacco products.

The minimum capital required of a foreign investor to invest in Ethiopia is USD 200,000 and if the foreign investor invests in partnership with a domestic investor(s), the minimum capital required is USD 150,000. Foreign investors wishing to purchase an existing private enterprise, or shares therein, are required to obtain prior approval from the Ministry of Trade. The minimum capital required of a foreign investor investing in architectural or engineering works or related technical consultancy services, technical testing and analysis or in publishing work is USD 100,000 if the investment is wholly foreign owned and USD 50,000 if the investment is made jointly with a domestic investor.

The areas with most promising potential for investment in the country today are textile and garments, leather and leather products industry, agro-processing, pharmaceutical, chemical and metal industries in the manufacturing sector, horticulture, palm tree farming, rubber tree farming, cotton plantation, coffee plantation, and sugarcane farming in agriculture, power generation in the services sector, road and dam construction works and buildings, in infrastructure and mining.

Banking, insurance, finance, broadcasting, air transport, shipping, wholesale trade, resale trade and the export of coffee, oilseeds, hides and skins are areas reserved for domestic investors.

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

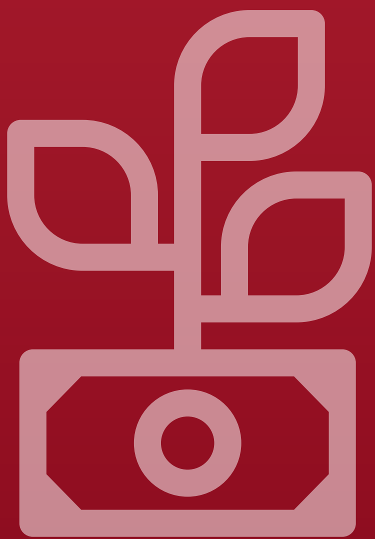
There are no designated foreign trade zones or free ports in Ethiopia. Most Ethiopian trade is conducted through the port of Djibouti and, occasionally, via the Somaliland port of Berbera. Ethiopia recently concluded an agreement with the Republic of Sudan that will enable Ethiopia to develop a port facility at the Port of Sudan. The Government has planned to import half of its foreign volume through this proposed new port.

All foreigners entering the country must obtain visas either at the arrival gate, or prior to arriving in the country from an Ethiopian Embassy, Permanent Mission or Consul General.

A work permit is obtained from the EIC for expatriate employees that the investor may bring into the country.

A business visa is required to obtain a work permit. A residency permit is obtained from the Main Department for Immigration and Nationality Affairs.

INVESTMENT PROMOTION



INSTITUTES GOVERNING INVESTMENT PROMOTION

The EIC is the primary Government organ that serves as a nucleus for investment matters and is given the power and duty to promote, coordinate and enhance investment activities. The Ministry of Public Enterprises issues Government tenders in areas such as infrastructure development and public sectors, while the Ministry of Trade registers and licenses investors in brown field investment. The National Bank of Ethiopia controls and facilitates foreign exchanges.

INVESTMENT INCENTIVES

Investment incentives are mainly provided under the regulation for Investment Incentives and Investment Areas Reserved for Domestic Investors No. 270/2012, as amended by Council of Ministers Regulation No. 312/2014.

Ethiopia offers a comprehensive set of fiscal and non-fiscal incentives to encourage investment into priority areas. Customs duty and income tax exemptions are provided as fiscal investment incentives for specific areas of investment eligible for investment incentives, and for investments in specified less developed regions of the country.

Any investor eligible for exemption of customs duty is entitled to import duty-free capital goods and construction materials necessary for the establishment of a new enterprise or the expansion or upgrading of an existing enterprise. The investor is also allowed to import spare parts, the value of which is not greater than 15 percent of the total value of the capital goods, within five years from the date of commissioning of his project.

In addition, the amended Investment Regulation states that manufacturing industries that have invested more than USD 200,000 and created permanent employment opportunities for more than 50 Ethiopian nationals will be entitled to duty free privileges for capital goods at any time. Further, an investor who expands or upgrades their existing enterprise and increases in volume by at least 50 percent of its attainable production or service rendering capacity, or introduces a new production or service rendering line of an existing enterprise by 100 percent, is entitled to the income tax exemption for a period specified under the Regulation.

