Japan International Cooperation Agency

Project on Supporting Investment Promotion in Africa

Data Collection Survey on Investment Promotion in the Federal Democratic Republic of Ethiopia

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KRI International Corp.

Ernst & Young Sustainability Co. Ltd.

Summary

１. Outline of the Study

The Project to Support Investment Promotion in Africa aims to understand critical issues regarding foreign investment and foreign direct investment (FDI) promotion such as the status of business environment, investment potentials and the institutional framework for investment promotion in the target countries. Under the project, investment promotion experts have been dispatched in Kenya, Zambia and Ghana. Surveys have also been conducted to collect and analyze information in Ethiopia, Rwanda, Democratic Republic of Congo, and Cameroon. The Data Collection Survey on Investment Promotion in Ethiopia (hereinafter referred to as “the Survey”) focused more to analyze the actual business environment in order to understand the current situations of the critical factors which affect easiness and the cost of doing business in Ethiopia. The analysis was based on institutional framework and the actual implementation from the interviews with investors as well as the information on the progress of on-going supports by the development partners in order to identify the policy directions for the improvement of the situation.

２. Macroeconomics Trend

Ethiopia has a population of 87 million which is the second largest in Sub-Saharan Africa. Its gross domestic product (GDP) amounts to approximately USD 35 billion, the 6th largest in the region. Ethiopia has realized economic growth with around 10% GDP growth per annum over the past 10 years. During the period, the primary sector reduced its share in GDP from 51.9% in the Fiscal Year (FY) 2004/05 to 39.9% in 2013/14. On the other hand, the share of secondary and tertiary sectors in GDP increased from 10.6% and 37.5% in 2004/2005 to 14.2% and 45.9% in 2013/2014, respectively. As far as trade is concerned, although exports have constantly increased mainly consisting of agro products over the past 10 years, trade deficit reached around USD 100 million in 2013/2014 as a result of increase of imports such as capital goods, consumer goods and fuels in accordance with rapid economic growth. The foreign exchange reserve at the end of 2013/2014 remained low for 1.8 months of total imports.

３. Analysis of Investment Trend

The ratio of gross capital formation to GDP in Ethiopia increased from around 25% in 2004/05 to around 40% in 2013/14. The share of public investment and private direct investment in capital account balance in 2013/14 is 65% and 35%, respectively, which shows predominance of the former. Ethiopia’s private direct investment is heavily dependent on FDI which has been around 90% since 2011. According to the data from Ethiopian Investment Commission (EIC), FDI inflow shows steady increased from Ethiopian Birr (ETB) 2.8 billion in 2005 to ETB 7.0 billion in 2014. As far as industry is concerned, the manufacturing sector has the largest share in FDI in 2014.

Recent foreign investment projects have included industries such as garment, leather and shoes which require cheap and abundant labor, floriculture taking the advantage of geographical locations and climatic conditions, and real estate development. In addition to those, some foreign companies are investing in consumer product manufacturing and the social service sector targeting potentially huge domestic market with the second largest population in Sub-Saharan Africa. Among existing foreign investors, some companies are now endeavoring to make investment in the upstream sectors in order to secure stable supply of quality raw material.

4. Analysis of Investment Potential

In Ethiopia, labour-intensive industry has relatively strong competitiveness by taking advantage of availability of cheap labour force. However, the current situation affecting the trade such as logistics and foreign exchange allocation should be noted when considering the conduciveness for industries which have relatively short product life cycle and require frequent and sizable amount of imported raw materials. Although manufacturing of consumer products for domestic market has certain investment potential, at the same time, investors have to take into account difficulties in areas such as insufficiency in domestic transport network for distribution and foreign exchange allocation for possible import of raw materials.

Table Investment Opportunity in Ethiopia

	Investment Opportunities	Notes
Labor-intensive industry	Labor-intensive industries (e.g. manufacturing in garment, assembling, service industries which requires large volume of labor force)	・ Relatively low productivity should be taken into consideration. ・ Trade logistics may affect the potential for assembly-type of industries with costs and time required for importation of raw materials and export of products.
Domestic market oriented industry	Production of food, consumer goods, construction materials	・ Domestic distribution may require attention: domestic transportation infrastructure is not sufficiently developed to form efficient logistics network. ・ Trading is limited only to domestic investors. ・ Production of cement is limited only to domestic investors. ・ Quality of electricity may be a concern for efficient operation.
Infrastructure development	Power generation	・ Legal framework is required for private foreign investment.
Agro and livestock-based industry	Agro-processing Leather industry	・ Procurement of quality raw materials may be an issue. ・ Quality standard and certification to conform to the requirements of export destinations may require attention with limited quality control infrastructure in country. ・ Quality of electricity may be a concern for efficient operation.
Industries utilizing air transportation	Export of fresh produce Export processing with light and high-value added products	

Source: JICA Study Team.

5. Analysis of Investment Policy

The Government of Ethiopia (GoE) targets to become a middle income country by 2015 in “the First Growth and Transformation Plan 2010/11- 2014/15 (GTP-I)” and “the Second Growth and Transformation Plan 2015/16- 2019/20 (GTP-II)”. In order to achieve the target, GoE expects foreign investment to be a driving force for economic growth by generating employment, earning foreign currency and increasing productivity.

As far as the legal system for investment is concerned, both the Investment Proclamation (No.769/2012) and Council of Ministers Regulation Concerning Investment Incentives and Investment Areas Reserved for Domestic Investors (No.270/2012) promulgated in 2012 constitute legal foundation for foreign and domestic investment. Ethiopia Investment Agency (EIA) which was under supervision of the Ministry of Industry (MOI) was reorganized as EIC under supervision of Prime Minister Office (PMO), which has enabled formulation and implementation of coherent investment promotion policy in GoE. As the decision making and overseeing function of EIC, Ethiopian Investment Board (EIB) was also set up and chaired by prime minister.

However, in Ethiopia, some sectors such as power, communication, banking, insurance, trading & shipping and forwarding are either reserved only for operation by Government entities or prohibited for foreign investment, which could act not only as entry barriers, but also as an impediments for investment promotion since the restriction may limit availability of quality and efficient services in such areas. In addition, as far as the possible entry areas for foreign investment are concerned, it is regulated by both negative list (prohibited sectors) and positive list (allowed sectors). EIC decides the approval of investment based on the positive list. However, as the positive list does not specify the details of each sector, some service sectors remain unclear whether foreign investment is allowed or not.

As for tax incentive scheme for investment promotion, GoE provides tax holidays and exemption of import duty for capital goods for some strategic sectors such as manufacturing, agriculture, agro-processing and power generation. The tax exemption period under the scheme is decided according to industrial sector. Additional exemption period is granted in accordance with the investment location. With more than 100% expansion of original invested amount or exports of more than 60% of the products, the exempted period will be further extended.

GoE also has the fiscal incentive scheme for export promotion such as tax exemption for import of raw materials for export purpose, Duty-Drawback Scheme, Voucher Scheme and Bonded Export Factory Scheme. However, some schemes have not been fully utilized due to their complicated structure and time consuming procedures for reconciliation.

GoE promulgated "Proclamation on Industrial Parks" (Proclamation No.886/2015) in April 2015 with a view to attract strategic industries from both foreign and domestic investors. The development of industrial parks aims to improve the issues of infrastructure, logistics, customs clearance, and environmental protection as well as linkages between large enterprises and small and medium enterprises (SMEs). GoE also has a plan to establish One Stop Service (OSS) in industrial parks for facilitating foreign investment.

６. Analysis of Investment Climate

The major issues for investment climate in Ethiopia are discussed below.

(1) Establishing Companies and Getting Investment License

Starting an investment project in Ethiopia, an investor is required to establish their legal status by commercial registration and to be issued an investment permit. While the investment permit can be renewed before the business is operational, the investor is further required to be issued a business license. The business license has to be renewed annually. Problems are observed both in the framework of the licenses and the issuance process. The level of required minimum capital for an investment permit to the income level is relatively high compared with other neighboring countries. The criteria for screening the applicants for the investment permit and business license are also not clear: some companies had difficulty in obtaining or renewal of licenses for reasons which were not stated on the official legal documents. Renewal of business license may be a further cumbersome process after the operation of the business. Periodic renewal with submission of documents including the certificate of tax clearance is a burden for investors.

In order to ease the situation for starting investment projects, EIC plans to establish OSS in industrial parks. Investment Climate Program by the Multi-Donor Initiative for Private Sector Development spearheaded by the International Finance Corporation (IFC) is supporting simplification and introduction of online transactions for business-related administrative processes.

(2) Labor and Human Resource Development

Labor Proclamation (Proclamation No.377/2003) comprehensively regulates labor issues. On the other hand, employment of expatriates and obtaining a visa for dispatch of short-term technical experts are problematic due to inconsistent interpretation in the department in charge and subjective discretion by the officials in charge. In addition, one year renewal process of working permit and the residential visa is cumbersome.

Due to the limited amount of labor with sufficient technical skills and knowledge, human resource development cost imposes a burden for investors. The skills and technical levels of training programs provided by industrial promotion institutes under MOI and other public vocational training institutions do not match with the needs of foreign investors. However, under Competitiveness and Job Creation Project, the World Bank helps GoE to provide customized training to acquire the skill and knowledge that enterprises in the industrial zones request.

(3) Foreign Exchange and Remittance

According to the above mentioned Investment Proclamation, foreign investors can freely make remittances such as profit, dividend, principle and interest for loans from overseas, royalty and fees from technical transfer agreement, etc. However, GoE's foreign exchange regime has not liberalized capital account, and transactions such as repatriation of profit and borrowing foreign currency loans require pre-approval from the National Bank of Ethiopia (NBE). In addition, foreign currency allocation for opening Letters of Credit (L/C) needs long time (1-3 months) depending on the foreign currency position of commercial banks. Furthermore, GoE has imposed certain restrictions on foreign currency possession for exporters. Such situation impedes smooth operation of private sector's business activities in Ethiopia.

Ethiopia is currently in the stage of growing economically where a large capital has been flowing into infrastructure development projects causing a big gap between demand and supply of foreign currency. Ethiopia's foreign currency income derives mainly from sources such as export of primary commodity and remittances from Ethiopian Diasporas overseas. Although both incomes show increasing trend, they will not contribute to significant improvement in the short term. In order to resolve demand-supply gaps, investors have to wait for GoE's infrastructure development projects to be completed and become operational in order to enter the "foreign currency earning stage". NBE is currently preparing a policy paper analyzing the pros and cons of present foreign exchange control system to recommend the future direction.

(4) Taxation and Accounting

Tax and accounting system in Ethiopia is under transitional period of reflecting global business practice. Although the laws and regulations for taxation exist, such factors as arbitrariness in application of rules and inexperienced officers at the Ethiopian Revenues and Customs Authority (ERCA) due to the high turnover cause uncertainty and long time for completion of the process. Issues such as deductible expense, Value Added Tax (VAT) refund, tax audit and international taxation tends to put burdens on the investors.

Under the circumstance, in order to enhance legal development and capacity building, with the support of IFC, GoE has been implementing i) drafting new Income Tax Proclamation; ii) drafting new VAT Proclamation; iii) formulating independent regulation on transfer price and training for ERCA officials; iv) Preliminary survey for risk based tax audit; and v) formulating tax system for SMEs. In addition, training for increasing capacity for tax audit has been conducted with the support of the UK Department for International Development (DfID).

(5) Trade Logistics

The most serious problems in logistics in Ethiopia are long lead time and high cost for import of goods. Multimodal Transportation System (MTS) was introduced in order to enable customs clearance in Ethiopia as opposed to Unimodal system where the customs clearance for Ethiopia has to be done in Djibouti. Through MTS system, GoE has been trying to simplify customs clearance procedures and to reduce the dwell time of cargos in Djibouti. However, as state owned Ethiopian Shipping and Logistic Service Enterprise (ESLSE) is exclusively allowed for the shipping and forwarding services for MTS, some inefficiency is observed. Under these circumstances mentioned above, GoE has been preparing the National Logistics Strategy which is a comprehensive promotion policy for trade logistics sector supported by the United Nations Development Program (UNDP). In addition, some international donors like IFC have been implementing Investment Climate Program that aims to simplify trade-related administrative procedures by introduction of the Single Window System.

(6) Customs Duty and Customs Clearance

The Customs Proclamation (Proclamation No.859/2014) promulgated in 2014 aims to modernize customs duty and tax collection. However, some parts of significant reform have not been implemented since necessary regulations have not been issued related to important issues like customs valuation and advance ruling. In addition, incentive system for export promotion regulates 6 schemes including tax exemption, which is expected to reduce burden for customs clearance procedure as well as customs duty. However, in practice, not many traders have taken advantage of the incentive scheme.

Under the circumstance mentioned above, IFC and other donors have been supporting GoE for institutional development aiming at the streamlining areas such as drafting regulations for the Customs Proclamation, introducing the Single Window, capacity building for risk management, and developing standard operation procedures in ERCA.

(7) Electrical Power

Power supply has two critical issues: the quality of power supply and the participation of foreign private investors in the power sector. Regarding the former, a number of investment projects to set up generation plants, mainly hydropower, are formulated including on-going projects such as Grand Renaissance Dam project and some with financial commitment. While electricity tariff is controlled to be low, the quality of power supply needs to be improved. As for private participation in the power sector, the transmission and distribution is reserved only for government entities. On the other hand, GoE has been preparing for private sector participation starting with geothermal generation.

7. Analysis of Investment Promotion Agency

(1) Ethiopian Investment Commission（EIC）

EIC is the primary window institution for investment promotion and facilitation in Ethiopia. However, since its experience as an investment promotion agency is still limited with insufficient organizational capacity, its function and investor services have not been fully exercised. The following issues can be addressed: namely: i) Quality information needed by investors has not been provided to investors due to insufficient coordination and linkage with relevant authorities; ii) despite the intension of EIC to provide OSS function, the service is only limited to the initial stage of the investment and not aftercare for some cumbersome administrative procedures after the operational phases of the invested projects: and, iii) Policy advocacy coordinating effective dialogue with private sectors has not been realized yet.

In addition, as EIC is expected to expand its new function of regulating and overseeing industrial park operation, it should be noted that extensive efforts for capacity building is required.

EIC plans to undertake the following key capacity building partially with the support of the development partners. First, EIC will expand OSS functions by receiving representative officers from local governments and the Ministry of Agriculture. Second, EIC will provide OSS in industrial parks which can renew business licenses and working permits. Third, EIC will establish the Public Private Dialogue Unit to facilitate dialogues between GoE and private investors.

