

INVESTMENT FRAMEWORK IN ETHIOPIA

SNAPSHOT BY: EAGATE FOREIGN TRADE AUXILIARY PLC



Country Data (2012-13)

Population (million inhabitants)	93.9
Labor force (million)	45.6
GDP (billion USD)	43
GDP Growth	7.0%
Exports (billion USD)	3.2
Imports (billion USD)	10.7
Exchange rate for 1 USD	19.9
Estimated N. of EU investors	299

FDI Data

FDI Inflow (est. 2014) (million USD)	953
FDI inward stock (est. 2014) (million USD)	7.1%
<u>Source of FDI (May 2012):</u>	
Europe	24%
Asia	22%
Middle East	21%
North America	19%
Africa	11%
Others	3%

ENTERING THE MARKET

Past the option of simply trading with an Ethiopian distributor, a foreign investor may want to benefit from local production capacity, opportunities or consumption by setting up a local entity. The Ethiopian regulatory framework mainly offers two choices to operate locally:

- a Commercial Representative office (CR), with a scope limited to market studies and marketing/promotional activities, involving a minimum capital requirement of USD 100,000 (to be disbursed prior to licensing). This entity, with no legal personality can cover employment of staff locally and support your business development activities. However, it is not able to invoice or sign contracts to provide goods or services and therefore can only be used in combination with a local service provider; or
- for sectors open to foreign investment, or following a waiver granted by the Council of Ministers, a foreign investor can set-up a local entity in the form of a branch, private limited company (PLC), a share company (SC) or a sole proprietorship (SP). The minimum investment capital to be disbursed (prior to license issuance) is USD 200,000 for a 100% foreign owned company and USD 150,000 for joint venture investments with a local partner. In the following sectors: architectural or engineering works or related technical consultancy services, technical testing and analysis or in publishing work, the minimum investment capital is USD 100,000 for a 100% foreign owned and USD 50,000 for a joint-venture with a local partner.



Other forms of investment or operations in Ethiopia include: technology transfer agreements, foreign contractor status and partnerships.

LICENSING

Licensing process for foreign investors is done through the Ethiopian Investment Commission (www.eia.gov.et), the “one-stop-shop” for investors. The main steps for the registration of a PLC, SP or SC company are:

- checking the company name for uniqueness;
- leasing premises under a duly signed lease agreement (to be authenticated);
- preparing and signing of the memorandum and articles of association (to be authenticated);
- submitting documents and obtaining a letter from the Commercial Registry to open a bank account;
- opening a bank account by depositing the minimum capital requirement;
- registering and obtain the Commercial Registration certificate;
- ordering a company seal;
- registering with the Ethiopian Revenue and Customs Authority for Income Tax & VAT;
- applying for and obtaining a Business License; and
- acquiring and installing a cash registration machine.



In parallel to the registration of the company, an investment permit must be obtained from the Ethiopian Investment Commission for any foreign investment. It can be requested once the name of the company has been cleared by the Ministry of Trade.

This step includes the provision of a duly filled application form, copies of Memorandum & Articles of Association of parent company, passport copies, photographs and a power of attorney if the investor is represented.

The license has to be renewed on a yearly basis with the relevant authorities (Ministry of Trade and any pre-authorizing ministry involved, if any).

INVESTMENT INCENTIVES

The Investment Proclamation offers to an investor up to three investment incentives, namely:

- depending on the sector of investment and the location of the project within the country, tax exemption up to 6 years can be granted to the investor on its corporate income tax;
- to a certain limit, the investor can import its capital goods for the project on a duty free basis; and
- the tax exemption can be carried over on a following year until the project becomes profitable.

Some additional incentives are provided for export product-manufacturing companies and shall be requested at the Ethiopian Investment Commission at the time of preparation of the file for investment permit.

CONDITIONAL SECTORS

A foreign investor is allowed to invest in all areas of investment except those reserved for the Government, Ethiopian nationals and other domestic investors. In the Proclamation, sectors restricted to the Government are listed as:

- transmission and distribution of electrical energy through the integrated national grid system;
- postal services with the exception of courier services; and
- air transport services using aircraft with capacity of more than 50 passengers.

The following sectors are restricted to joint ventures with the Government: manufacturing of weapons and ammunitions as well as telecom services.

There is also a list of sectors restricted to Ethiopian nationals (meaning Ethiopians holding an Ethiopian passport, in a country where double nationality is excluded):

- banking, insurance and micro credit and saving services;
- packaging, forwarding and shipping agency services;
- broadcasting services;
- mass media services;
- attorney and legal consultancy services;
- preparation of indigenous traditional medicines;
- advertisement, promotion and translation works; and
- air transport services using aircraft with a seating capacity of up to 20 passengers

Authorized sectors for foreign investors come from a “positive list” attached as the Schedule to the Regulation 270/2012. The list is too exhaustive to be detailed here, but include several manufacturing sectors (basic metals industry, fabricated metal products, computer, electronic and optical products, electrical products, machinery & equipment, etc...), agro & agro-processing (food industry, crop production, animal production, forestry), ICT, hotel and tourism, construction contracting, healthcare, architecture, some specific products for import and/or export.

Sectors that are not mentioned in the foreign investor “positive list” nor in the list of sectors restricted to the Government or Ethiopian nationals are, in theory, opened to foreign investment subject to a case by case authorization from the Council of Ministers.

Licenses and business certificate are to be renewed on a yearly basis. This will only be allowed following the granting, by the tax authorities (ERCA) of a tax clearance for the year. It is therefore strongly advised to start the process as early as possible within the year.