Investors who export 60 percent of their products or services, or supply the same to an exporter as production of service input will also be exempted from the payment of income tax for two additional years. The income tax exemption to be granted to investors engaging in an area of the manufacturing industry or information and communication technology development, without constructing their own production or service rendering building, shall be one year less than what is provided for in the sector.

Non-fiscal incentives are given to all investors who produce export products.

Such investors will be allowed to import machinery and equipment necessary for their investment projects through suppliers' credit. Business enterprises that may suffer losses during the income tax exemption period can carry forward such losses, following the expiry of the income tax exemption period for half of the tax exemption period.

In Ethiopia, land is public property. Individuals, companies and other organisations only have the right to possess and use the land. Land can be obtained through lease or rent. Investors leasing land for investment purposes are given priority, and the EIC has the mandate to facilitate the allocation of land for investment projects throughout the country.

In addition to the above, foreign investors who reinvest profits or dividends or export 75 percent or more of domestic output are exempt from minimum capital requirements.

In relation to the exemption of duty, any investors engaged in the manufacturing industry and who have invested at least USD 200,000 or the equivalent in ETB at the prevailing rate of exchange and have created permanent employment opportunities for at least 50 Ethiopian nationals are entitled to import, at any time, duty free capital goods necessary for their existing enterprise. On the other hand, investors engaged in another area of investment, eligible for customs duty exemption with USD 200,000 investment or the equivalent in ETB at the prevailing rate of exchange, and have created permanent employment opportunities for at least 50 Ethiopian nationals, are permitted to import duty free capital goods necessary for the existing enterprise up to five years from the date of acquiring a business licence or other appropriate licence.

New laws have been put in place for the establishment of industrial parks. Industrial Parks Proclamation No. 886/2015 was promulgated with the aim of regulating industrial parks. In addition to the proclamation, a regulation was issued by the Council of Ministers to establish Industrial Parks Development Corporation regulation No. 326/2014. The corporation administers the industrial parks in the country as stated in the above regulation and proclamation. The Government plans to establish ten industrial parks within five years so as to boost manufacturing industries. The industrial parks to be built are expected to facilitate the situation for the planned transition to an industry led economy.

Hawassa Industrial Park, Eastern Industrial Zone: Dukem, Bole Lemi Industrial Park, Ayka Addis, Hujian Industrial Zone, George Shoe, Kombolcha Industrial Park and Mekelle Industrial Park are the industrial parks that have been built so far. Parks currently under construction include, Debre Berhan Industrial Park, Bole Lemi II Industrial Park, Arerti Industrial Park, Kilinto Industrial Park, Adama Industrial Park and Dire Dawa Industrial Park.

The Industrial Park Development Corporation develops identical, similar or interrelated industries together or multifaceted industries, based on a planned fulfilment of infrastructure and various services such as road, electric power and water, and having special incentive schemes. The parks are designed with a broad view of achieving planned and systematic development of industries, mitigation of the impact of environmental pollution and development of urban centres. For example, the design of the Hawassa Industrial Park envisages recycling 78 percent of its water. The priority sectors of the industrial parks are agro-processing industries, textile and garment, leather and leather products industries, sugar and related industry, chemical industries, pharmaceutical industries and metal and engineering industries. An investor who invests within an Industrial park and exports 80 percent or above of the product from his manufacturing industry or supplies as production input to an investor who exports his products, is entitled to an additional exemption from income tax from 2 to 4 years depending on the location of investment. The development of industry parks has recently been opened to private investors, and these investors are also exempt from income tax for 10 -15 years depending on the location of investment.

Moreover, the Government provides one-stop services at the industrial parks.

TAX

PERSONAL INCOME TAX

All persons who earn an 'income' as defined in the Income Tax Proclamation No. 979/2010 (as amended) are obliged to pay income tax. This includes income from business activities, from entrepreneurial activities carried on by a non-resident through a permanent establishment and licence fees (including lease payments and royalties paid by a resident or a non-resident through a permanent establishment).

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

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

An entity is regarded as resident if it has its principal office or place of effective management in Ethiopia, or is registered in the trade register of the Ministry of Trade or of a trade bureau of a regional Government. Corporate Income Tax is computed on taxable profits. Taxable business income of companies is taxed at the rate of 30 percent.