(2) Industrial Parks Development Corporation (IPDC)

IPDC is on the way to develop its organizational capacity as the developer of industrial parks. It has not completed the recruitment of experts in necessary technical areas. With limited experiences as a developer, IPDC is required to acquire skills and knowledge in various key areas such as planning, development, contract management, maintenance and services for tenants. Apart from the already operating Bole-Lemi I, GoE has plans for developing industrial parks in Hawassa and Kilinto with the support of the development partners such as the World Bank. On the other hand, rules and technical standards to regulate industrial parks are under preparation by EIC with the support of the World Bank since EIC is the regulatory body of industrial park development and operation. OSS functions are also to be operated by EIC and relevant authorities. Organizational reform of IPDC has been also proposed. At the same time, the World Bank will support organizational and technical capacity development.

8. Conclusion

In Ethiopia, EIC has been reorganized under PMO by strong leadership of prime minister and its organization will be augmented by adding the new functions of regulating and overseeing industrial parks. In addition, by the establishment of IPDC, GoE has been actively implementing industrial park development in various areas and has been exercising strong initiative in promoting investment. On the other hand, as far as some sectors like telecommunication and transportation are concerned, such strong state intervention has had negative impact on their markets in terms of high cost and inefficiency.

Ethiopia is still in the transitional period from agro-based economy to economy led by labor-intensive light industry like garment and leather. Therefore, the issues like high imports, shortage of foreign currency and insufficient infrastructure are the major concerns influencing the investment climate. In addition, since industrialization has just begun, securing stable and high quality raw materials for processing purpose is still a challenge for the country. Such issues can be expected to be improved in the future as the economy grows with institutional building and infrastructure development.

On the other hand, according to the interviews with foreign investors that are already operating in Ethiopia, during operation stage after obtaining investment license, many of them face difficulties in terms of dealing with license, work permits, taxation and customs clearance such as i) administrative procedure is unclear; and ii) cost and time for the procedure is high. Some foreign investors indicated a serious concern for the continuation or expansion of business operation in Ethiopia. GoE should pay more attention to the voice of such existing foreign investors in order to gain their confidence for further investment expansion, in addition to promoting greenfield investment.

GoE is required to tackle the following issues in order to improve investment climate and to increase capacity of investment promotion in Ethiopia.

(1) Labor

It is necessary to implement capacity enhancement of EIC in terms of strengthening OSS function. As for human resource development, GoE is required to augment training service which matches with investor needs.

(2) Foreign Exchange

In the future, when Ethiopia’s position of foreign exchange reserve improves, GoE should consider revising the NBE’s Directive to gradually deregulate the restriction of Retention Account A, which exporters can retain in foreign currency indefinitely from export proceeds. It is worth considering that GoE should also research foreign exchange deregulation process of other developing countries which used to have strict foreign exchange control policy to obtain policy guidance for Ethiopia.

(3) Taxation and Accounting

It is necessary to implement policy measures to increase transparency and predictability of tax administrative procedures. In this regard, GoE should develop clear rules and guidelines for most problematic area such as tax audit, VAT refund, deductible expense, etc. as well as capacity building of relevant officials. In addition, in order to improve tax administrative service for private businesses, GoE should consider expanding tax consultation window.

(4) Logistics

Upon the official approval of the National Logistics Strategy, priority policy areas are expected to be identified. The main pillars of the strategy are supposed to be institutional development, utilization of information and communication technology (ICT), infrastructure development, and development of logistics network along the major supply chains. GoE needs to implement infrastructure development and operational capacity building. The important areas for development may include establishing MTS with railway transportation, transport nodes of air cargoes and road transportation, and the network connecting major industrial areas and logistics hubs.

(5) Customs Duty and Customs Clearance

Institutional building and reform for customs duty has been implemented in GoE in order to promote streamlining of customs administration. With a view to responding to increasing logistics volume in line with the speed of economic development, policy measures need to be implemented to improve efficiency of customs operation in accordance with relevant policy such as export promotion. For example, at the time of opening railway system, construction of logistic and customs clearance flow will be required.

(6) Capacity Building of EIC

As mentioned earlier, EIC is expected to expand its functions such as regulating and overseeing industrial park operation and export promotion. In this regard, EIC should research the experience of other countries in supervision of industrial parks. Currently the World Bank is assisting GoE to develop rules and regulations for industrial park development. It is urgently required to formulate such legal framework based on in-depth coordination with relevant authorities as well as acquiring lessons from other countries in order to assure necessary quality of industrial parks.

(7) Capacity Building of IPDC

IPDC is required to enhance capacity of planning, operation and management of industrial parks as a developer. In line with the detailed rules and regulations supported by the World Bank, it is needed to pay particular attention to the progress and final contents of such legal framework as well as to coordination with relevant authorities

JICA Project on Supporting Investment Promotion in Africa

Data Collection Survey on Investment Promotion in the Federal Democratic Republic of Ethiopia

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List of Abbreviations

Abbriviation	:	
AEO	:	Authorized Economic Operator
AfDB	:	African Development Bank
AGOA	:	African Growth Opportunity Act
BPR	:	Business Process Reengineering
CAD	:	Cash Against Documents
CBE	:	Commercial Bank of Ethiopia
CIDA	:	Canadian International Development Agency
CIF	:	Cost, Insurance and Freight
COMESA	:	Common Market for Eastern and Southern Africa
DAG	:	Development Assistance Group
DBE	:	Development Bank of Ethiopia
DfID	:	Department for International Development
EAPP	:	East Africa Power Pool
EBA	:	Everything But Arms
ECAA	:	Ethiopian Civil Aviation Authority
ECX	:	Ethiopia Commodity Exchange
EEA	:	Ethiopian energy Authority
EEP	:	Ethiopian Electric Power
EEPCo	:	Ethiopian Electric Power Corporation
EEU	:	Ethiopian Electric Utility
EFFSAA	:	Ethiopian Freight Forwarders and Shipping Agents Association
EIA	:	Ethiopia Investment Agency
EIB	:	Ethiopian Investment Board
EIC	:	Ethiopian Investment Commission
EIPO	:	Ethiopian Intellectual Property Office
EMAA	:	Ethiopian Maritime Affairs Authority
EPZ	:	Export Processing Zone
ERCA	:	Ethiopian Revenues and Customs Authority
ESLSE	:	Ethiopian Shipping and Logistic Service Enterprise
FAO	:	Food and Agriculture Organization of the United Nations
FDI	:	Foreign Direct Investment
FEC	:	Foreign Exchange Certificate
FMHCA	:	Food Medicine Health Care Administration Authority
FOB	:	Free on Board
FTZ	:	Free Trade Zone
GDP	:	Gross Domestic Prodcut
GIZ	:	German Agency for International Cooperation
GoE	:	Government of Ethiopia
GSE	:	Geological Survey of Ethiopia
GSP	:	Generalized System of Preference
GTP-I	:	Growth Transformation Plan I
GTP-II	:	Growth Transformation Plan II
IAS	:	International Accounting Standards
ICT	:	Information and Communication Technology
IDC	:	Italian Development Cooperation
IFC	:	International Finance Corporation
IFRS	:	International Finanicial Reporting Standards
IPA	:	Investment Promotion Agency
IPDC	:	Industrial Parks Development Corporation
IPSAS	:	International Public Sector Accounting Standards
JETRO	:	Japan External Trade Organization
JICA	:	Japan International Cooperation Agency

Abbriviation	:	
JV	:	Joint Venture
LAC	:	Loan Approval Committee
L/C	:	Letter of Credit
LIBOR	:	London Interbank Offered Rate
LIDI	:	Leather Industry Development Institute
LNG	:	Liquefied Natural Gas
MDGs	:	Millennium Development Goals
MIGA	:	Multilateral Investment Guarantee Agency
MOI	:	Ministry of Industry
MOLSA	:	Ministry of Labour and Social Affairs
MIDI	:	Metal Industry Development Institute
MTS	:	Multimodal Transportation System
MoFEC	:	Ministry of Finance and Economic Cooperation
NBE	:	National Bank of Ethiopia
OECD	:	Organisation for Economic Co-operation and Development
OSS	:	One Stop Service
PE	:	Permanent Establishment
PFI	:	Policy Framework for Investment
PMO	:	Prime Minister Office
PPP	:	Public Private Partnership
RG	:	Reykjavik Geothermal Ltd
RIO	:	Regional Investment Office
SEZ	:	Special Economic Zone
SIDA	:	Swedish International Development Agency
SME	:	Small and Medium Enterprise
TICAD V	:	Tokyo International Conference on African Development V
TIDI	:	Textile Industry Development Institute
TIN	:	Tax Identification Number
UNCTAD	:	United Nations Conference on Trade and Development
UNIDO	:	United Nations Industrial Development Organization
UNDP	:	United Nation Development Programme
USAID	:	United States Agency for International Development
VAT	:	Value Added Tax
WDI	:	World Development Indicators
WIPO	:	World Intellectual Property Organization
WTO	:	World Trade Organization

Chapter 1 The Outline of the Project and the Survey

1.1. The Background of the Project

The Fifth Tokyo International Conference on African Development (TICAD V) was held in June 2013. Active discussions took place on the direction of African development in line with the core themes of TICAD V, namely "Robust and Sustainable Economy," "Inclusive and Resilient Society" and "Peace and Stability". The Yokohama Action Plan, the roadmap for future African development, emphasized the importance of the private sector from the view of promoting economic growth. The plan also points out the importance of promoting investments in various sectors in addition to natural resources and accelerating employment, business linkage between local and foreign companies, and technical transfer. The government of Japan promised to assist African countries (e.g. dispatch advisors to ten countries).

In this regard, the Japan International Cooperation Agency (JICA) is already dispatching experts to several countries. JICA also received requests to send experts from other countries, but it also realized that it is necessary to provide a wide range of assistance for investment promotion from analysis on investment policies and investment climate (including legal frameworks) to expertise on business conducted by foreign companies.

Based on the situation, the project was designed with two elements, which are: i) Dispatch of the investment promotion experts in Kenya, Ghana, and Zambia and ii) Data collection survey on investment promotion in Ethiopia, Rwanda, DRC, and Cameroon with the objectives listed below. This approach will make the project more inclusive and effective.

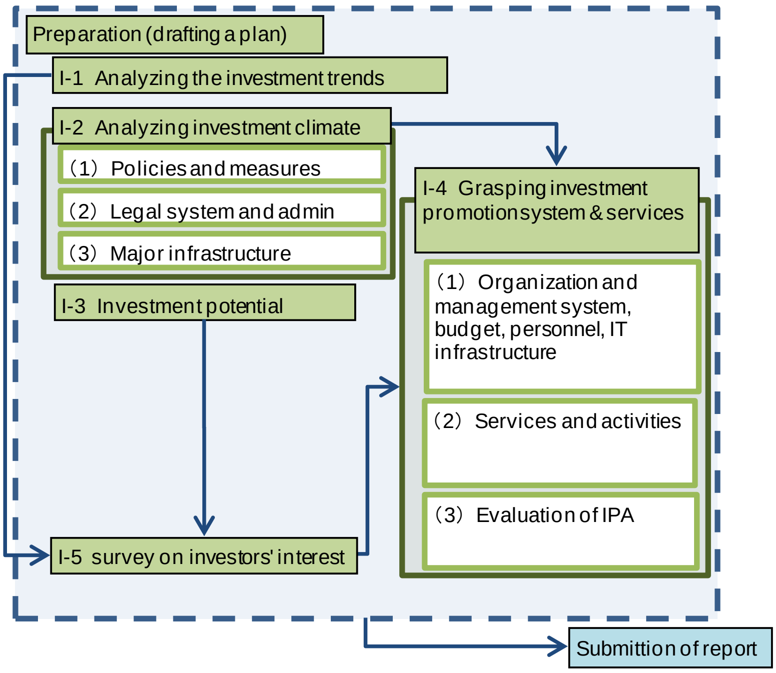
1.2. The Objectives of the Project

Based on the background, the objectives of the project are as follows:

- To research investment climates, investment potential, and investment structure of the targeted countries and to conduct survey on the investment intention of foreign enterprises.
- To assist investment promotion of subjected government agencies by dispatching Japanese experts to support developing their capacity, and to provide technical advice to improve the investment climate in the countries.

1.3. The Implementation Structure of the Project

Based on the background and objectives, a data collection survey will be conducted and the issues on investment promotion will be identified in Ethiopia, Rwanda, DRC, and Cameroon. When conducted, the survey (especially to study investment climate and IPAs) will utilize a standardized approach (e.g. Policy Framework for Investment (PFI) made by the Organisation for Economic Co-operation and Development (OECD) and Doing Business Index created by the World Bank) so that the results can be comparative among countries.



Source: JICA Study Team.

Figure 1-1 Work Flow for Standardized Approach

For Ghana, Kenya, and Zambia, the expert in each country will conduct some pilot projects for technical transfer. The lessons learnt from the pilot projects will help JICA to formulate assistance to promote investments in these countries and other developing countries in Africa and in the world.

1.4. The Scope and Methodology of the Survey on Investment Promotion in Ethiopia

Foreign investment to Ethiopia shows gradual increase in recent years with the growing attraction of inexpensive and abundant labor force and economic development. On the other hand, Ethiopia's rank in Doing Business 2016 by the World Bank Group is 146 out of 189. The business environment needs further improvement in order to expand the inflow of foreign investment.

The Governments of Ethiopia and Japan have been holding the High Level Forum for Policy Dialogue of Industrial Development since 2009. The forum and the various studies conducted under the initiative have identified key issues for economic and industrial development. The significance of foreign investment has been recognized through these dialogues and analyses.

In order to realize a favorable and concrete policy direction for investment promotion, the critical problems and constraints for foreign investment need to be identified. The Data Collection Survey on Investment Promotion in the Federal Democratic Republic of Ethiopia (hereinafter referred to as "the Survey"), therefore, reviewed the situation on investment and investment promotion comprehensively. It reviewed the significant issues which affect the investment decisions of investors and the success of their operation after the launch: i.e., the cost of various factors and investment climate. The Survey also includes analysis on investment policy and the government functions for promoting investment as a key function of investment promotion responding to the situational analysis of the investment climate.

The Survey focused on the key issues which are identified as critical for promoting investment in the previous preceding studies and dialogues including above-mentioned High-Level Forum. The Survey reviewed both the institutional frameworks of the issues and the actual situations based on the information on the experiences of foreign investors and private business operators in Ethiopia in various stages in the life-cycle of the investment and business operation. Those areas include establishing companies, obtaining investment licenses, paying taxes, foreign money transfer, labor issues, foreign currency allocation, and trade logistics, power supply and infrastructure.

