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AN INVESTMENT GUIDE TO ETHIOPIA

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Opportunities and conditions
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UNCTAD

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body. Its main goals are to maximize the trade, investment and development opportunities of developing countries, to help them face challenges arising from globalization, and to help them integrate into the world economy on an equitable basis. UNCTAD's membership comprises 190 States. Its secretariat is located in Geneva, Switzerland, and forms part of the United Nations Secretariat.

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The International Chamber of Commerce (ICC) is the world business organization. It is the only body that speaks with authority on behalf of enterprises from all sectors in every part of the world, grouping together thousands of members, companies and associations from 130 countries. ICC promotes an open international trade and investment system and the market economy in the context of sustainable growth and development. It makes rules that govern the conduct of business across borders. Within a year of the creation of the United Nations it was granted consultative status at the highest level (category A) with the United Nations Economic and Social Council. This is now known as General Category consultative status.

Note

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References to "dollars" (\$) are to United States dollars, unless otherwise indicated.

Disclaimer

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Three good reasons to invest in Ethiopia

• Market potential

The size of a country's population matters to most investors. Other things being equal, the larger the population the larger the potential market for their products. Nor is this all, for a larger population also increases the pool from which investors draw their employees, whether these are semi-skilled workers or highly qualified professionals. This then is one good reason for considering Ethiopia as a location for investment: its population of nearly 70 million.

Among its East African neighbours, this is twice as large as the next largest, the 35 million in Tanzania. Admittedly, this is a population with a limited purchasing power, but Ethiopia has had GDP growth rates of around 5% for a number of years and growth may be expected to pick up as investor-friendly reforms gather speed. The private sector in the country agrees that reforms *have* gathered speed, especially over the past year or two. The *Economic Freedom Index 2004*, published by the Heritage Foundation in the United States, ranks Ethiopia's economic environment *second* in its list of those *most improved*.

• Climate

Ethiopia is a large country with great geographical diversity. It has 18 ecological zones and five climate zones, ranging from the alpine to the desert. Well over half the country consists of highlands, where the temperatures mostly range from 10°C to 20°C. This climate is, of course, an asset for tourism and also an asset for a variety of agricultural activities, from coffee to roses. It is *ideal* for roses, according to Ethiopia's largest exporter of roses, which chose Ethiopia over its competitors primarily because of its climate. Over 140 kinds of crops are currently grown in Ethiopia. Since agriculture and agro-based industries are the top Government priority for attracting FDI, a variety of incentives are available to foreign investors.

• Soft assets

Ethiopia has the distinction of offering one of the cleanest business climates in the developing world. Among LDCs, it may well be the country with the lowest levels of corruption. According to both foreign and domestic investors, what might be called routine bureaucratic corruption (the confident expectation of bribes by tax or licensing officials) is very nearly unknown in Ethiopia. To make assurance doubly sure, the Government has set up an anti-corruption body that has been active for several years. This feature goes with some others equally appealing. Employers in Ethiopia rarely have cause to distrust the honesty and integrity of their workforce. Crime is uncommon in the country and the level of security of person and property is high. The two main religions in Ethiopia, Christianity and Islam, have co-existed peacefully for a long time and continue to do so today. *Safe, peaceful, stable and very nearly free of corruption* – how many business environments in Africa or Asia can be so described?

Acknowledgements

A great many individuals and institutions have contributed to this project and to the production of this guide. Although we cannot list each and every contributor, some merit special mention. These include the donors to the second phase of the investment guides project, specifically the Governments of Finland, Italy, Norway and Sweden; Nestlé SA, which contributed to events held in Ethiopia; the UNDP office in Ethiopia, which facilitated work in the country; the company executives and government officials who participated in the consultations in Addis Ababa; and our consultants in Ethiopia: Fantu Gola, Sonia Pasqua and Tessema Woubneh.

The cooperation of the Ethiopian Investment Commission (EIC) was essential to the success of this project. Our thanks are owed especially to Commissioner Abi Woldemeskel. The Permanent Mission of Ethiopia to the United Nations in Geneva, and in particular Woinshet Tadesse, facilitated work on the project.