INCOME TAX PROCLAMATION AND TAX ADMINISTRATION PROCLAMATION

The Income Tax Proclamation No. 979/2016 (ITP) was recently issued by the House of Peoples Representatives of Ethiopia after thorough discussion and comments from various stakeholders, including the business community.

Income Tax Schedules

There are five schedules of income tax under the ITP. The schedules are income from employment, from business, from rental of buildings, other incomes and exempted income. Different tax rates apply to the different schedules.

Departure Prohibition Orders

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

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

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

The departure prohibition order would be effective until payment in full has been made by the tax payer or a satisfactory arrangement to make the payment has been agreed to with the Ethiopian Revenue and Customs Authority (ERCA). It shall however expire after ten days from the date of issuance unless a court of competent jurisdiction, on application by the Authority, extends the order for the period determined by the court. The order is to be issued by the Director General of the Tax Authority or an official specifically authorised by him.

Currently, it is only the courts that can issue a departure prohibition order when an investigation has commenced against a tax payer. Therefore, this would give more power to ERCA in the process of recovering tax debt from taxpayers.

Temporary Closure of Business

The FTAP authorises the Tax Authority to close the business of a taxpayer temporarily, for a period not exceeding fourteen days, after serving such person with notice who fails to maintain documents as required by the law or pay tax by due date.

Appeal

Appeal to Review Committee

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

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

b. when the tax payer has paid the tax that has not been disputed in the objection.

The tax payer also has the option to appeal the tax assessment after the tax in dispute has been fully paid.

An appeal that is submitted to the Review Committee without fulfilling the above requirements is considered invalid. Invalid objections would only be accepted if they have been correctly filed again within 21 days from the date of service of the notice of the tax decision or within ten days from the date of service of notice by the Tax Authority for correction.

The FTAP provides that the taxpayer may apply in writing to ERCA for an extension of time to file a notice of objection before the end of the objection period which is twenty one days from the date of notice of the tax decision. In such a case, if the Authority finds that there is good reason to do so, it may extend the period for a maximum of ten days.

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

Appeal to the Tax Appeal Commission.

The ITP provides that an appeal is acceptable if a deposit of 50 percent of the disputed amount is made to the ERCA. The calculation of the deposit is based on the disputed amount inclusive of the administrative penalties and late payment interest imposed by ERCA.

The ITP has removed the penalty and late payment interest from the calculation of the deposit. In respect of the percentage to be levied on the disputed amount, it is stated that the taxpayer has to pay 25 percent of the tax in dispute under tax assessment for an appeal against a deemed objection decision or 50 percent of the tax in dispute for any other tax.

A deemed objection decision is the decision of ERCA which is considered to be served to a taxpayer who has filed an appeal against a tax decision to the Review Committee but has not received an objection decision by ERCA within 180 days.

The ITP has also provided a mechanism under which an application can be made for the extension of time for filing a notice of appeal for Tax Appeal Commission.

An Appeal to the Federal High Court

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

CAPITAL GAINS TAX

Capital gains tax under the law is payable on gains obtained from the transfer of buildings used for business, factory, or office purposes at 15 percent, and shares of companies at 30 percent.

Any remittance made by a foreign investor in Ethiopia from the proceeds of a sale or transfer of shares or assets upon the liquidation or winding up of an enterprise is exempted from the payment of capital gains tax.

WITHHOLDING TAX

Withholding tax is levied on imported goods at a rate of 3 percent on the sum of cost, insurance and freight and is levied at a rate of 2 percent in the case of business entities, non-governmental organisations, private non-profit institutions and Government agencies.

OTHER TAXES

Tax is imposed on dividends at a rate of 10 percent and 5 percent on interest and royalties.

Turnover tax is levied at a rate of 2 percent on the supply of goods to the local market and on construction, grain, mill, tractor and combine harvesting services and at a rate of 10 percent for other services.

Value Added Tax (VAT) is levied at a rate of 15 percent on businesses whose turnover exceeds USD 22,647 (ETB 500,000) per year. All exported goods and basic services are exempted from VAT.

STAMP & TRANSFER DUTY

The following instruments are chargeable with stamp duty:

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

In the course of selling of property, the seller has to obtain tax clearance on the property from (ERCA) as to the payment of all taxes including capital gains tax.