The economic background and the investment trends are first overviewed in Chapter 2 and Chapter 3. Identified investment potentials are discussed in Chapter 4. The investment policy, its characteristics and the situation of implementation are analyzed in Chapter 5. Chapter 6 reviewed key areas of investment climate from two aspects: namely, their institutional and legal framework and the actual implementation or experiences of investors. Investment promotion agencies as the key government functions for investment promotion were reviewed in Chapter 7 from the aspects of their institutional frameworks, organizational capacity, services and functions.

Chapter 2 Socio-Economic Situation of Ethiopia

2.1. Outline of Ethiopia

The Federal Democratic Republic of Ethiopia (hereinafter referred to as Ethiopia), the oldest independent country in the African continent, had 87 million people on an area of 1.14 million km^2 as of 2014. Its population is the second largest in Sub-Saharan Africa and still grows at the annual rate of 2.6%. Ethiopia has been maintaining a high growth rate of the gross domestic product (GDP) (10.3% in 2014). Having the headquarters of the African Union and the United Nations Economic Commission for Africa, Addis Ababa, the capital city of Ethiopia, makes the country the diplomatic center in Africa.

On the other hand, the percentage of public expenditure for education and health in GDP is low (3-4%) and GDP per capita is still around 377 USD. The government of Ethiopia (GoE) made a 5-year development plan called the Growth Transformation Plan I (GTP-I) and other policies to exit the status of a poor country and to transform itself from agro-based to industrialized country.

Currently, GoE is finalizing the Growth Transformation Plan II (GTP-II) for further economic growth and structural transformation. The final consultation completed in October, 2015 and the outline of the GTP-II was distributed to all relevant organizations. The completed GTP-II in both Amharic and English is expected to be released in early 2016. The outline of the GTP-II is explained in section 5.1 of this report.

Table 2-1 Major Indicators of Ethiopia

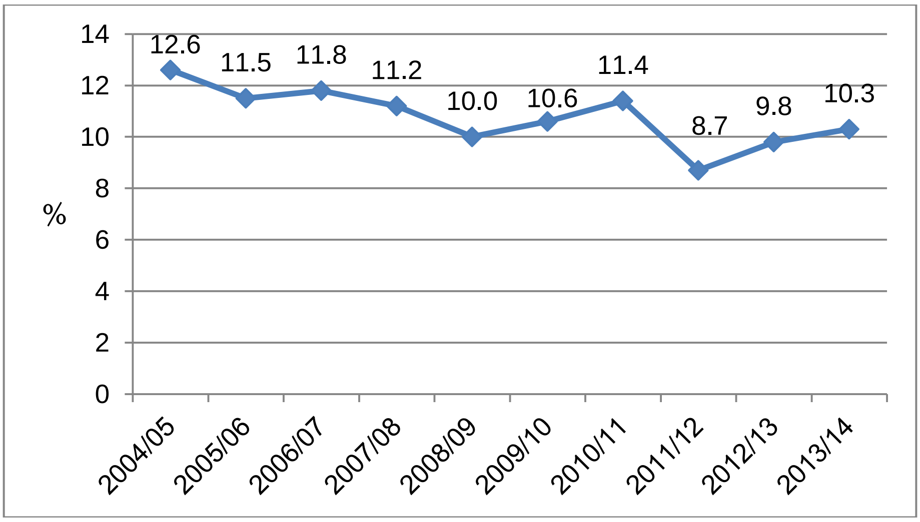
	Indicator	Number	Year
1	Area	1.14 million km^2	2013/14
2	Population	87 million people	2013/14
3	Population growth	2.6%	2013/14
4	Real GDP (2010/11 base)	680 billion birr (35.6 billion USD)	2013/14
5	Real GDP growth	10.3%	2013/14
6	Real GDP per capita (2010/11 base)	USD 377	2013/14
7	Consumer price index	8.1%	2013/14
8	Public expenditure to education (percentage of GDP)	4.6%	2010
9	Public expenditure to health (percentage of GDP)	3.1%	2013

Source: 1-7: National Bank of Ethiopia (NBE) (2013-14) Annual Report, 8-9: World Bank, World Development Indicators (WDI).

2.2. Macroeconomics

2.2.1 GDP Growth

The figure below shows the trend of GDP growth of Ethiopia in the last 10 years. It shows that the country has maintained high annual rate of economic growth in the recent years at around 10%.

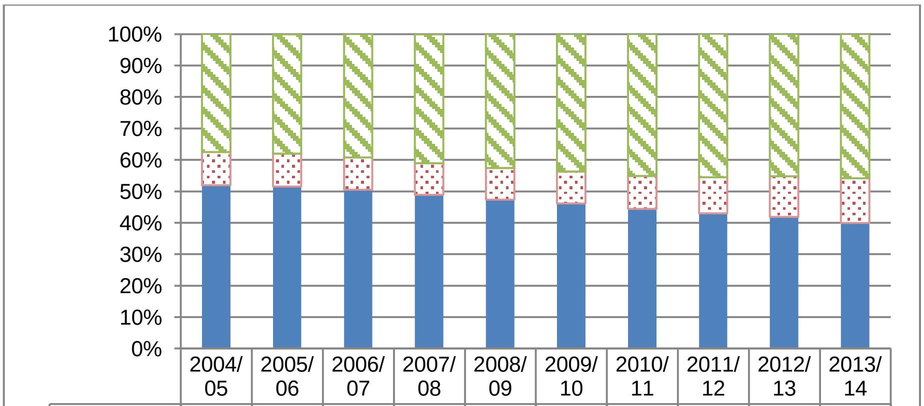


Source: NBE (2013-14) Annual Report.

Figure 2-1 GDP Growth

2.2.2 Industrial Structure

Figure 2-2 outlines the industrial structure of Ethiopia. The figure shows that the GDP share of the sum of primary and tertiary industry is about 90% while secondary industry only accounts for about 10% of the total GDP. The structure is rather typical in many Sub-Saharan African countries. The GDP share of the primary industry was more than half (51.9%) in 2004/05, but it became 48.8% in 2007/08. The share keeps decreasing over time and it is now 39.9% in 2013/14. On the other hand, the GDP share of the tertiary industry, which was only 37.5% in 2004/05, increased to 45.9% in 2013/14. The GDP share of the secondary industry remained at around 10% between 2004/05 and 2010/11, but it increased from 11.5% to 14.2% in the last three years, which implies the industrial structure is gradually changing toward the expansion of the secondary industry, which may promote the acceleration0 of industrialization.



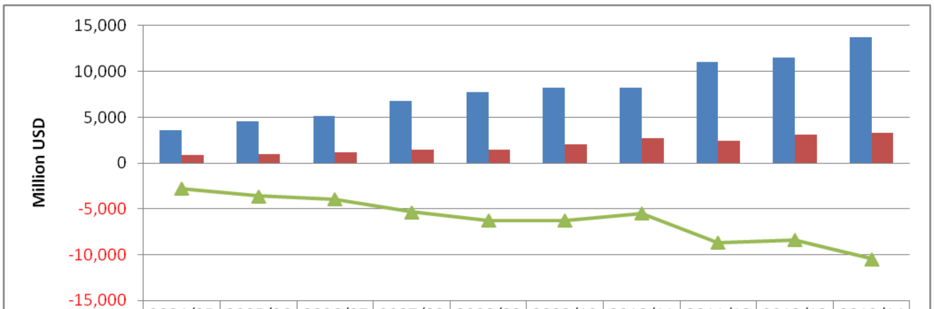
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tertiary	37.5%	38.0%	39.3%	41.0%	42.6%	43.7%	45.2%	45.7%	45.3%	45.9%
Secondary	10.6%	10.4%	10.2%	10.1%	10.1%	10.2%	10.4%	11.5%	12.9%	14.2%
Primary	51.9%	51.5%	50.5%	48.8%	47.3%	46.1%	44.4%	42.9%	41.8%	39.9%

Source: NBE (2013-14) Annual Report.

Figure 2-2 Industrial Structure

2.2.3 Trade Trends

As shown below, Ethiopia has been recording trade deficits in the recent years. Both exports and imports show gradual increase between 2004/05 and 2010/22, although the import amount was far more than the export. As a result, the trade deficits were also gradually increasing from -2.7 billion USD in 2004/05 to -5.5 billion USD in 2010/11. After 2011/12, the import amount rapidly increased while the export amount grew rather moderately relative to imports, which made the trade deficit more than -10 billion USD in 2013/14.



	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Import	3,633	4,593	5,126	6,811	7,727	8,269	8,253	11,061	11,467	13,722
Export	847	1,000	1,185	1,466	1,448	2,003	2,747	2,403	3,081	3,255
Balance	-2,786	-3,592	-3,941	-5,345	-6,279	-6,266	-5,506	-8,659	-8,386	-10,467

Note: Export: FOB, Import: CIF.
Source: NBE (2013-14) Annual Report.

Figure 2-3 Trade Balance

(1) Export Trends

The table below shows that exports have an increasing trend over the last 10 years. The export total was 0.84 billion USD in 2004/05 and became 2 billion USD in 2009/10. Then, it became more than 3 billion USD in 2011/12 and 3.2 billion USD in 2013/14. Coffee has continuously been a major export item followed by oil seeds. However, the share of oil seeds remains at between 10-15% while the share of coffee decreased from 39% in 2004/05 to 22% in 2013/14. Replacing coffee, gold became the third major item among exports in 2013/14 (14% of total exports) with its share increasing from only 7% in 2004/05 to 19% in 2011/12.

Table 2-2 Export Trends by Item (amount and share)

Upper: million USD
Lower: %

Particulars	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Coffee	335.2	354.3	424.2	524.5	375.9	528.3	841.8	833.1	746.6	714.4
	39.6%	35.4%	35.8%	35.8%	26.0%	26.4%	30.6%	26.4%	24.2%	22.0%
Oil seeds	125	211.4	187.4	218.8	356.1	358.5	326.6	472.3	443.5	651.9
	14.8%	21.1%	15.8%	14.9%	24.6%	17.9%	11.9%	15.0%	14.4%	20.0%
Leather, Leather products	67.6	75	89.6	99.2	75.3	56.4	103.8	109.9	121.1	129.8
	8.0%	7.5%	7.6%	6.8%	5.2%	2.8%	3.8%	3.5%	3.9%	4.0%
Pulses	35.4	37	70.3	143.6	90.7	130.1	137.9	159.7	233.3	250.7
	4.2%	3.7%	5.9%	9.8%	6.3%	6.5%	5.0%	5.1%	7.6%	7.7%
Meat & Meat products	14.6	18.5	15.5	20.9	26.6	34	63.3	78.8	74.3	74.6
	1.7%	1.8%	1.3%	1.4%	1.8%	1.7%	2.3%	2.5%	2.4%	2.3%
Fruits & Vegetables	16.1	13.2	16.2	12.8	12.1	31.5	31.5	44.9	43.9	45.9
	1.9%	1.3%	1.4%	0.9%	0.8%	1.6%	1.1%	1.4%	1.4%	1.4%
Live animals	12.8	27.6	36.8	40.9	52.7	90.7	147.9	207.1	166.4	186.7
	1.5%	2.8%	3.1%	2.8%	3.6%	4.5%	5.4%	6.6%	5.4%	5.7%
Chat	100.2	89.1	92.8	108.3	138.7	209.5	238.3	240.3	271.3	297.3
	11.8%	8.9%	7.8%	7.4%	9.6%	10.5%	8.7%	7.6%	8.8%	9.1%
Gold	59.4	64.7	97	78.8	97.8	281.4	461.7	602.4	578.8	456.2
	7.0%	6.5%	8.2%	5.4%	6.8%	14.0%	16.8%	19.1%	18.8%	14.0%
Flower	7.8	21.8	63.6	111.8	130.7	170.2	175.3	197	186.7	199.7
	0.9%	2.2%	5.4%	7.6%	9.0%	8.5%	6.4%	6.2%	6.1%	6.1%
Others	73	87.8	91.8	106.3	91.3	112.5	219.1	207.1	215.4	247.4
	8.6%	8.8%	7.7%	7.3%	6.3%	5.6%	8.0%	6.6%	7.0%	7.6%
Total	**847.1**	**1000.4**	**1185.2**	**1465.9**	**1447.9**	**2003.1**	**2747.2**	**3152.6**	**3081.3**	**3254.6**
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: The amount is FOB.
Source: NBE (2013-14) Annual Report.

(2) Import Trends

The table below shows the import trends over the last 10 years. The imports have been rapidly increasing since 2004/05. It was 3.6 billion USD in 2004/05, and became over 10 billion USD in 2011/12, eventually reached 13.7 billion USD in 2013/14. Capital goods accounted for about 30% in the last 10 years followed by consumption goods and fuel. Among the capital goods, industry accounts for about 70% followed by transportation about 20%. Fuel consists mainly of the petroleum products.