TAXATION (CORPORATE)

Corporate Income Tax

The Corporate Income Tax is regulated as per Proclamation No.286/2002. Accordingly, Taxable business income of companies is taxed at the rate of 30% percent. Other business taxpayers, with business income ranging from ETB1,801 to ETB60,000, pay between 10% and 30%. Business Income, over ETB60,000 is charged 35 % while income below ETB1,800 is exempt from taxation.

Deductible expenses: In the determination of business income subject to tax in Ethiopia, deductions shall be allowed for expenses incurred for the purpose of earning, securing, and maintaining that business income to the extent that the expenses can be proven by the taxpayer and subject to the limitations specified by the 'Income Tax Proclamation No. 286/2002'.

In the determination of taxable business income, the owner of the business assets may deduct depreciation of business assets. For depreciation allowance, assets are categorized into different classes. Ranging from 5% for buildings and structures to 10% for intangible assets, 25% for computers, information systems, software products and data storage equipment 25% and 20% all other business assets including automobiles, buses and minibuses 20%.

Dividend tax

A 10% tax on dividends is applicable in Ethiopia. Following recent clarifications by the Government, shall be considered as dividend, distributed or undistributed, all net profit after tax not reinvested in the company.

INVESTMENT FORMS

Foreign participation in investments may be carried out either through the establishment of a commercial representative office (CR) or with a fully-fledged registered company.

A CR doesn't have a legal personality and may not offer goods or services for sale or enter into contract with clients in the name of his principal. The only activities permitted are:

- to promote in Ethiopia, products and services of the principal;
- to study projects that will enable the principal to make investments in Ethiopia; and
- to promote export products of Ethiopia in the country of the principal.

Four main forms of company structure exist: the Sole Proprietorship (SP) / Branch, Private Limited Company (PLC) or Share Company (SC). There is no distinction between the Ethiopian and foreign invested SP, PLC or SC.

The PLC acts as a "family" structure with 2 to 50 shareholders, no obligation to hold general meeting below 20 shareholders, need of $\frac{3}{4}$ of the votes for transfer of shares to third parties and pre-emption rights in case of capital increase. The company is managed by a General Manager, who can only be General Manager of one company at once.

The SC has a minimum of 5 shareholders, with no maximum limit. It is managed by a General Manager and a Board of Directors with 3 to 12 members. It does not require any prior agreement for share transfer and holds a pre-emption right for capital increase. The SP is the equivalent of the PLC with only a single shareholder.

WORK PERMIT

We recommend to check the website and then call the Ethiopian embassy in your country of residence during the preparation of your trip or installation in Ethiopia.

For business related trips, including fact-finding or partner identification mission, you must obtain a business visa, usually issued for a month to three months, starting from the date of issuance. For tourist trips, for certain nationalities, visas can be obtained at the airport upon arrival.



The Investment Permit obtained at the Ethiopian Investment Commission entitles the investor to ask residence permit for the Manager, to be renewed every year. An examination for driving license issuance is necessary to obtain a local driving license that entitles to drive in neighboring states with which there is an agreement of reciprocity.

Once installed in Ethiopia, the foreign staff can obtain a Work Permit following an application at the Ministry of Labour and Social Affairs. This Work Permit, together with the valid business visa allows applying for a one year residency permit at the Office for Main Department for Immigration and Nationality Affairs.



The Government of Ethiopia encourages investment in industrial zones by providing additional tax holidays of 2 years to 4 years for manufacturing sector, provided that the activities are export orientated.

Picture on the left: gate of the Eastern Industry Zone, created in 2007 by a cooperation between the Chinese Ministry of Commerce and Trade, the Ethiopian Federal Government and Jianguo Qiyuan Group.

More recently, the Bole Lemi industrial zone was inaugurated with 156 hectares. With an easy access to Addis Ababa, it is expecting to attract a large amount of foreign investors, creating more than 100,000 job opportunities.

PICTURES SOURCES:

B787 Dreamliner @ Brussels Airport, by Brussels Airport
 Map of Ethiopia, CIA World Factbook, USA Central Intelligence Agency
 Cement never sleeps, UK DFID
 Pittards leather factory, Foreign Office Minister Bellingham at the Pittards leather factory in July 2011, Foreign and Commonwealth Office
 Gate of Eastern Industry Zone, Author: EAGate Foreign Trade Auxiliary Plc

RELEVANT DOCUMENTATION:

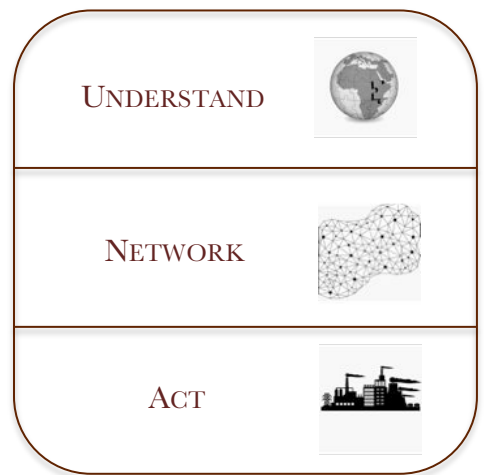
- Investment Proclamation (769/2012)
- Investment Regulation (270/2012)
- Proclamation 849/2014
- Regulations 312/2014
- Schedule (270/2012): List of restricted sectors
- Commercial Code

Please also visit the Ethiopian Investment Commission website and the EU Business Forum in Ethiopia (eubfe.eu).



East Africa Gate (EAGate) is a dynamic French/Ethiopian business partnership founded by Ms. Tigist Getachew Araya and Mr. Olivier Poujade. The two partners graduated from Toulouse University (France) and together combine more than 15 years of experience in emerging markets in the legal, financial and business strategy fields (www.eastafricagate.com). EAGate has rapidly become a reference for accurate business information and tailored investment solutions in the Horn of Africa.

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