TRANSFER PRICING & THIN CAPITALISATION

Transfer Pricing
The Income Tax Proclamation provides that ERCA has the authority to distribute, apportion or allocate income, gains, deductions, losses or tax credits between the parties to a transaction that is not an arm's length transaction in a manner that reflects the income, gains, deductions, losses or tax credits of the parties if it was an arm's length transaction.

Thin Capitalisation
The Income Tax Proclamation regulates that the debt interest paid by a company is not deductible if the average debt to average equity ratio is in excess of 2 to 1 for a tax year. However, this would not be applied on a foreign controlled resident company of Ethiopia if the average debt amount of the company for the year does not exceed the arm's length debt amount.

DOUBLE TAX TREATY WITH MAURITIUS

Ethiopia does not currently have a double tax treaty with Mauritius.

PRINCIPAL TAXES CURRENTLY IN FORCE

No.	Type of Tax	Rate
1	Corporate income tax	30%
2	Custom Duties	0% - 35%
3	Dividend Tax	10%
4	Excise Tax	10% - 100%
5	Export Tax	Nil
6	Income tax from employment	0% - 35%
7	Royalty tax	5%
8	Turn Over Tax	2% and 10%
9	Value Added Tax	15%
10	Withholding tax	2%
11	Capital Gains Tax	15 percent for building held for business, factory, office 30% percent for the transfer of shares of companies

DOING BUSINESS

ACCOUNTING PRINCIPLES

A Proclamation to Provide for Financial Reporting, Proclamation No. 847/2014, was issued in December 2014, with the aim of establishing a transparent and uniform financial reporting system in Ethiopia. This law requires reporting entities to submit their financial reports to the Accounting and Auditing Board of Ethiopia in accordance with standards and schedules to be issued by the Board. They are also required to ensure that their financial statements are audited as per International Standard for Auditing approved by the Board or in the case reporting entities constituted or incorporated outside of Ethiopia, pursuant to auditing standards applicable in the country where those reporting entities are incorporated or constituted, so long as it is substantially the same with the Ethiopian law. Furthermore, the law imposes an obligation on directors of reporting entities to make sure that the aforementioned obligations of the entities are fulfilled.

The 1960 Commercial Code of Ethiopia also holds company directors responsible for keeping accounts and books, preparing financial statements and ensuring that audits are conducted.

INDUSTRIAL RELATIONS

All eight of the International Labour Organisation's conventions have been ratified by Ethiopia and most of the Core Labour Standards have been enacted into law. The Labour Proclamation No. 377/2003 regulates the employer-employee relationship in private undertakings and sets minimum work standards. This legislation provides for the formation of contract of employment, conditions of work, termination of contract of employment, occupational safety and working environment, labour unions, dispute settlements, etc. The labour law only applies to non-managerial employees. Managerial employees who are vested with the power to formulate and execute management works, and to hire, transfer, suspend, or take disciplinary measures against other employees, are governed by the appropriate section of the Civil Code of Ethiopia.

Employers may not hire persons under 14 years of age and are subject to certain restrictions in respect of the hiring of persons aged 14 to 18, although these restrictions are not often enforced. The maximum number of working hours per week is 48.

There is no national minimum wage in Ethiopia, although some Government institutions and public enterprises set their own minimum wages. The definition of 'wages' in the Labour Proclamation does not include allowances, bonuses or overtime pay.

Under legislation promulgated in June 2011, the pension coverage system was expanded to cover employees in the private sector. Contributions to funds are made on the basis of 7 percent of the employee's salary and 11 percent contribution from the employer.

EXCHANGE CONTROL

Pursuant to Proclamation for the Establishment of the National Bank of Ethiopia (Proc. No. 591/2008), the conditions, limitations and circumstances under which any person may possess and utilise foreign currency or instruments of payments in foreign exchange, and also the terms and conditions for transfer of foreign exchange to and from Ethiopia, is determined by the National Bank of Ethiopia (NBE). According to this Proclamation, it is illegal and criminally punishable, in addition to confiscation of the property with which the offense is committed, for any person to engage in any transaction of foreign exchange except with banks or authorised dealers or with the special permission of the NBE.