Table 2-3 Import Trends (amount above and share below)

Unit: million USD

Particulars	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Raw materials	49.1	77.2	148.6	257.8	354.2	212.4	183.7	199.7	145.6	165.2
Semi-finished goods	664.7	821.6	800.3	1259.7	1140.1	1226.5	1228	1957.2	1753.9	2098.1
Fertilizers	*122*	*135.9*	*140*	*302.1*	*270.7*	*249.4*	*342.4*	*604.6*	*291.8*	*398.9*
Fuel	668.7	860.4	875.1	1621.4	1256.6	1310.7	1659.3	2124.8	2163.9	2543.2
Petroleum products	*667.4*	*856.5*	*872.3*	*1614.4*	*1246.9*	*1303*	*1648.8*	*2078.3*	*2128.2*	*2494.9*
Others	*1.4*	*4*	*2.7*	*7*	*9.7*	*7.7*	*10.5*	*46.4*	*1236.1*	*48.4*
Capital goods	1199.3	1453.1	1868.5	1777.4	2474.7	2886.3	2757	2961.7	3572.6	4500.3
Transport	*371.6*	*429.9*	*633.8*	*380.9*	*384.2*	*509.8*	*688.1*	*809.7*	*903.1*	*1084.3*
Agricuture	*24.4*	*38.7*	*33*	*40.9*	*31.3*	*59.8*	*63.6*	*119.5*	*129.9*	*166.8*
Industry	*803.4*	*984.4*	*1201.7*	*1355.5*	*2059.2*	*2316.7*	*2005.4*	*2032.5*	*2539.6*	*3249.2*
Consumer goods	986.1	1281.9	1317	1515.7	2383.5	2515.7	2294.8	3531.7	3452.4	3834.1
Durables	*337.3*	*415.7*	*520.7*	*459.4*	*674.8*	*865*	*868.5*	*1105.3*	*1089.8*	*1501.1*
Non-durables	*648.8*	*866.2*	*796.3*	*1056.3*	*1708.7*	*1650.7*	*1426.3*	*2426.4*	*2362.6*	*2333*
Miscellaneous	65.3	98.5	116.6	378.7	117.4	117.3	130.5	286.3	378.9	581
Total	**3633.2**	**4592.7**	**5126.1**	**6810.7**	**7726.5**	**8268.9**	**8253.3**	**11061.4**	**11467.3**	**13721.9**

Continued to the next page

Unit: %

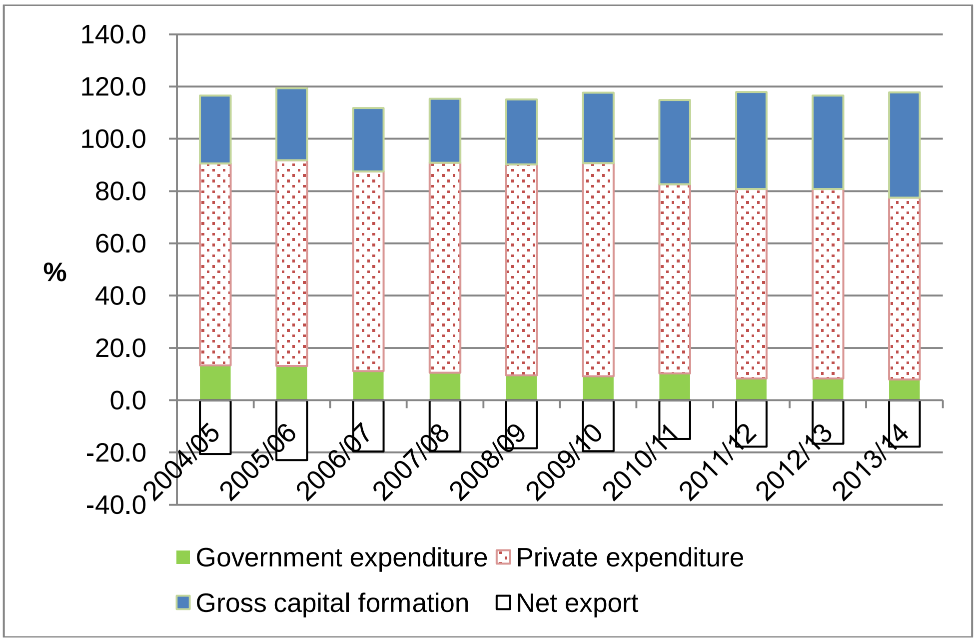
Particulars	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Raw materials	1.4%	1.7%	2.9%	3.8%	4.6%	2.6%	2.2%	1.8%	1.3%	1.2%
Semi-finished goods	18.3%	17.9%	15.6%	18.5%	14.8%	14.8%	14.9%	17.7%	15.3%	15.3%
Fertilizers	*18.4%*	*16.5%*	*17.5%*	*24.0%*	*23.7%*	*20.3%*	*27.9%*	*30.9%*	*16.6%*	*19.0%*
Fuel	18.4%	18.7%	17.1%	23.8%	16.3%	15.9%	20.1%	19.2%	18.9%	18.5%
Petroleum products	*99.8%*	*99.5%*	*99.7%*	*99.6%*	*99.2%*	*99.4%*	*99.4%*	*97.8%*	*98.4%*	*98.1%*
Others	*0.2%*	*0.5%*	*0.3%*	*0.4%*	*0.8%*	*0.6%*	*0.6%*	*2.2%*	*57.1%*	*1.9%*
Capital goods	33.0%	31.6%	36.5%	26.1%	32.0%	34.9%	33.4%	26.8%	31.2%	32.8%
Transport	*31.0%*	*29.6%*	*33.9%*	*21.4%*	*15.5%*	*17.7%*	*25.0%*	*27.3%*	*25.3%*	*24.1%*
Agricuture	*2.0%*	*2.7%*	*1.8%*	*2.3%*	*1.3%*	*2.1%*	*2.3%*	*4.0%*	*3.6%*	*3.7%*
Industry	*67.0%*	*67.7%*	*64.3%*	*76.3%*	*83.2%*	*80.3%*	*72.7%*	*68.6%*	*71.1%*	*72.2%*
Consumer goods	27.1%	27.9%	25.7%	22.3%	30.8%	30.4%	27.8%	31.9%	30.1%	27.9%
Durables	*34.2%*	*32.4%*	*39.5%*	*30.3%*	*28.3%*	*34.4%*	*37.8%*	*31.3%*	*31.6%*	*39.2%*
Non-durables	*65.8%*	*67.6%*	*60.5%*	*69.7%*	*71.7%*	*65.6%*	*62.2%*	*68.7%*	*68.4%*	*60.8%*
Miscellaneous	1.8%	2.1%	2.3%	5.6%	1.5%	1.4%	1.6%	2.6%	3.3%	4.2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: The amount is CIF.
Source: NBE (2013-14) Annual Report.

Chapter 3 Investment Trends in Ethiopia

3.1. Investment Trends

The GDP share of the total capital formation shows a gradual increase over the last 10 years. The share remained at around 25% from 2004/05 to 2009/10, and then hit 30% in 2010/11 and became 40% in 2013/14. This implies the capital investment in Ethiopia has been expanding over the years.



Source: NBE (2013-14) Annual Report.

Figure 3-1 Trend of the GDP Share of Total Capital Formation

The next table shows the amount of direct investment against the current account balance of payments. The current account has been in deficit in the last few fiscal years due to the continuation of the trade deficits, except for 2010/11. On the other hand, the capital account has been increasing. The public investment (e.g. by the federal government) accounts for about 50% of the investment and the share exceeded 60% since 2012/13.

Table 3-1 Balance of Payment Statistics in Ethiopia

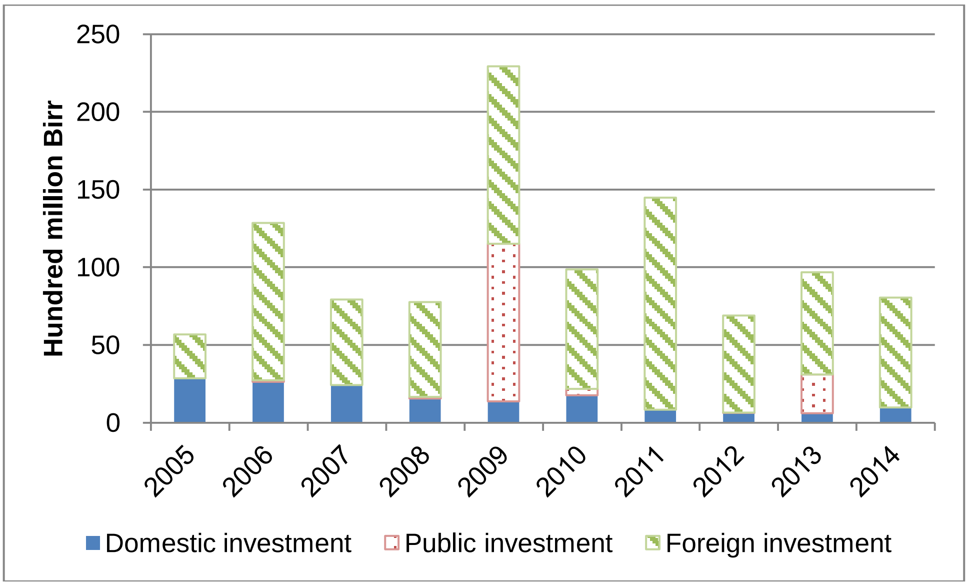
Unit: Million USD

	Current account	Capital account			
			Direct investment	Public investment	Other investment
2009/10	-1,293	2,573	956	1,210	407
2010/11	234	2,474	1,243	1,387	-156
2011/12	-2,757	2,243	1,072	1,292	-121
2012/13	-2,821	3,227	1,232	2,087	-92
2013/14	-4,407	4,135	1,467	2,641	27

Source: IMF Article IV Executive Board Consultation.

Figure 3-2 shows the trend of both foreign and domestic investment over the last 10 years captured by Ethiopian Investment Commission (EIC)[1]. Except for 2009 and 2013 with an unusually huge public investment, the share of domestic (including public) and foreign investment are almost balanced in 2005. Between 2006 and 2010, foreign investment accounted for 80% of the total investment. The share further reached close to 90%. This trend clearly implies Ethiopia's policy direction for proactive foreign investment promotion in recent years.

The total investment amount was 5 billion birr (0.57 billion USD) in 2005, gradually increased in 15 billion birr (0.93 billion USD) in 2011. The outstanding invested value in 2009 amounting to more than 20 billion birr (0.4 billion USD) was due to a huge public investment. After 2011, the amount decreased to 7 billion birr (0.4 billion USD), then gradually recovered to 10 billion birr (0.5 billion USD) between 2013 and 2014.



Source: JICA Study Team based on information from EIC.

Figure 3-2 Investment Trend by Type

The next table shows the trend of the investment amount (both domestic and foreign) by industrial sector. The share changes every year, but the manufacturing maintains the largest share in the total investment. The share of agriculture was second largest until 2010. The share of real estate, lease and consulting as well as construction including drilling wells has been increasing since 2011, whereas the share of agriculture stayed below 5%.

[1] EIC captures domestic investment and green field foreign investment except for the mining sector (see section 7.5 for the details). Public investments do not need any particular process to be approved but EIC collects the data on such investments.

Table 3-2 Investment Trend by Sector

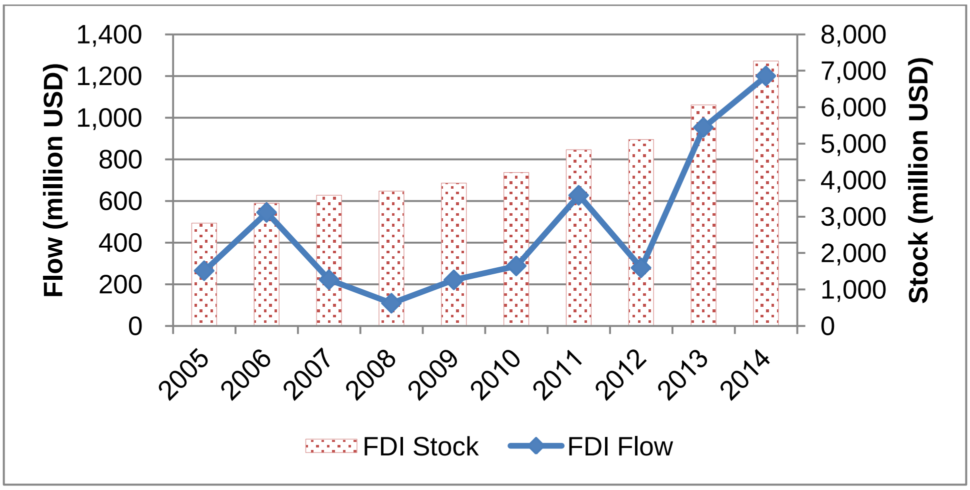
Upper: Million birr
Lower: %

Sector	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture	996	597	1,717	2,209	1,513	1,031	466	106	119	390
	18%	5%	22%	28%	7%	10%	3%	2%	1%	5%
Manufacturing	1,999	8,716	3,243	3,075	17,643	6,253	11,868	5,755	5,606	4,955
	35%	68%	41%	40%	77%	63%	82%	84%	58%	62%
Hotel & Restaurants	364	899	172	533	186	455	401	221	93	101
	6%	7%	2%	7%	1%	5%	3%	3%	1%	1%
Real estate, lease, consulting	959	1,552	1,053	529	817	358	1,107	364	86	1,981
	17%	12%	13%	7%	4%	4%	8%	5%	1%	25%
Construction including drilling wells	132	708	1,200	876	2,297	1,044	469	316	3,408	465
	2%	6%	15%	11%	10%	11%	3%	5%	35%	6%
Others	1,222	381	549	546	484	715	160	130	365	149
	22%	3%	7%	7%	2%	7%	1%	2%	4%	2%
Total	**5,672**	**12,853**	**7,934**	**7,768**	**22,940**	**9,856**	**14,471**	**6,892**	**9,677**	**8,041**
	100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
USD Rate	**@8.65**	**@8.68**	**@8.79**	**@9.24**	**@10.42**	**@12.89**	**@16.10**	**@17.30**	**@18.30**	**@19.10**

Note: The rate is annual average.
Source: JICA Study Team based on information from EIC.

3.2. Trends of Foreign Investment

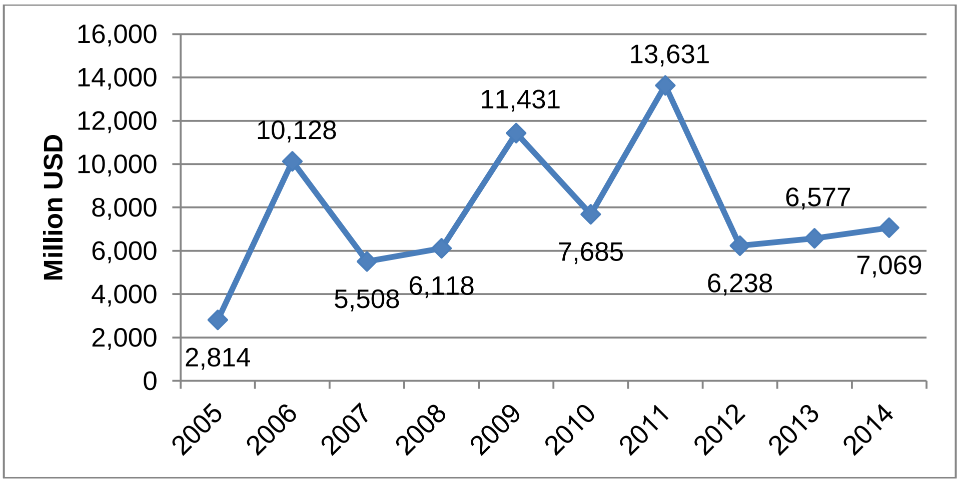
According to the United Nations Conference on Trade and Development (UNCTAD), the flow of foreign investments fell from 0.6 billion USD in 2006 to 0.1 billion USD in 2008. Then, it started to increase gradually and reached at 1.2 billion USD in 2014, except for a fall in 2012. Similarly, the stock of foreign investments shows an increasing trend. It reached at 3 billion USD in 2006, 4 billion USD in 2010 and then increases by 1 billion USD every year, which leads to over 7 billion USD in 2014.



