Overview of Ethiopian Investment Policy

October 3, 2013
Africa & Ethiopia is growing fast. Ethiopia is not only growing but pursuing for transformation plan. The GTP represents an ambitious set of national investments that will significantly upgrade both hard and soft infrastructure.

- Building **71,000 km of new roads**, including all-weather roads to virtually all kebele administrations and an expressway linking Addis Ababa to Adama (a key route to facilitate export and import trade)
- Constructing **2,395 km of new railways** linking Addis Ababa with Djibouti, linking selected domestic cities, and within Addis Ababa itself
- Laying **132,000 km of new electricity distribution lines** and expanding electricity coverage to 75% of the country
- Expanding the **water supply infrastructure to cover 99% of the population** and the drilling of some 3,000 water wells per year, Power, telecom, etc

Growth and Transformation Plan – Projected Spending
USD Billions

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<table>
<thead>
<tr>
<th>Year</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11</td>
<td>15</td>
<td>16</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>
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Total of $73 billion planned over 5 years

Source: Growth and Transformation Plan 2010/11-2014/15
3. Overview of Ethiopia’s Investment Policies and Incentives

The policy for Ethiopian investment has been modified in the last 20 years for more than 4 times.

The Investment Policy - Admission

- Foreign investors can invest alone or in partnership with domestic investors in areas open for FDI.
- No restrictions on equity ownership in joint venture (JV) investment.
- Required to have investment permit from EIA.
- Required to allocate minimum capital:
  - USD 200,000 for a single investment project.
  - USD 150,000 for joint with a domestic investor.
  - USD 100,000 for technical consultancy if wholly owned or
  - USD 50,000 jointly with a domestic investor.
Ethiopia’s investment laws are favorable (continued)

Incentives - Regulatory

- Guarantee against expropriation or nationalization (Constitution & Investment Law, MIGA & BITs)
- Full repatriation of profits, dividends, principal and interest payments on external loan etc. out of Ethiopia in convertible currency
- The right to employ expatriate experts and management staff
- Bilateral Investment Promotion & Protection Treaties with 30 countries
- Double taxation avoidance treaties with 18 countries
Ethiopia’s investment laws are favorable (continued)

Fiscal

- Customs duty exemption on imported capital goods, construction materials, and spare parts worth up to 15% of the value of imported capital goods
- Income tax exemption (2 to 9 years)
- Loss carry forward (for half of income tax exemption period)
- The incentive policy does not discriminate between domestic & foreign investors, though there are positive lists for FDI participation
## Income Tax Relief for Textile and Textile Products Industry

<table>
<thead>
<tr>
<th>No</th>
<th>Investment Activity</th>
<th>In Addis Ababa &amp; Special Zone of Oromia Surrounding Addis Ababa</th>
<th>In other Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preparation and spinning of cotton, wool, silk and similar textile fibers</td>
<td>Exemption from income tax for 4 years</td>
<td>Exemption from income tax for 5 years</td>
</tr>
<tr>
<td>2</td>
<td>Weaving, finishing and printing or textiles</td>
<td>Exemption from income tax for 5 years</td>
<td>Exemption from income tax for 6 years</td>
</tr>
<tr>
<td>3</td>
<td>Finishing of fabrics, yarn, warp and weft, apparel and other textile products by bleaching, dyeing, shrinking, sanforizing, mercerizing or dressing.</td>
<td>Exemption from income tax for 3 years</td>
<td>Exemption from income tax for 4 years</td>
</tr>
<tr>
<td>4</td>
<td>Other textile finishing activities</td>
<td>Exemption from income tax for 2 years</td>
<td>Exemption from income tax for 3 years</td>
</tr>
<tr>
<td>5</td>
<td>Manufacture of knitted and crocheted fabrics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Manufacture of made-up textile articles, except apparel</td>
<td>Exemption from income tax for 4 years</td>
<td>Exemption from income tax for 5 years</td>
</tr>
<tr>
<td>7</td>
<td>Manufacture of carpets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Manufacture of wearing apparel (including sport wears)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Manufacture of accessories for textile products</td>
<td>Exemption from income tax for 5 years</td>
<td>Exemption from income tax for 6 years</td>
</tr>
</tbody>
</table>
**Ethiopian Investment Agency (EIA) & one-stop shop**