Under Directive No. FXD/07/1998 and a series of amendments which followed, the functions of the NBE on foreign exchanges were transferred to commercial banks which are licensed to operate in Ethiopia. In accordance with this Directive, foreign exchange bureaus established at the commercial banks are allowed to engage in the buying and selling of foreign currencies, operate in spot transactions with immediate delivery of currencies bought or sold, sell and/ or buy cash notes and travellers cheques at displayed exchange rates before any subsequent change.

The NBE fixes the daily buying price of currencies and communicates it to commercial banks on daily basis whereas the daily selling price is determined by commercial banks which should not be less than the daily buying price fixed by the National Bank for that particular date, although it can exceed that amount to a tolerable range.

The Investment Proclamation No. 769/2012 provides for investment (regulatory) incentives for foreign investors, in respect of their approved investment, by way of remittance of funds.

Foreign investors are entitled to remit profits, dividends, principal and interest on foreign loans, and technology transfer-related fees. Foreign investors may also freely remit proceeds from the sale or liquidation of an enterprise, compensation paid to an investor, or from the sale or transfer of shares or partial ownership of a business to a domestic investor. Expatriate employees may also remit their salaries in accordance with the foreign exchange regulations.

Repatriation of company profits may be delayed due to low reserves of hard currency held by the NBE. Businesses must apply for foreign exchange for imports in a minimum of six to nine months in advance of their intended importing needs.

IMPORTS AND EXPORTS

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

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

Imports are subject to taxes and duties under the Harmonised Commodity Description and Coding System. They are also subject to the preferential tariff rate where goods are imported from the preferred country and the rates in force on the day the declaration of goods is presented to, and accepted by the customs office.

High import tariffs are applied to protect certain local industries such as the leather and textile industries. Ad valorem tariffs range from 0 to 35 percent.

The Ethiopian Government has introduced 10 percent surtax on certain imported goods, with the proceeds being attributed to the distribution of subsidised wheat in urban areas. There is no export tax under Ethiopian law which is aimed at encouraging export by investors.

Ethiopia is a member of COMESA and goods imported from COMESA countries are afforded a 10 percent tariff preference. Importers must obtain import permits and letters of credit for the total amount imported.

Tax certification is required for repatriation of dividends or investment income. Regulations govern the repayment of loans and foreign partner credits. There are also rules governing import permit issuance by commercial banks and a clearance certificate from the National Bank of Ethiopia is required to obtain an import permit.

CORRUPTION

It is a crime to give or receive bribes in Ethiopia. The country ratified the United Nations Anti-Corruption Convention in 2007. The Ministry of Justice and the Federal Ethics and Anti-Corruption Commission are the bodies responsible for combating corruption. Ethiopia is in the process of drafting Anti-Corruption Proclamation for the private sector. The Proclamation on Prevention and Suppression of Money Laundering and the Financing of Terrorism, through which a national financial intelligence centre has been established, became effective in December 2009.

Furthermore, following frequent complaints from investors about the lack of transparency in the procurement system, the Ethiopian Government has established a public procurement and property administration agency which is intended to be an autonomous Government organ, with its own judicial branch, accountable to the Ministry of Finance and Economic Development.

COMPETITION

The Ethiopian Government enacted the Trade Competition and Consumers Protection Proclamation No. 813/2013, (TCCPP) which established the Trade Competition and Consumer Protection Authority (TCCPA). The Proclamation aims to promote competitive practices in the local market and eliminate or prevent anti-competitive and unfair trade practices. Amongst other things, the Proclamation regulates anti-competitive practices such as price-fixing; collusive tendering; market and consumer segregation; refusals to deal, sell or render services; practices intended to eliminate competitors; and practices regarded as abuse of dominance. Under the TCCPP, a merger is deemed to have occurred (a) when two or more business organisations previously having independent existence, amalgamate or when such business organisations pool the whole or part of their resources for the purpose of carrying on a certain commercial activity or (b) by directly or indirectly acquiring shares, securities or assets of a business organisation or taking control of the management of the business of another person by a person or group of persons, through purchase or other means.