Note: The flow is net amount.
Source: UNCTAD stat (http://unctadstat.unctad.org/EN/Index.html).

Figure 3-3 Flow and Stock of Foreign Investment in Ethiopia

The next figure shows the trend of foreign investment captured by EIC[2] over 10 years. The amount fluctuates every year, but it shows gradual increase over the last 10 years. The amount reached 13.6 billion birr (0.84 billion USD) in 2011, which is the highest amount in the last 10 years, then it decreased to 6.2 billion birr (0.35 billion USD). In the last three years, the amount has been gradually increasing.



Source: JICA Study Team based on materials provide by EIC.

Figure 3-4 Foreign Investment Trend

3.2.1 FDI Trend by Sector

The table below shows the trend of foreign investment by sector over the last 10 years. Although the total amount fluctuates every year, the manufacturing accounts for more than 50% except for 2007 and 2008. In these two years, the share of manufacturing is still largest among all the sectors (39% in 2007 and 44% in 2008).

The share of agriculture was second till 2009, but it decreased to a few percent in the last five years. Instead, the share of real estate, lease, and consulting as well as construction including drilling wells is increasing.

[2] The EIC makes the database of new foreign investment excluding the mining sector (see section 7.5 for the details).

Table 3-3 Trend of Foreign Investments and Number of Projects by Type

Upper: Milling birr
Lower: Number of projects

Type	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture	584	254	975	1,839	1,190	416	385	36	65	45
	31	21	22	40	18	15	15	5	4	5
Manufactur -ing	1,593	8,289	2,154	2,704	7,280	5,534	11,698	5,632	5,559	4,671
	64	88	106	105	102	74	66	78	78	47
Hotel & Restaurants	228	749	44	186	40	53	62	15	35	0
	14	11	18	15	11	12	7	6	7	0
Real estate, lease, consulting	209	275	911	465	580	250	1,024	219	25	1,947
	51	66	89	72	63	38	41	50	9	14
Construction including drilling wells	116	468	1,150	647	2,165	992	439	303	874	300
	13	11	14	19	18	14	9	8	14	3
Others	84	93	274	277	176	440	23	33	19	106
	23	16	26	39	31	23	5	14	5	8
Total	**2,814**	**10,128**	**5,508**	**6,118**	**11,431**	**7,685**	**13,631**	**6,238**	**6,577**	**7,069**
	196	**213**	**275**	**290**	**243**	**176**	**143**	**161**	**117**	**77**
USD Rate	**@8.65**	**@8.68**	**@8.79**	**@9.24**	**@10.42**	**@12.89**	**@16.10**	**@17.30**	**@18.30**	**@19.10**

Note: The rate is annual average.
Source: JICA Study Team based on materials provided EIC.

3.2.2 By Country

The table below shows Top 10 countries of the nationality of investors for accumulated amount of investments in the last 10 years with the amount of Japan as a reference. China is the largest source of investment in terms of both accumulated amount and the number of projects in the last 10 years. The country increased the amount between 2005 and 2008, and decreased it from 2008 to 2011. Then, in 2013, China suddenly invested about 10 times more than in the previous year, which accounted for more than 80% of the total foreign investments in the year. Saudi Arabia is the second largest investor with 5 billion birr in 2006 and 2011 (0.43 billion USD and 0.8 billion USD, respectively), but its annual average amount remains at 0.2 to 0.3 billion birr (0.1 billion USD) level.

There is no particular country which accounts for the largest share in all of the last 10 years. Saudi Arabia recorded the share of 40% in 2011, whereas India accounted for 40% the next year.

Table 3-4 Trend of Foreign Investments and Number of Projects by Country

Upper: Million USD
Lower: Number of Projects

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
China	124	998	1,514	2,031	1,955	1,535	783	588	5,344	3,227
	27	48	73	82	59	37	31	41	48	30
Saudi Arabia	274	5,811	271	441	225	1,168	5,237	189	4	349
	6	5	7	9	4	8	4	5	1	1
Turkey	60	323	210	288	5,041	1,237	1,507	87	100	0
	3	7	9	9	25	13	11	17	7	0
India	222	532	318	711	1,475	305	203	2,446	313	102
	23	22	22	22	25	16	16	18	14	10
UK	174	198	111	346	65	192	3,368	1,575	15	18
	10	16	18	15	14	12	8	11	3	3
Channel islands	0	744	0	0	0	216	945	0	0	1,142
	0	1	0	0	0	1	1	0	0	2
France	916	14	14	4	1	29	0	1	0	1,997
	10	3	6	3	2	6	1	1	0	3
Germany	116	31	1,272	88	12	32	17	2	4	6
	7	6	11	13	4	5	4	1	1	2
Mauritius	0	0	3	0	586	0	15	301	254	75
	0	0	2	0	1	0	1	1	4	2
US	149	128	147	262	69	61	317	46	11	30
	15	21	23	27	15	14	13	9	2	4
Reference : Japan	0	3	1	0	0	2	2	0	9	0
	0	1	1	0	0	1	1	0	1	0
Other	779	1,346	1,645	1,947	2,003	2,908	1,235	1,003	523	123
	95	83	103	110	94	63	52	57	36	20
Total	**2,814**	**10,128**	**5,508**	**6,118**	**11,431**	**7,685**	**13,631**	**6,238**	**6,577**	**7,069**
	196	**213**	**275**	**290**	**243**	**176**	**143**	**161**	**117**	**77**
USD rate	**@8.65**	**@8.68**	**@8.79**	**@9.24**	**@10.42**	**@12.89**	**@16.10**	**@17.30**	**@18.30**	**@19.10**

Note: The rate is annual average.
Source: JICA Study Team based on information from EIC.

3.3. Major Foreign Investment

Foreign investments can be categorized as two types: horizontal and vertical. Recently, there is another type called the export platform type as an expanded form of the horizontal type[3]. The horizontal type of investment is to produce final goods in the same country in order to reduce transportation cost. It has been often observed in developed countries as a measure of penetration into a local market. The vertical type of investment is to produce labor-intensive products in a country where the labor cost is relatively low in order to reduce the production cost. The export platform type of investment is to produce final goods in a country which is close to the market in order to export the goods to the market with low transportation cost. The table below shows the characteristics of each investment type.

Table 3-5 Patterns of Companies' Expansion to Abroad

	Horizontal type	Vertical type	Export platform type
Advantage	Reduction of trade cost	Reduction of production cost	Reduction of production and trade costs
Typical destinations	Countries with large market size	Countries with low labor cost	Countries with low labor cost and close to the market

Source: JICA Study Team based on information from RIETI, Cabinet, etc.

Ethiopia has vertical type of investments as it receives many investments in the sector of garment, leather, and shoes, which need low labor cost. However, the horizontal type of investments are recently increasing because investors find Ethiopia attractive with the increase in the demand of residential construction and consumer products caused by the large size of population and the rapid improvement of logistic infrastructure (e.g. roads and railways) for linkage with neighboring countries especially Djibouti with its port. Also, Ethiopia has started to receive the export platform type of investments in the flower sector as it is close to the markets in Europe and the Middle East.

Table 3-6 Major Investments in Ethiopia

Type	Company name	Source of investment	Sector
Vertical type	・Ayka Tekstil San. ve Tic. AS ・Hiroki ・H&M	Turkey Japan Sweden	Textile and Garment Leather Apparel
Horizontal type	・Etur ・Julphar Pharmaceuticals	Turkey UAE	Textile Pharmaceutical
Export platform type	・Joytech Plc ・Herburg Roses ・Esmeralda Farms	Israel Netherland USA	Horticulture Flower Flower

Source: JICA Study Team based on company interviews.

In addition, there are foreign investors who adopt their own strategies for successful and sustainable business operations in Ethiopia. For example, some companies manage from the upstream to the downstream parts of the supply chain in order to secure quality raw materials and timely procurement to meet the demand of quality, cost and delivery. Despite its resource endowment,

[3] International Trade and Trade Policy Research (Research Institute of Economy, Trade and Industry (RIETI), 2011), Japanese Economy 2012-2013 (Cabinet, 2012), Companies' Expansion to Abroad and Earning Power (Bank of Japan, 2014) etc.

Ethiopia's supporting industries in general are not developed to support the operations of investors.

Table 3-7 Other Investments in Ethiopia

Company	Business	Investment strategy
Castel Winery (France)	- Production of wine	The company encompasses and manages the whole supply chain (from the production of grapes to the production of wine) to keep the quality
Ayka (Turkey)	- Spinning, producing textile, dyeing, and knitting - Garment - Producing other accessories	The company manages from the production of yarn to garment.

Source: JICA Study Team based on company interviews.

Chapter 4 Analysis on Ethiopia's Investment Potentials

4.1. Methodology of Analysis

The analysis on Ethiopia's investment potentials combined various factors as the determinants of investment potentials. Such factors include availability and accessibility of natural resources and raw materials, demand conditions in the domestic and accessible regional markets, costs of doing businesses comparing with peer countries, and current situation on domestic and international industrial agglomeration and roles in the global value-chains.

4.1.1 Resource Endowments

(1) Agriculture and Livestock

1) Agricultural production

Out of its total area width of 111.5 million ha, the arable area is 74 million ha in Ethiopia. The major exported agricultural and livestock products are coffee, oil seeds, vegetables, cut flowers, pulses, live animals and meat, and skins & hides (See Table 2-2).

Sesame, usually only with primary processing and limited value addition, comprises the largest share in the exported oil seed: a large portion is exported to China[4]. Horticultural export has shown a large increase in recent years. Floriculture has grown from USD 7.8 million in 2004/05 to USD 199.7 million in 2013/14 as seen in Table 2-2. The major products are roses together with some summer flowers[5].

Ministry of Agriculture estimates total of 5.2 million ha as the possible areas for agricultural investment for rice, coffee, horticulture, tea, cotton, rubber trees and oil palm plantations[6]. On the other hand, the trading of coffee, pulses and oil seeds are not permitted for foreigners[7]. With the establishment of Ethiopia Commodity Exchange (ECX), some major commodities are traded at the ECXs located in the production areas. Due to a system change, however, strict traceability has become difficult to ensure despite the fact that it is often required in markets in developed countries[8].

2) Livestock

Ethiopia is said to possess the largest livestock population in Africa. The table below shows the amount of cattle, sheep and goat in Ethiopia.

[4] Based on the interview with the Ethiopia Pulse, Oil Seeds and Spices Processors and Exporters Association.
[5] According to the data of Ethiopian Horticulture Producers and Exporters Association, in 2013, total width of cultivated land for rose was 1998.9 ha, whereas the width of summer flowers was 188.7ha (Source: http://www.ehpea.org/Floriculture.aspx#medialink).
[6] EIC Invest in Ethiopia: An Investment Guide to Ethiopia 2015.
[7] Regulation on Investment Incentives and Investment Areas Reserved for Domestic Investors (No.270/2012).
[8] Based on the interviews with private companies and private sector organizations.

Table 4-1 Livestock Population in Ethiopia

Unit: '000

Category	2009/10	2010/11	2011/12
Cattle	49,297	50,884	53,583
Sheep	16,962	25,980	25,509
Goat	21,798	53,382	22,703

Source: Central Statistical Agency, Statistical Abstract (2012/13).

As seen in Table 2-2, the export value of livestock and processed products such as meat and skins & hides recorded large increase over the last 10 years. Ethiopia's sheep skin has natural good quality due to the environment[9]. On the other hand, it is also required for investors to set up a mechanism to ensure the supply of quality raw materials. Foreign investors in leather goods production operating in Ethiopia provide technical instruction to the local tanneries. Moreover, a company may even move on to raising the animals to secure supply[10].

(2) Mineral resources

Ethiopia's history of gold mining is rather long with mines in the southern, western and northern parts of the country. Mining has been carried out both by numerous small miners as well as a few State-Owned Enterprises (SOEs). Opal mining also has long history in Ethiopia[11]. Various other minerals are as identified as listed below.

Table 4-2 Major Mineral Resources in Ethiopia

Mineral Resources	Description
Polymetallic deposits	Deposit containing copper, zinc, silver, and gold.
Potash	Mining license was granted. Extraction will start in 2017.
Tantalum	SOE has been mining.
Cement related	Limestone and gypsum, clay and pumice available
Soda ash	Caustic soda is produced by SOE
Dimension stones	Marble, Granite, Limestone
Coal	Small scale mining in 2008～2010. Demand available in recent years.
Silica sand	Other materials related to glass manufacturing is also available. Problems may be found in the quality.

Source: Ministry of Mines/World Bank (2014) Strategic Assessment of the Ethiopian Mineral Sector: Final Report.

Exploration of oil and gas has been undertaken. Although natural gas deposit was found in the Ogaden in 1970, commercial production has not been started[12].

(3) Power Generation and Export

The power demand in Ethiopia is projected to encounter a surge along with economic development: While the electricity consumption in 2012 was 6,425 GWh, it is projected to grow 17-fold to

9 JICA supports the product development and marketing of sheep skin product through its support to the Champion Products in Ethiopia (http://ethiopiancreation.com/).
10 Based on the interview with investors (see section 3.3).
11 Ministry of Mines/World Bank (2014) Strategic Assessment of the Ethiopian Mineral Sector: Final Report.
12 Deloitte Consulting Ltd. "Deloitte Guide to Oil and Gas in East Africa" (2014 Edition).

111,388 GWh by 2037[13]. Ethiopia's power development plan places strong emphasis on hydropower generation. In addition to the currently on-going projects (such as Gilgel Gibe III, Generale Dawa III, and Grand Renaissance), a number of plans including those with financial commitments exist[14]. Geothermal power generation has also been studied since 1960s. A few sites have been identified under financial commitment by World Bank and a private investor. Wind power generation is estimated to have 10 GW generation potential. One site has been operational with the financial assistance of the French Government.

Transmission and distribution of electricity is also planned to be reinforced: Universal Electricity Access Program has been implemented under support of the World Bank. 114 new substations and 13,560 km of transmission lines are planned to be constructed[15].