- Providing over 26 licensing & registration services including investment license, business license, customs duty free approval, capital registration, authenticating documents

**Other services provided on behalf of investors**

- Execution of investors’ requests for land required for their investment projects
- Execution of investors’ residence permits
- Execution of investors’ requests for approval of environmental impact assessment studies conducted on their investment projects
- Execution of investors’ requests to acquire water, electrical power and telecom services
**Focus Areas**

Manufacturing investment opportunities with a backward linkage to agriculture

<table>
<thead>
<tr>
<th>Textiles &amp; Garments/Apparel</th>
<th>Leather &amp; Leather Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production of textile fabrics</td>
<td>Tanning of hides &amp; skins up to finished level</td>
</tr>
<tr>
<td>Production of garments</td>
<td>Leather goods &amp; articles (shoes, garments, etc.)</td>
</tr>
<tr>
<td>Production of other textile products (carpets, curtains, etc.)</td>
<td></td>
</tr>
</tbody>
</table>

![Image of a textile factory](image1.png)

![Image of leather products](image2.png)
## Agricultural Investment Opportunities

### Agro-processing

- Processing of horticulture
- Pulses & edible oil seeds
- Sugar processing incl. ethanol
- Animal feed
- Barley for brewing & grape for wine
- Slaughtering etc.

### Agricultural Opportunities

- Rubber Tree Plantation
- Sugarcane Plantation
- Horticulture
- Floriculture
- Fiber Crops: Cotton, jutes, etc.
- Cattle raising & Dairy Development
Other investment opportunities

### Mining

- Underdeveloped sector with huge potential particularly in gold, iron ore, potash, tantalum, gemstone, gypsum, marble, granite, etc.
- Significant potential in oil & gas
- 261 licenses have been issued by Ministry of Mines, of which 207 are exploration licenses and 54 mining licenses
- 137 companies are operating in the sector (66 foreign firms, 36 joint venture partnerships and 35 local companies)
- The total number of direct employees in these companies is estimated to be around 6,000.
- Artisanal miners numbers exceed 500,000 according to a recent UN study

Source: Doing business in Ethiopia – Precise consult international (2013).
Other investment opportunities

Tourism

- Ethiopia has historical, natural and cultural key assets to drive tourism (source of Nile river, origin of human kind, birthplace of coffee etc.)
- Addis Ababa is Africa’s political capital, the base for many international organizations and NGOs
- Improved connectivity through extensive network of Ethiopian Airlines
- Ethiopia is politically stable and its popular tourist destinations are safe and secure
- Large value chain and investment opportunities (hotels, tour operators, food suppliers, retail services etc.)
- Supportive regulatory environment (tax holidays, licensing etc.)

Source: Doing business in Ethiopia – Precise consult international (2013).
Other investment opportunities

Health sector

- Out of 87 million people approx. 42% use private health care facilities
- USD $8.6bn budgeted for next five years (health expenditure)
- Increased household income
- Increased educated population = higher demand for healthcare
- Urbanization, which concentrates people in areas with access to medical facilities
- Expected increase in government health expenditure
- Supportive regulatory framework (loans, biomedical instruments, zero tariff on raw materials etc.)
- Diverse investment opportunities (medical center, pharmaceutical manufacturing etc.)

Source: Doing business in Ethiopia – Precise consult international (2013).
Main Stakeholders:
- Ministry of Industry & institutions accountable to it. (TIDI, LIDI, MIDI)
- Ministry of foreign Affairs and Eth. embassies overseas,
- Regional States, (land)
- Revenue and Customs Authority,
- Ministry of Agriculture (including Land Administration Agency and Horticulture Agency)
- Utility companies mainly (water, electricity and telephone)
- Challenges?
Thank You!