A recent pre-merger notification requirement has been put in place. Based on the new practice, pre-merger notification is only required to be given to TCCPA if it fulfils one of two scenarios: (a) in case of amalgamation: if the combined assets or turnover (which ever combination is higher) of both the acquiring and the target company is more than USD 1, 358, 807 (ETB 30 million), or (b) In case of acquisition: if the target company assets or turnover (whichever is higher) is more than USD 1, 358, 807 (ETB 30 million). In calculating the threshold, the TCCPA will use as a reference point the company's audited financial statement of the preceding year. Therefore, mergers (as defined) must be notified to the TCCPA prior to their implementation, disclosing the details of the proposed merger. The TCCPA will then investigate the possible adverse effect of the proposed merger on trade competition, during which time it may request additional documentation or information and seek comments (through a notice in a newspaper) from any business person who is likely to be adversely affected by the merger. During the review period, the merger cannot take effect. Failure to give notice of a merger may expose any business person who participates in the merger to a fine of 5 percent up to 10 percent of his/her annual turnover. However, no filing fee is payable to the TCCPA for notifying a merger.

CONSUMER PROTECTION

Under the TCCPP, consumers have the right to be provided with accurate information on the quality and type of goods or services being provided and to claim damages in relation to such transactions. As per this legislation, commercial advertisements about goods and services announced by any means may not be false or misleading in any manner. It is prohibited for any business to fail to sell goods and services as advertised or in the quantity consumers demand unless the advertisement discloses a limitation of quantity. In addition, the Ministry of Trade may ban the distribution of goods and services that do not fulfil the standards of health and safety. The Ministry may, when it deems necessary, submit to the Council of Ministers its study on basic goods and services that shall be subject to price regulation and upon approval, announce their list and prices by a public notice. The Authority is accountable to the Ministry of Trade.

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

LEGAL FORMS OF INCORPORATION

The Commercial Code of Ethiopia recognises the following six forms of business organisations, the basis of which is a partnership agreement:

- Ordinary partnership;
- General partnership;
- Limited partnership;
- Joint venture;
- Share Company (SC); and
- Private Limited Company (PLC).

The Code further classifies business organisations into commercial and non-commercial. SCs and PLCs are always commercial business organisations whatever their objectives are.

A private limited company must have at least two members and may have a maximum of 50 members. The minimum capital required for a private limited company is USD 679 (ETB 15 000), and the liability of the company is limited to its assets.

A share company (public company) must have at least five founders. The minimum capital required for a share company is USD 2,265 (ETB 50,000). The Commercial Code and the Investment Law govern the incorporation of these business entities. The said minimum capital of USD 679 (ETB 15 000) and USD 2,265 (ETB 50,000) apply to local investors as provided in the Commercial Code while foreign investors are required to meet the minimum capital as stipulated in the Investment Law which is currently USD 200,000 if the investment is wholly foreign owned and USD 150,000 if the investment is made by a foreign investor jointly with a local investor.

Foreign investment can also be registered in the form of a branch office or a subsidiary. Branches or subsidiaries, as forms of business, are not defined in the Commercial Code. Nor are they defined in the Commercial Registration and Business Licensing Proclamation No. 980/2016.

The Commercial Code provides for firms incorporated abroad and having branches or subsidiaries in Ethiopia. Their similarities lie in the fact that both have legal personalities through registration, they are accountable to their parent companies and the resolution of the parent company is required for their opening and establishment. In terms of constitution, however, a branch cannot have a different name from the parent, cannot transfer its assets or establish a new company without the resolution of the parent company and cannot be converted into a different form of business organisation. On the other hand, a subsidiary for all practical purposes is like any new company having the form of either a PLC or a SC. Though the parent company has a controlling interest in a subsidiary, there is/are always other shareholder/s that may or may not be affiliated to the parent company usually to fulfil the required legal minimum number of members.

Business can also be carried out by an individual trader/investor. The law recognises it as a sole business and is required to enter into commercial registration. The Commercial Code does not recognise a one-person company. The distinctive feature of sole proprietorship is that the liability of the sole proprietor is unlimited, management and ownership is not separated. Doing business in such form is not routinely utilised by foreign investors.

INTELLECTUAL PROPERTY

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

As a result, there is in place:

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

These Proclamations are in accordance with the spirit of the Berne Convention for the Protection of Literary and Artistic Works, the Agreement on Trade-Related Aspects of Intellectual Property Rights and the WIPO Treaty.