In addition to the demand in the country, Ethiopia participates in the East Africa Power Pool (EAPP) where Ethiopia pledged to supply electricity to the surrounding countries. As the initial stage of EAPP, Eastern Electricity Highway Project connecting Ethiopia and Kenyan has been launched. The project will build 1,066 km of 550 kV interconnection line between Ethiopia and Kenya. Ethiopia's plan for selling electricity under EAPP is shown in the table below[16].

Table 4-3 Ethiopia's Power Supply Plan under EAPP

Buyer	Equipment capacity	Annual output for sale
Kenya	Over 400 MW	about 3,000 GWh
Djibouti	Over 100 MW	about 570 GWh
Sudan	Over 100 MW	about 880 GWh
South Sudan, Egypt	Over 200 MW	about 300 GWh
Tanzania	Over 200 MW	about 1,300 GWh

Source: JICA/Nippon Koei/JMC Geothermal Engineering Co. Ltd./Sumiko Resources Exploration & Development Co. Ltd (2015) "Final Report of Project for Formulating Master Plan on Development of Geothermal Energy in Ethiopia".

(4) Tourism

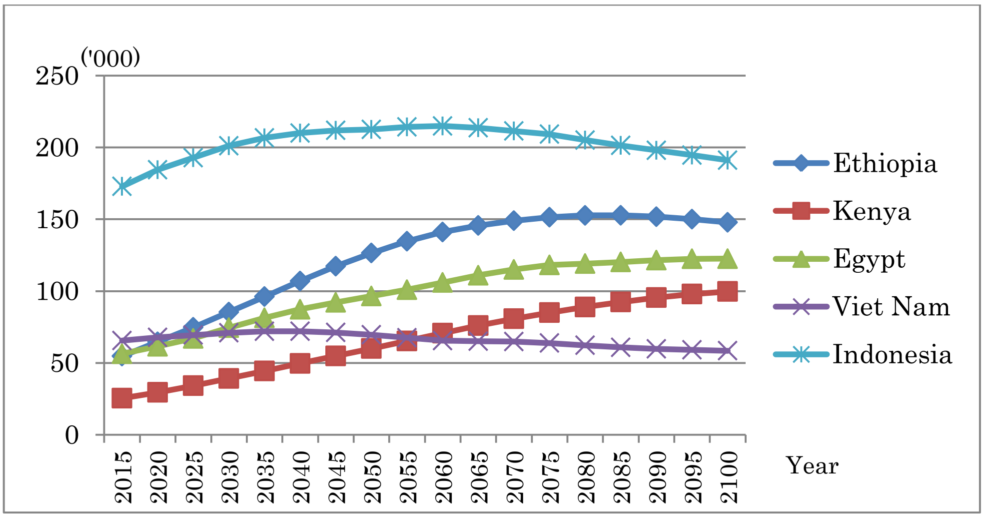
The direct contribution of tourism sector to Ethiopia's GDP was 4.1% with USD 2.1 billion in 2014. The indirect contribution to the economy was estimated to be USD 4.7 billion (9.3% of GDP). The projected growth rates from 2015 to 2025 for direct contribution and indirect contribution to the economy are 4.7% and 4.9% per annum, respectively[17]. Ethiopia possesses 9 sites designated as World Heritage sites by the UNESCO. The number of the sites is the second largest in African continent after Morocco. The potentials are still not fully tapped.

[13] JICA/Nippon Koei/JMC Geothermal Engineering Co. Ltd./Sumiko Resources Exploration & Development Co. Ltd (2015) "Final Report of Project for Formulating Master Plan on Development of Geothermal Energy in Ethiopia".
[14] Ibid.
[15] Ibid.
[16] Ibid.
[17] World Travel & Tourism Council "Travel and Tourism: Economic Impact 2015 Ethiopia".

4.1.2 Cost Factors

(1) Labor force and the wage

Ethiopia's population is large compared with other African countries. The long-term growth of labor population is projected as seen in the figure below.



Note: Labour population is population of 15 to 64-year-old.
Source: JICA Project Team based on data of UN.

Figure 4-1 Labour Population in Ethiopia and African and Asian Countries (2015-2100)

Labour wages in Ethiopia are relatively lower than in other African and Asian countries (see the table below).

Table 4-4 Comparison of the Labour Wages in Ethiopia and African and Asian Cities

	Ethiopia	Kenya (Nairobi)	Bangladesh (Dhaka)	Cambodia (Phnom Penh)	Vietnam (Ho-Chi-Minh)
Monthly Salary of a Worker (USD)	47.9~95.7	215~772	99	113	185

Source: Based on the interviews with companies in Ethiopia, other countries are based on the data of Japan External Trade Organization (JETRO).

According to interviews with companies during the Survey, the wage of unskilled labor per month varied from less than USD 50 to around USD 100. Many companies provide transportation and food allowances.

On the other hand, the current level of productivity should be noted as a factor which affects on the cost of the production. The table below compares the production volume of two typical items in light industries per workers per day in Ethiopia and a few peer countries.

Table 4-5 Comparison of Productivity of Ethiopia and Other African and Asian Countries in Light Industries

Item	Ethiopia	Tanzania	Vietnam	China
Number of polo-shirt produced per worker per day	7～19	5～20	8～14	18～35
Number of pair of loafers produced per worker per day	1～7	4～6	1～6	3～7

Source: Hinh Dinh et al, (2012) Light Manufacturing in Africa.

Depending on the product (for example, polo shirt), while Ethiopia's productivity does not show any significant deviation with Tanzania and Vietnam, the score compared with China shows some difference.

(2) Cost and quality of electricity supply

The electricity tariff in Ethiopia is relatively low compared with the other cities in the region and even in Asia (sees the table below).

Table 4-6 Power Tariff in the Major Cities in Ethiopia and Other Countries

	Ethiopia	Kenya (Nairobi)	Bangladesh (Dhaka)	Cambodia (Phnom Penh)	Vietnam (Ho-Chi-Minh)
Tariff per 1kWh (USD)	0.015	0.08	0.09~0.12	0.17~0.18	0.06
Monthly Fixed Charge	-	2.53	7.7	-	-

Note: The tariff for commercial/industrial use with 132kV. For Kenya, various surcharges are to be added in Fuel Cost Charge, Inflation Adjustment, Foreign Exchange Fluctuation Adjustment, and Energy Regulation Committee Levy and so on. The tariff of Ho-Chi-Minh is during the normal hour.
Source: JETRO website (https://www.jetro.go.jp/world/search/cost.html) and for Ethiopia, information from Ethiopian Energy Authority (EEA).

On the other hand, the quality of the power supply was pointed out as a problem by many companies interviewed. Frequent power outage causes not only the interruption of the production but damages to the machinery. Some companies pointed out that defects occurred due to the power interruption. Many companies are equipped with backup generators in case of power failure. However, it is only a temporary measure considering the high fuel cost.[18] The table below shows the data on the power outages, their damage and the percentage of interviewed companies which are equipped with generators in Africa and Asia.

Table 4-7 Power Outage and the Effects in Ethiopia and Various Countries

Country (Surveyed Year)	Number of electrical outages in a typical month	Duration of a typical electrical outage (hours)	Losses due to electrical outages (% of annual sales)	Percent of firms owning or sharing a generator
Ethiopia (2011)	5.6	7.8	2.6	40.6
Kenya (2013)	6.3	5.0	5.6	57.4
Tanzania (2013)	8.9	5.1	5.5	43.0
Uganda (2013)	6.3	6.8	6.3	52.2
Cambodia (2013)	6.0	1.4	0.3	61.8
Vietnam (2009)	1.0	3.3	1.1	34.8

Source: JICA Study Team based on World Bank "Enterprise Survey".

As the data of Ethiopia is not new relative to other countries, it may not necessarily reflect the current situation accurately. However, some interviewed companies answered that the frequency of the power interruption was every day. Therefore, the situation may not improve quickly. The amount

[18] Based on the interviews with companies.

of damage caused by the power outage as well as the ratio of companies with generators depends on the characteristics and the degree of the industrialization which causes more dependency on electricity. While East African peer countries and Cambodia with problems of power supply shows some similar results, a large difference is observed with the data of Vietnam in all aspects.

(3) Logistics

Ethiopia has disadvantage in international transportation from the aspect of cost and time. Comparing with Nairobi and Addis Ababa, the freight cost to Nairobi via Mombasa is less than that to Addis Ababa via Djibouti. In addition to being land-locked which naturally causes high cost and longer time for international transportation, the problems of the foreign currency allocations imposes longer lead time especially for importation; importers are forced to consider the waiting time for foreign currency allocation in their procurement plans.

On the other hand, Ethiopia’s air cargo handling volume is outstanding among African countries. As seen in the table below, the amount in recent years has been approaching to the level of that of South Africa. Some interviewed companies indicated the strength of the connectivity of Addis Ababa with various international locations via air transport network. Tariff, convenience and the credibility were mentioned as strengths.

Table 4-8 Air Cargo Handing Volume of Ethiopia and African and Asian Countries

Unit: ton-km

Country	2012	2013	2014
Ethiopia	703.6	790.6	950.9
Kenya	234.6	258.1	280.7
Uganda	0.8	0.9	0.7
South Africa	1174.7	1123.0	1062.3
Vietnam	503.6	548.3	587.5

Source: World Bank, WDI.

4.1.3 Industrial Agglomeration and Value Chain

The domestic private sector has not yet developed enough to formulate industrial agglomeration. On the other hand, recent investment inflows have been found in the labor-incentive industries and in the manufacturing sector targeting the domestic market. Such investment utilizes imported raw materials and parts. Some companies in sectors such as plastics and textile sources a part of their raw materials from the other foreign companies operating in Ethiopia. This type of sourcing is partially as a result of GoE’s selective provision of incentives in addition to various difficulties encountered upon the importation of raw materials.

Considering the difficulty in trade logistics, export processing utilizing imported materials may not have a large advantage. In fact, due to absence of sources to supply raw materials in the proximity, interviewed investors in Ethiopia raised China, India, Turkey, European and Middle Eastern Countries for their sources of raw materials.

On the other hand, the impact of such investment for domestic industrial development may require further attention in order to maximize trickle down to local industries. For example, leather industry comprises various steps starting from livestock raising, slaughtering, tanning, finishing, and manufacturing of final products. In Ethiopia, there is an example of a leather company which endeavors vertical integration of the supply chain encompassing not only the production of final products, but production of livestock. It is necessary for securing stable supply of good raw materials[19]. Such efforts may eventually provide large opportunities for related local industries to improve technical and production capacity.

4.1.4 Domestic Market Trend

The domestic market is expected to be an attractive market in the future with a large population and increased purchasing power in the future economic development. According to the projection of US, the population in Ethiopia will grow to 111 million and 138 million in 2020 and 2030, respectively[20]. Household consumption’s share in GDP is approximately 70% in recent years as shown in the table below.

Table 4-9 Ethiopia’s Household Consumption and the Share in GDP

	2010	2012	2013	2014
Household Consumption (Current million USD)	23,144	31,384	34,449	38,107
Share in GDP (%)	72.4	72.5	72.5	69.5
Annual Growth Rate (%)	-	4.6	7.5	3.2

Source: World Bank, WDI.

4.1.5 Preferential Treatment for Trade

Ethiopia is granted duty-free access to EU market through Everything But Arms (EBA), to US market under African Growth and Opportunity Act (AGOA) and markets of other developed countries through Generalized System of Preference (GSP). On the other hand, accessing the preferential treatment through these schemes require some attentions to such issues as rules of origin. For example, EBA does not allow the third country procurement for apparel products[21].

(1) EU: Everything But Arms (EBA)

The scheme allows duty-free and quota-free access of the products of the least developed countries

[19] A foreign producer of leather products are planning to establish their own ranch for raising livestock. In the textile sector, a company also considers starting cotton farming.
[20] UN-DESA data.
[21] United States Agency for International Development (USAID) (2014)”Strengthening the Cotton, Textile and Apparel Value Chain in East Africa: An Assessment”(Draft).

(LDC) to EU market. The eligible products for the scheme are more than those eligible under GSP.

(2) US: African Growth and Opportunity Act (AGOA)

The act was promulgated in 2000 in order to promote the trade of SSA countries and to facilitate open markets. Under the act, the eligible countries are granted for duty-free access of the products lines in addition to those covered by GSP. The important provision under the act is that textile products are allowed to be imported to US market without duty regardless of the source of materials. This has encouraged garment industries in some eligible countries such as Kenya, Madagascar, and Mauritius.

(3) Other countries: Generalized System of Preference (GSP)

The system allows import of products of developing countries at lower customs rates than the other counterparts. Japan further has the scheme of the special preferential treatment to LDC countries granting the access of their products with the customs duty lower than GSP rates including zero-rated depending on the products.

4.2. Identifying Potential Industries and Types of Businesses for Investment

Based on the factors explained in the preceding part, significant points which affect investment potentials are summarized in the table below.

Table 4-10 Determinants of Investment Potentials

Point to Consider for Selecting Investment Potentials	Current Situations
Absolute advantage for certain industries	・ Availability of cheap and abundant young labor force ・ Cheap power tariff ・ Relatively well-developed international air cargo services
Current status of various costs factors and problems which affect on cost and time for business operation	・ Labor productivity ・ Times and costs for sea and inland transportation and their quality and convenience ・ Problems on quality testing and certification and its infrastructure for service provision ・ Quality issue of power supply ・ Problems of trade logistics (customs clearance, foreign currency allocation) ・ Entry barriers for foreign investment despite the insufficient development in some key sectors (trading, power transmission and distribution, and logistics)
Initiatives for improvement of investment climate	・ Power sector development with expanding generation capacity ・ Improvement of inland transportation through the commencement of railway transportation service

Source: JICA Study Team.

The table below summarizes the areas within high potentials of attracting foreign investment.

Table 4-11 Investment Opportunities in Ethiopia

	Investment Opportunities	Notes
Labor-intensive industry	Labor-intensive industries (e.g. manufacturing in garment, assembling, service industries which requires large volume of labor force)	・ Relatively low productivity should be taken into the consideration. ・ Trade logistics may affect the potential for assembly-type of industries with costs and time required for importation of raw materials and exportation of products.
Domestic market oriented industry	Production of food, consumer goods, construction materials	・ Domestic distribution may require attention: domestic transportation infrastructure is not sufficiently developed to form efficient logistics network. ・ Trading is only limited to the domestic investors. ・ Production of cement is only limited to the domestic investors. ・ Quality of electricity may be a concern for efficient operation.
Infrastructure development	Power generation	・ Legal framework is required for private foreign investment.
Agro and livestock-based industry	Agro-processing Leather industry	・ Procurement of quality raw materials may be an issue. ・ Quality standard and certification to conform to the requirement of export destinations may require attention with limited quality infrastructure in country. ・ Quality of electricity may be a concern for efficient operation.
Industries utilizing air transportation	Export of fresh produce Export processing with light and high-value added products	

Source: JICA Study Team.