This guide was prepared, with the assistance of consultants and advisers both external and internal, by a project team led by Vishwas P. Govitrikar. Valuable input or feedback was provided by a number of people, including Gebrewold Ashengo, Taye Berhanu, Omar Bagersh, Jean-Paul Blavier, Chris de Muynck, Spina Gioacchino, Abraham Gozguze, Tony Hickey, Teshome Kebede, Olivier Mange, Berhane Mewa, Richard Ponsford, Christine Seyfou, Ryaz Shamji, Tadesse Tilahun, Kifle Yeshetila, Arega Yirdaw, Daniela Zampini and Worku Zewde. (Needless to say, none of them is responsible for the final product.) Administrative support was provided by Katia Vieu. The guide was edited by Chris MacFarquhar, and designed and typeset by Nelson Vigneault. Karl P. Sauvart provided overall guidance.

Note to the reader

This document is published as part of the UNCTAD–ICC series of investment guides. The publications in this series are intended for the use of foreign investors who are largely unfamiliar with the countries covered. They are thus designed to offer *overviews* of potential locations for investment, rather than constitute exhaustive works of reference or provide detailed practical instruction. They do, however, offer pointers to sources of further information in the private as well as the public sector.

There are two other features of these publications that the reader will find worth noting. One is that they are third-party documents, intended to offer a balanced and objective account of investment conditions. Their principal advantage in drawing the attention of investors to the countries they cover is *credibility*. The other feature is that both their general structure and some of their specific content are the result of consultations with the private sector.

The executive summary is followed by a brief introductory chapter. Then come the three chapters that account for the bulk of the contents. “The operating environment” describes the general conditions in which investors must operate: macroeconomic conditions, infrastructure, taxation, human resources, and so forth. “Areas of opportunity” offers a description of areas of potential interest to foreign investors. “The regulatory framework” focuses on regulations governing investment and *foreign direct investment* in particular. The fifth and final chapter provides a summary of the perceptions of the private sector in the country, both foreign and domestic.

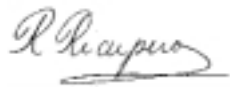
The primary source of further information for an investor wishing to explore investing in Ethiopia is the Ethiopian Investment Commission (EIC) – see box on page 51. Contact details of selected sources of further information, including websites, are provided in appendix 3. Appendix 2 provides the contact details of some 60 foreign investors in Ethiopia.

Preface

Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

This second edition of *An Investment Guide to Ethiopia* (the first appeared in 1999 in quite a different format) is the tenth concrete product of a collaborative venture by the United Nations Conference on Trade and Development (UNCTAD) and the International Chamber of Commerce (ICC). Its objective is to bring together two parties with complementary interests: *companies* that seek new locations and *countries* that seek new investors. This is not always a straightforward exercise, for firms are driven by their global strategies as much as lured by specific opportunities, and countries have economic and social objectives that transcend attracting foreign investment.

The UNCTAD–ICC investment guides are thus properly seen as parts of a process, a long-term process at the heart of which is an ongoing *dialogue* between investors and Governments. The guides *themselves* are the product of a dialogue, including that occurring among and between the representatives of business and government during the workshops that precede the completion of the guides. It is our hope that the guides will in turn *contribute* to the dialogue, helping to strengthen and sustain it, for we are convinced that in the long run it is this alone that will create conditions increasingly conducive to greater flows of investment.



Rubens Ricupero
Secretary-General
UNCTAD



Maria Livanos Cattai
Secretary-General
ICC

The UNCTAD–ICC series of investment guides**PUBLISHED**

- *An Investment Guide to Ethiopia*, 1999; revised edition in new format, 2004
- *Guide de l'investissement au Mali*, 2000; revised edition in new format, 2004
- *An Investment Guide to Bangladesh*, 2000
- *An Investment Guide to Uganda*, 2001; revised edition, 2004
- *An Investment Guide to Mozambique*, 2002
- *An Investment Guide to Nepal*, 2003
- *An Investment Guide to Cambodia*, 2003
- *Guide de l'investissement en Mauritanie*, 2004

(The first editions of the guides to Ethiopia and Mali were published in cooperation with PricewaterhouseCoopers. English versions of the Mali and Mauritania guides will soon be available on the UNCTAD website.)

FORTHCOMING

- *An Investment Guide to East Africa*, 2005
- *An Investment Guide to Kenya*, 2005
- *An Investment Guide to Tanzania*, 2005

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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

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