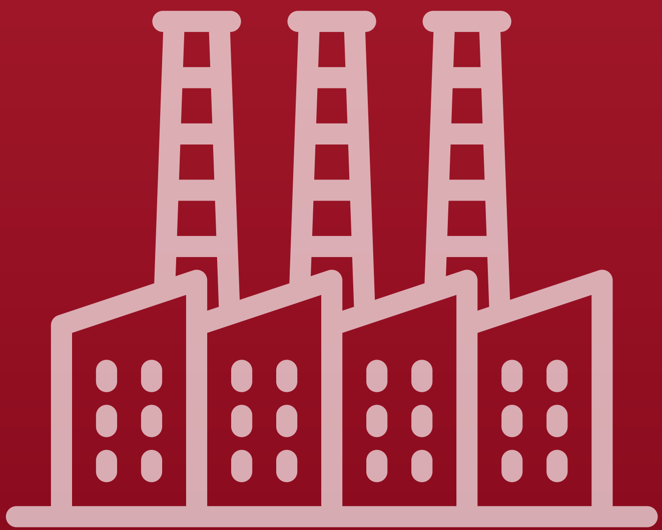
The Ethiopian Intellectual Property Rights Office, established in 2003, is responsible for the administration of patents, trademarks, copyrights and other intellectual property policies and legal issues.

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

DISPUTE SETTLEMENT

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

INDUSTRY SECTORS



AGRICULTURE

The agricultural sector constitutes approximately 40 percent of GDP and approximately 85 percent of total employment. Approximately 80 percent of the labour force is involved in subsistence agriculture as farmers or herders. Consecutive seasons of failed rains, however, mean the country still faces food insecurity. Ethiopia's main crops are coffee, pulses, oilseeds, cereals, sugarcane, potatoes and vegetables. Horticulture and floriculture are popular areas for foreign direct investment. Ethiopia is Africa's second largest maize producer and its livestock population is believed to be the largest in Africa.

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

BANKING & FINANCIAL SERVICES

The provision of Banking and Financial services is an area of business reserved for domestic investors only and the business can only be undertaken by establishing a share company. Nonetheless, capital leasing business has recently opened up for foreign investors. Currently, there are 16 private and 3 Government-owned banks, 17 private and 1 Government owned insurance companies, and 35 microfinance institutions, as of May 2012.

The National Bank of Ethiopia (NBE) is the country's Central Bank, and regulates all foreign currency transactions. It is the regulatory organ in the sector and licenses and supervises financial institutions more rigorously.

The local currency, 'Birr' or 'ETB', is not freely convertible. There are 1,5,10, 50 and 100 birr notes and a 1 birr coin. There are also a 1, 5, 10, 25, 50 cents coins. Since 2004, the NBE has permitted non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and maintain foreign currency accounts up to USD 50,000.

There is no stock market in Ethiopia. The Ethiopia Commodity Exchange was initiated in 2008 with the intention of increasing transparency in commodity pricing, encouraging commercialisation of agriculture and alleviating food shortages. It offers trading on commodities such as coffee, sesame seeds, corn and wheat.

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

ENERGY

Approximately 90 percent of Ethiopia's electricity is produced through hydropower. Apart from the use of water and wood in electricity production, The Ministry of Water, Irrigation and Energy is seeking investment in the energy sector in order to promote the development of energy in the country. The Ministry is particularly interested in renewable energy sources and a draft feed-in tariff Bill, establishing rates and conditions for private entities to supply power to the national grid, is being finalised. A number of high profile energy projects are also expected to be completed as Ethiopia is currently exporting electricity to Sudan, Kenya and Djibouti. Ethiopia is also in the process of signing a deal with Tanzania for the purchase of 400MW of electric power.

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

Petroleum requirements are met through imported refined products. Oil exploration has been ongoing since September 1945 when the Emperor Haile Selassie granted a 50 year concession to SOCONY-Vacuum. There are natural gas reserves of four trillion cubic feet in the South-Eastern lowlands of the country. Currently, there are oil and gas exploration activities in the Gambella Region in the country's South-West, adjacent to the border of southern Sudan.

Ethiopia does not have a PPP law to regulate public-private projects. The Government has identified that it would like to use PPP as a mode of infrastructure service delivery and a source of private sector investment, where appropriate, to support the improvement of infrastructure and the delivery of public services in Ethiopia.