Ethiopia has advantage for labour-intensive industries. However, the logistics situation affects the competitiveness of those industries which require quick procurement of parts and raw materials responding to the frequently changing of products and designs. Potentials for those industries targeting the domestic market can be identified, but the entry barriers for trading and distribution and shortage of foreign currency hinder easy and smooth importation of the raw materials. Moreover, current government policy may not necessarily support the industries. On the other hand, the industries which can utilize air transportation may be further explored. As seen in flower export, the industries which satisfy some conditions such as lightness and sufficient profit margins which can cover freight cost can be developed around Addis Ababa.

Chapter 5 Analysis of Investment Policy in Ethiopia

5.1. Positioning of Investment Policy in Economic Development

5.1.1 Role of Investment in National Development Plan

GoE has formulated the Growth and Transformation Plan I (GTP-I) for the period of 2010 and 2015. The policy goals target to achieve Millennium Development Goals (MDGs) by 2015 and to become a middle income country by 2025. In GTP-I, GoE has set objectives of improvement of quality and quantities of social service and infrastructure, GDP growth of 11-14.9%, and productivity enhancement of agriculture and manufacturing sector. GTP-I aims to promote the structural changes from the agro-based economy to an economy where agriculture and industry (including manufacturing) lead the development as two pillars. GoE positions itself as being in the preparation period of transformation from agro- based to manufacturing-lead economy during the 5-year period. The main targets of GTP-I are doubling of GDP, achievement of MDGs, 40% increase of production of main crops, 4 to 5 times expansion of generation capacity of hydro-electric power, and construction of railway of 2,395km.

GoE has set the following 7 strategic pillars to achieve above-mentioned policy objectives:

- Sustaining faster and equitable economic growth
- Maintaining agriculture as a major source of economic growth
- Creating favorable conditions for the industry to play key role in the economy
- Enhancing expansion and quality of infrastructure development
- Enhancing expansion and quality of social development
- Building capacity and deepening good governance
- Promoting women and youth empowerment and equitable benefit

As the next 5-year plan from 2016 onwards, the draft of GTP-II (2016-2020) has been prepared. According to the draft, GoE targets annual economic growth of 11% and industry (manufacturing sector in particular) is expected to become the driving force. It also targets to raise the share of manufacturing sector to GDP from 4.8% to 8% by 2020 and to 18% by 2025. The growth target of main industrial sector is as shown in the table below.

Table 5-1 Sectoral Growth Targets in GTP-II

	Base Year (2014/15)	Target (2019/20)
Annual growth rate of Agricultural Sector (%)	9.6	8
Annual growth rate of Industrial Sector (%)	22.2	19.8
Annual growth rate of Manufacturing Sector (%)	19.2	24.0
Annual growth rate of Service Sector (%)	9.4	10.0
Proportion of Manufacturing Sector in Export (%)	0.9	3.1

Source: GTP-II (Draft).

<Strategy to Achieve GTP-II Target>

According to the draft GTP-II and the interview with the Director of Policy and Program Study and

M&E in Ministry of Industry (MOI), 6 programs are mentioned as a part of the implementation strategies to achieve targets of manufacturing sector in draft GTP-II. The programs of investment expansion, emerging industry promotion and industrial estates place emphasis especially on the role of foreign direct investment (FDI). 6 programs are as listed below:

- Capacity Development Program of MOI's Institutes (Textile Industry Development Institute (TIDI), Leather Industry Development Institute (LIDI), Metal Industry Development Institute (MIDI)): Particularly, GTP-II aims to promote i) Backward linkage with upstream sector of iron and steel industry; ii) Engineering industry; iii) Furnace, smelting, rolling mill, and casting foundry; iv) Production of machinery and equipment; and v) Molding, forging and casting technology thorough the capacity building of MIDI;
- Enhancement of Productivity, Quality and Technology Program: This program focuses on enhancing continuous improvement in productivity, production and quality and increasing international competitiveness through implementing Kaizen and benchmarking tools. In addition, the linkage between wage and competitiveness will be taken into consideration.
- Investment Expansion Program: It will focus on the attraction of quality private investments. The improvement of the quality of domestic private sector investment will be also encouraged by strengthening linkage with FDI, which will be promoted by financial incentive. In case a local partner owns more than 51% of share of Joint Venture (JV), JV can get concessional loan from the Development Bank of Ethiopia (DBE) up to 75% of project cost, whereas otherwise the company can get only up to 50% of project cost. In addition, if the company exports more than 80% of its products, it can obtain 1% discount in interest rate. Furthermore, JV can get privileged import tariff rate.
- State Owned Enterprises (SOEs) Program: GoE will improve efficiency and effectiveness of SOEs, and consider opening market to the private sector after raising their quality standard to international level.
- Emerging Industry Promotion Program: The program will focus on electric and electronic, Information and Communication Technology (ICT, both hardware and software), biotechnology, and petrochemicals.
- Industrial Parks Program: To achieve equitable development between region by attracting investments, emphasis will be given to building industrial parks on identified lands by the government, private or joint arrangement.

In addition to the above, the draft GTP-II also refers to the expectation of private sector participation in appropriate areas of infrastructure development and possibility of adoption of Public Private Partnership (PPP) scheme. For instance, in power sector, it refers to private sector participation in technology, finance and project management towards capacity development of power generation. Furthermore, in communication sector, significant growth is targeted such as increase of mobile phone user from 40 million in 2014/15 to more than 100 million in 2019/2020, increase of broadband internet user form 43.9 million to more than 100 million during the period.

5.1.2 Linkage between Industry and Trade Policy

According to the interview with the Director General of Export Promotion Directorate General, in Ethiopia, so far there is no official document of national export strategy, but it is closely linked with industrial policy. In principle, the strategy focuses on the transition from export of commodity such as coffee and sesame to more value-added manufactured products. In addition, Ethiopia needs to strengthen competitiveness by improving quality of its products to prepare for the flow of goods from neighboring countries if Common Market for Eastern and Southern Africa (COMESA) becomes functional in the future.

Moreover, according to the above interview, GoE focuses on promoting exports by raising value addition of labor-intensive light manufacturing industries and strategic import substitution industries such as i) textile and garment, ii) leather, iii) agro-processing, iv) metal engineering, v) pharmaceutical, vi) electric and electronics, vii) sugar, and viii) horticulture. For instance, as far as metal engineering sector is concerned, state owned Metals and Engineering Corporation (METEC) has been assembling cars and generators (handling more than 60 products) due to infant stage of private engineering sector. GoE sets a target for private engineering companies to manufacture and deliver spare parts of those products for METEC by upgrading their technology. Furthermore, with a view to strengthening linkage between industrial policy and trade policy and make smooth coordination within the government, National Export Council, which is chaired by prime minister and relevant ministries (such as Ministry of Trade, Ministry of Agriculture, Ministry of Transport, Ministry of Mines, etc.) holds monthly meetings to address the important issues on industry and trade. In addition, 4 sub-committees regarding agricultural supply, finance, logistics and transport, have been established to discuss practical issues. Each sub-committee is chaired by competent minister. Through this mechanism and process, various policy measures have been implemented to maintain linkage between industry and trade policy.

5.2. Review of Investment Related Law

5.2.1 Overview

The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia. The constitution, in accordance with Article 40, ensures the right of every citizen to the ownership of private property, including the right to acquire, use and dispose of such property. As far as investment is concerned, the Investment Proclamation (No.769/2012) and Councils of Ministers Regulation on Investment Incentives and Investment Reserved for Domestic Investors (No.270/2012) define basic legal framework for foreign and domestic investment.

The main rationale of the above Investment Proclamation are: promotion of equitable distribution of investment among regions; assurance of transparency and effective application of permit and incentives for the intended investment promotion purpose; and establishment of industrial parks to attract and expand investment and to interrelate manufacturing sectors with value addition by creating enabling and competitive conditions.

(1) Investment Promotion Agency

Proclamation to Amend Investment Proclamation (No.849/2014) and Council of Ministers Regulation to Provide for the Establishment of Ethiopian Investment Board and Ethiopian Investment Commission (No.313/2014) provide legal foundation for reorganization of Ethiopia Investment Agency (EIA). EIA which was under supervision of MOI was reorganized as EIC under supervision of Prime Minister Office (PMO), which has enabled formulation and implementation of coherent investment promotion policy in GoE. As the decision making and overseeing function of EIC, the Ethiopian Investment Board (EIB) was also set up and chaired by prime minister. EIC's role is expected to be further expanded as to add regulatory and overseeing function of industrial parks. The organizational and functional analysis of EIC is detailed in Chapter 7.

(2) Negative List and Positive List

As mentioned earlier, in principle GoE has an open policy for FDI, but the Councils of Ministers Regulation on Investment Incentives and Investment Reserved for Domestic Investors (No.270/2012) reserve some business sectors such as power supply, telecommunication, banking, insurance, forwarding and shipping services, and some areas of trading only for domestic investors.

Table 5-2 Investment Negative List in Ethiopia

1.	**Areas exclusively reserved for the Government**
	· Postal services except courier services · Transmission and supply of electrical energy through the Integrated National Grid system · Passenger air transport services using aircraft with a capacity of more than 50 passengers
2.	**Areas reserved for joint-venture investment with the government**
	· Production of weapons and ammunition · Telecommunication services
3.	**Areas exclusively reserved for domestic investors**
	A. Trade · Export of raw coffee, chat, oil seeds, pulses, precious minerals, natural forestry products, hides and skins bought from the market, and live sheep, goats, camel, equines and cattle not raised by the investor · Import trade (excluding LPG and bitumen) · Wholesale trade (excluding supply of petroleum and its by-products as well as wholesale trade by foreign investors of their locally produced products) **B. Others** · Manufacturing of ice crème and cakes · Manufacturing of plastic shopping bags · Finishing of fabrics, yarn, warp and weft, apparel and other textile products by

	bleaching, dying, shrinking, sanforizing, mercerizing or dressing
	・ Tanning of hides and skins below finished level
	・ Manufacture of cement
	・ Manufacture of clay and cement products
	・ Tour operation below Grade 1
	・ Construction, water well and mining exploration drilling companies below Grade 1
	・ Kindergarten, elementary and junior secondary education by constructing own building
	・ Diagnostic center service by constructing own building
	・ Clinic service by constructing own building
	・ Capital goods leasing (excluding motor vehicles)
	・ Manufacturing of corrugated metal sheet for roofing and nails
	・ Printing industries
4.	**Areas exclusively reserved for Ethiopian nationals**
	・ Banking, insurance, micro-credit and saving services
	・ Broadcasting and mass media services
	・ Attorney and legal consultancy services
	・ Preparation of indigenous traditional medicines
	・ Advertisement, promotion and translation works
	・ Domestic air transport services using aircraft with a seating capacity of up to 50 passengers
	・ Packaging, forwarding and shipping agency services

Source：EIC, "Invest in Ethiopia" (2015).

According to the above mentioned Councils of Ministers Regulation on Investment Incentives and Investment Reserved for Domestic Investors (No.270/2012), the following areas are open for foreign investors:

- *Manufacturing* (Food industry; Beverage industry; Textiles and textile product industry; Leather and leather product industry; Wood product industry; Paper and paper products industry; Chemical and chemical products industry; Basic pharmaceutical products and pharmaceutical preparations industry; Rubber and plastics products industry; Basic metal industry; Fabricated metal products industry; Computer, electronic and optical products industry; Electrical products industry; Machinery and equipment industry; Integrated manufacturing with agriculture; Vehicles, trailers, and semi trailer industry; Manufacturing of office and household furniture; and Manufacturing of other equipment-jewelers and related articles, musical instruments, sports equipment, games and toys and similar products-).
- *Agriculture* (Crop production; Animal production; Mixed-crop and animal- farming; and Forestry)
- *ICT*
- *Generation, transmission and supply of electrical energy*
- *Hotel and tourism* (Star designated hotels/including resort hotels/motels, ledges and restaurant, Grade one tour operation)
- *Grade 1 construction contracting* (including water well drilling and drilling for mineral

exploration)
- *Real estate development*
- *Education and training* (Secondary and higher education by constructing own building, Technical and vocational training service including sport)
- *Health services* (Hospital service by constructing own building)
- *Architectural and engineering works and related technical services, technical testing and analysis*
- *Publishing*
- *Import trade* (Importation of LPG and bitumen)
- *Export trade* (Export trade excluding raw coffee, chat, oil seeds, pulses, precious minerals, natural forestry products, hides and skins bought from the market, and live sheep, goats, camel, equines and cattle not raised by the investor)
- *Wholesale trade* (Supply of petroleum and its by-products as well as wholesale of own products)

In practice, EIC makes decisions on FDI entry permit based on the above Positive List, although some experts claim that there remains "grey area" in service sector since the list does not provide the sector detail, which creates confusion for foreign investors.

(3) Minimum Capital

The Investment Proclamation (No.769/2012) defines minimum capital as a basic condition for investment permission as follows:

- In case of 100% owned by foreign investors: USD 200,000
- In case of JV with domestic investors: USD 150,000
- In case of investing in areas of architectural, engineering works or related consultancy services, technical testing and analysis and publishing works:
  - 100% owned by foreign investors: USD 100,000
  - JV with domestic investors: USD 50,000
- In case foreign investors reinvests its profits or dividends generated from existing enterprise: Not required minimum capital.

(4) Industrial Park Development

GoE has issued the Proclamation on Industrial Park Development (No.886/2015) with a view to enhance economic development through transformation of its industrial structure, promoting export and generating employment by inviting strategic industries from both foreign and domestic investors. In addition, industrial park development also aims to address the issues related to infrastructure, logistics, customs, linkages between large companies and small and medium enterprises (SMEs), and environmental protection. As will be described later, Ethiopia's industrial parks are provided with special legal and administrative status for its economic development. In this regard, although GoE has not used the terminology of "Special Economic Zone (SEZ)", practically it can be said that Ethiopia's industrial parks have equivalent concept with that of SEZ in other countries. [22]

[22] According to world bank report, general definition of SEZ is to satisfy the following conditions: i) Geographically delimited area, usually physically secured (fenced-in); ii) Single management/administration; iii) Eligibility for

The Industrial Parks Development Corporation (IPDC), which had been supervised by MOI, was reorganized in the end of December 2014 as a state owned enterprise under the direct control by the Prime Minister catering for accelerating industrialization, development of manufacturing industry, transformation of economic structure, and promotion of investment.