Accordingly, a draft PPP law is currently being reviewed by the parliament and is expected to be enacted soon.

MANUFACTURING

The Growth and Transformation Plan (GTP) seeks to transform the economy toward an industrialised economy and to increase per capita income of its citizens by 2025. To this effect the Government has adopted policy focused on the development of the manufacturing sector through the use of industrial parks to attract FDI and to support SMEs. To bundle efforts and facilitate this transformation, the Government puts special focus on the production of textile and garments, leather products, cement industry, metal and engineering, chemical, pharmaceutical, and agro-processing as priority areas for investment.

The manufacturing sector constitutes approximately 20 percent of GDP in 2016. As mentioned above, investors in the manufacturing and agro-industrial sectors are granted tax exemptions according to the extent which they export their products.

The manufacturing sector is mostly concentrated in Addis Ababa and surrounds, with the focus being on food processing and beverages, textiles, leather, chemicals, metal processing and cement.

MINING

Ethiopia's mining sector is regulated by Mining Operations Proclamation No. 678/2010 (as amended), Mining Operations Regulation No. 182/1994 (as amended), and Transaction of Precious Minerals Proclamation No. 651/2009.

The legislation provides that private investors are permitted to perform all kinds of mining operations, including exploration, mining, processing and export. Investors may acquire a one year exclusive prospecting licence and a three year exclusive exploration licence with renewals of two years each and further extension periods depending on circumstances prevailing at the time the exploration activities are being undertaken. Investors may acquire a year exclusive mining licence with unlimited renewal periods of ten years each. The right to sell minerals in Ethiopia and abroad is guaranteed. Minerals not originally specified may be added to the licence if discovered and there is an exemption from customs duties and taxes on the importation of equipment, machinery, vehicles and spare parts necessary for mining operations.

The institutions involved in the sector are the Ministry of Mines, Petroleum and Natural Gas, State Mining bureaus/Offices and the Council of Ministers. The Ministry of Mines is responsible for the processing of license application, regulation of the mining operations and the promotion of investment opportunities in the sector. According to this Ministry, Ethiopia has a substantial deposit of gold, tantalum, platinum, nickel, potash and soda ash. Among construction and industrial minerals are marble, granite, limestone, clay, gypsum, gemstone, iron ore, coal, copper, silica, diatomite, etc. Geothermal energy resources also exist in good quantity. With regard to fossil energy resources, there are significant opportunities for oil and natural gas exploration and development in the major sedimentary basins.

The state mining bureaus are responsible for providing mining licences for artisanal mining, special small scale mining, construction minerals to domestic investors (reconnaissance, exploration, and retention licenses and, for small and large scale mining, mining licenses), industrial minerals to domestic investors (reconnaissance, exploration, and retention licenses, and, for a small scale mining, mining licenses.

The council of Ministers is responsible for approving the mining licences to be issues by the Ministry of Mines, Petroleum and Natural Gas and issuing regulations relating to mining in its legislative activity.

TELECOMMUNICATIONS

Investors may only enter into the telecommunication services industry in Ethiopia in the form of a joint venture with the State. Ethio-Telecom (ETC) is the state-owned company which has a monopoly in this sector. The telephone system in Ethiopia has been described as 'inadequate' and the combined fixed and mobile-cellular teledensity is comparatively low. ETC has previously estimated that the average rural Ethiopian inhabitant has to walk 30 kilometres to reach a telephone. There are approximately 1.6 million internet users (estimate of 2014), with 179 internet hosts in 2012. There is one public television broadcast station, one public radio broadcaster, a few commercial radio stations and approximately a dozen community radio stations.

TOURISM

Tourism constitutes approximately 4.1 percent of Ethiopia's GDP and utilises 3.1 percent of the labour force. Tourism is said to be a good area for potential investors due to the moderate dry climate, historical and religious sites and ecological beauty. The area of ecotourism, in particular, has great potential for growth. Potential foreign investors can take full advantage of these opportunities through direct investments or joint ventures with Ethiopians. In this area, only grade 1 tour operation service is allowed for foreign investors.

Opportunities also exist in the construction of star-designated hotels and resort hotels all over the country.

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