According to Council of Ministers Regulation to Provide for the Establishment of IPDC (No.326/2014), its authorized capital is 10 billion Birr (ETB) and paid up capital is ETB 2.5 billion (payable cash and capital in kind). Article 5 of the above-mentioned regulation specifies IPDC's activities as follows:

- To develop and administer industrial parks, lease developed land and lease or transfer, through sale, constructions thereon;
- To prepare detailed national industrial parks master plan based on the national special master plan and receive land and serve as industrial park land bank in accordance with agreement concluded with regional governments;
- In collaboration with the concerned bodies, to make necessary infrastructure accessible to industrial park developers;
- To outsource through management contracts, when it deems necessary, the management of industrial parks;
- To promote extensively the benefits of industrial parks, and thereby attracts investments in the parks;
- In line with directives and policy guidelines issued by the Ministry of Finance and Economic Cooperation (MoFEC), to sell and pledge bonds and negotiate and sign loan agreements with local and international financial sources;
- Engage in any other related activities necessary for the attainment of its purposes

According to interview with EIC and IPDC, EIC will become regulator which oversees activities of IPDC under the leadership of PMO. In short, EIC will become a regulator for both IPDC and private developers which develop industrial parks. In addition, Article 29 of the Proclamation on Industrial Park Development (No.886/2015) specifies that EIC is responsible for providing investment permit and executing concession contract with developers of industrial parks. The details are expected to be unveiled in the Council of Ministers Regulation which is not yet issued at the time of the Survey.

< Selection of Developers of Industrial Parks >

According to the interview with CEO of IPDC, the developers of industrial parks will be basically selected by international competitive bidding, which will be detailed in the above mentioned new regulation as stipulated in Article 26 of the Proclamation of Industrial Park Development.

< Investment Incentives for Developers and Tenants >

The investment incentives for developers and tenants of industrial parks have been regulated by

benefits based upon physical location within the zone; and iv) Separate customs area (duty-free benefits) and streamlined procedures. (World Bank, "Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development", April 2008). These conditions are met in Ethiopia's industrial parks.

Council of Ministers Regulation No. 312/2014: Council of Ministers Regulation to Amend the Investment Incentives and Investment Areas Reserved for Domestic Investors Regulation No. 270/2012.

- The developers of industrial parks can obtain the following fiscal incentives:
  - Industrial parks in Addis Ababa and Special Zones Oromia Surrounding Addis Ababa: Income tax exemption for 10 years
  - Industrial parks in the other areas: Income tax exemption for 15 years
- The tenant investors of industrial parks can obtain the following fiscal incentives (The higher the export ratio, more incentive measures will be provided):
  - If export ratio is higher than 60%, additional 2 years income tax exemption will be provided in addition to the original exemption period (regardless of location of investors)
  - If export ratio is higher than 80%, additional 2 years income tax exemption will be provided in industrial parks in Addis Ababa and Special Zones Oromia Surrounding Addis Ababa and 4 years income tax exemption will be provided industrial parks in the other areas in addition to the above exemption period

5.3. Legal System relating to Business Environment

5.3.1 Private Property Rights

In Ethiopia, foreign and domestic investors can establish, acquire, own and sell private companies. However, private companies cannot own land. All ownership of land belongs to the state. The state can lease the land to private persons up to 99 years.

The Proclamation on Investment (No.769/2012) specifies provisions about compensation against confiscation or nationalization. If the government confiscate or nationalize private property for public interests, it shall make compensation in advance “at the cost equivalent with current market value” (Article 25).

5.3.2 Intellectual Property Rights (IPR) Law

Ethiopia has been a member of World Intellectual Property Organization (WIPO) since 1988. According to website of WIPO, major Proclamations on IPR in Ethiopia are mentioned as follows:

- Trademark Registration and Protection Proclamation No. 501/2006 (2006)
- Access to Genetic Resources and Community Knowledge, and Community Rights Proclamation No. 482/2006 (2006)
- Plant Breeders' Rights Proclamation No. 481/2006 (2006)
- Copyright and Neighboring Rights Protection Proclamation No. 410/2004 (2004)
- Research and Conservation of Cultural Heritage Proclamation No. 209/2000 (2000)
- Inventions, Minor Inventions and Industrial Designs Proclamation No. 123/1995 (1995)

However, Ethiopia has yet to sign a number of major international intellectual property rights (IPR) treaties, such as: the Paris Convention for the Protection of Industrial Property; the WIPO copyright treaty; the Berne Convention for Literary and Artistic Works; the Madrid System for the International Registration of Marks; and the Patent Cooperation Treaty.

< Ethiopia Intellectual Property Office (EIPO)>

- EIPO was established in 1995. Before its establishment, patent had been overseen by the Science and Technology Committee, copyright by the Ministry of Sport and Culture, trademark by Ministry of Trade and Industry respectively. After its reorganization in 2003, however, EIPO has become an organization that oversees the above all IPR. EIPO's supervising organization is the Ministry of Science and Technology and its legal foundation is the Proclamation No.320/2003.
- EIPO provides the services by the following 3 directorates: i) Patent and Technology Transfer Directorate; ii) Trademark, Industrial Design Protection and Development Directorate; iii) Copyright and Communities Right Directorate.
- In general, EIPO has weak enforcement capacity to protect IPR. According to the report of US Department of States, "a number of businesses, particularly in the tourism and service industries, operate in Ethiopia freely using well-known trademarked names or symbols without permission. The government does not publicly track counterfeit goods seizures, and no estimates are available."[23]

5.3.3 Competition Law

In March 2014, GoE introduced the new Trade Competition and Consumers Protection Proclamation (No. 813/2013) to protect the business community from anti-competitive and unfair market practices and consumers from misleading market conducts. The Proclamation also aims to regulate cartel, bid-rigging, discrimination of consumers, and transaction for exclusion of competitors.

Ethiopia's Trade Practice and Consumers Protection Authority (TPCPA) is accountable to the Ministry of Trade, and is tasked with promoting a competitive business environment by regulating anti-competitive, unethical, and unfair trade practices to enhance economic efficiency and social welfare.

UNCTAD and Luxemburg government have been jointly implementing technical assistance project to support the Trade Competition and Consumers Protection Authority in the areas of policy formulation, legal development, institutional building and strengthening enforcement capacity since January 2015.

In Ethiopia, there is a state monopoly or state dominance in sectors such as telecommunications, power, banking, insurance, air transport, shipping, and sugar manufacturing. Under this situation, the Ethiopian Chamber of Commerce and Sectorial Association (ECCSA) has been making advocacy activities to allow private sector participation in these sectors.

5.4. Participation to International Framework

5.4.1 World Trade Organization (WTO)

Ethiopia is currently an observer of WTO and is in the process of developing its services offered and revising its goods offered. According to home page of WTO, the General Council established a Working Party to examine the application of Ethiopia in February 2003. Ethiopia's Memorandum on

[23] US Department of State, "Ethiopia Investment Climate Statement 2015", May 2015, pp12.

its Foreign Trade Regime was circulated in January 2007. The Working Party has met three times with GoE and has been analyzing the issues on Foreign Trade Regime. Since February 2012, Market Access Negotiation in service sector has been implemented; however, since the tightly regulated banking and telecom sectors is not likely to be liberalized in a short time, Ethiopia's participation of WTO has been delayed from its original schedule.

5.4.2 World Intellectual Property Organization (WIPO)

As it has been mentioned earlier, Ethiopia has become the member of WIPO since 1998.

5.4.3 Multilateral Investment Guarantee Agency (MIGA)

Ethiopia has been a member of MIGA since 1991. Foreign investors can get guarantee against political risk for investment. MIGA used to handle investment claims which had been nationalized during socialist administration; however, it is now more dealing with small scale investment program (guarantee of less than USD 10 million worth). In 2011, the insurance with Africa Juice BV was approved as the first MIGA's small scale investment program in Ethiopia. MIGA has insured shareholder's equity from the Dutch shareholder and non-shareholder loan provided by Industrial Development Corporation of South Africa[24].

5.4.4 Bilateral Investment Promotion and Protection Agreement

Ethiopia has concluded bilateral investment promotion and protection agreements with the following countries:

Algeria, Austria, Belgium/Luxemburg, China, Denmark, Egypt, Equatorial Guinea, Finland, France, Germany, India, Iran, Israel, Italy, Kuwait, Libya, Malaysia, Netherland, Republic of Djibouti, Russia, South Africa, Spain, State of Qatar, Sudan, Sweden, Switzerland, Tunisia, Turkey, United Kingdom, USA, Yemen.

5.4.5 Double Taxation Avoidance Treaty

Ethiopia has signed double taxation avoidance treaty with the following 18 countries:

Algeria, Czech Republic, China, France, India, Israel, Italy, Kuwait, Rumania, Russia, Seychelles South Africa, Sudan, Tunisia, Turkey, United Kingdom, Yemen.

5.5. Investment Incentive Scheme

5.5.1 Fiscal Incentive

The Council of Ministers Regulations No.270/2012 specifies the areas of investment eligible for investment incentives.

[24] https://www.miga.org/documents/agribusinessbrief.pdf

(1) Customs Duty

The following customs duty exemptions are provided for investors (both domestic and foreign) engaged in eligible new enterprises or expansion projects such as manufacturing, agriculture, agro-industries, generation, transmission and supply of electrical energy, ICT development, tourism, construction contracting, education and training, star designated hotel, specialized restaurant, architectural and engineering consultancy works, technical testing and analysis, capital goods leasing and importation of liquefied natural gas (LNG) and bitumen.

- 100% exemption from the payment of customs duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment and construction materials;
- Spare parts worth up to 15% of the total value of the imported investment capital goods, provided that the goods are also exempt, from the payment of customs duties;
- An investor granted with a customs duty exemption will be allowed to import capital goods duty free indefinitely if his investment is in manufacturing and agriculture, and for five years if his investment is in other eligible areas; and
- An investor entitled to a duty-free privilege buys capital goods or construction materials from local manufacturing industries shall be refunded the customs duty paid for raw materials or components used as inputs for the production of such goods;

(2) Income Tax

If an investor engaged in new manufacturing, agro-processing; the production of agricultural products; generation, transmission and supply of electrical energy; or ICT development he shall be entitled to income tax exemption as specified in the following table.

Table 5-3 Areas of Investment Eligible for Exemption of Income Tax

Areas of Investment	Addis Ababa and Special Zones Oromia Surrounding Addis Ababa	Other Areas
I. Manufacturing		
1) Food industry	1 - 5 years	2 - 6 years
2) Beverage industry	1 - 3 years	2 - 4 years
3) Textile and textile products industry	2 - 5 years	3 - 6 years
4) Leather and leather products industry (except tanning of hides and skins below finished level)	2 - 5 years	3 - 6 years
5) Wood products industry	2 years	3 years
6) Paper and paper products industry	1 - 5 years	2 - 6 years
7) Chemical and chemical products industry	2 - 5 years	3 - 6 years

Areas of Investment		Addis Ababa and Special Zones Oromia Surrounding Addis Ababa	Other Areas
8)	Basic pharmaceutical industry and pharmaceutical preparation industry	4 and 5 years	5 and 6 years
9)	Rubber and Plastic Products Industry	1 and 4 years	2 and 5 years
10)	Other non-metallic mineral products industry	1 and 4 years	2 - 5 years
11)	Basic metal industry (excluding mining industry)	3 - 5 years	4 - 6 years
12)	Fabricated metal products industry (excluding machinery and equipment)	1 and 3 years	2 and 4 years
13)	Computer, electronic and optical products industry	2 - 4 years	3 - 5 years
14)	Electrical products industry	2 and 4 years	4 and 5 years
15)	Machinery and equipment industry	5 years	6 years
16)	Vehicles, trailers and semi-trailer industry	2 - 5 years	3 - 6 years
17)	Manufacturing of office and household furniture (excluding those made of ceramics)	1 and 4 years	2 and 5 years
18)	Manufacturing of other equipment (excluding jewelers and related articles, musical instruments, sports equipment, games and toys and similar products)	1 year	2 years
20)	Integrated manufacturing with agriculture	4 years	5 years
II. Agriculture			
1)	Crop production (Except growing of fibre crops, medium-term species, aromatic or medicinal crops, perennial fruits, beverage crops and other perennial crops in Addis Ababa	2 and 3 years	3 - 6 years
2)	Animal production (Except farming of wild animals and production of milk, eggs and similar products in Addis Ababa and its surroundings)	2 and 3 years	3 and 4 years
3)	Mixed (crop and animal) farming	3 years	4 years
4)	Forestry	8 years	9 years
III. ICT		4 years	5 years
IV. Generation, transmission and supply of electrical energy		4 years	5 years
V. Industrial Zone Development		10 years	15 years

Source: EIC, “Invest in Ethiopia: An Investment Guide to Ethiopia 2015”.

- Any investor who establishes a new enterprise in the regions listed below shall be entitled to an income tax deduction of 30% for three consecutive years after the expiry of the income tax exemption period specified in the above table:
  - Gambella;
  - Benshangul/Gumuz;
  - Afar (except in areas within 15 kilo meters right and left of the Awash River);
  - Somali
  - Guji and Borena Zones
  - South Omo Zone, Segen (Derashe, Amaro, Konso and Burji) Area Peoples Zone, Bench-Maji Zone, Sheka Zone, Dawro Zone, Keffa Zone, Konta and Basketo Special Woredas (in Southern Nations, Nationalities and Peoples Region)
- An investor who expands or upgrades his existing enterprise and increases in volume at least by 50% of its attainable production or service rendering capacity or introducing a new production or service rendering line at least by 100% of an existing enterprise is entitled to the income tax exemption period; and
- Exports at least 60% his products or services, or supplies the same to an exporter as production of service input will be exempted from the payment of income tax for additional 2 years.

(3) Loss Carry Forward

Business enterprises that 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. For the purpose of calculating a period of loss incurred carry forward, a half year period shall be considered as a full income tax period. Any loss incurred during income tax exemption period is not allowed to carry forward such loss for more than five income tax period.

5.5.2 Incentives for Export Promotion

(1) Fiscal Incentives

The Proclamation on Export Trade Duty Incentive Scheme (No. 768/2012) stipulates the incentive scheme for export promotion purpose as follows:

Table 5-4 Outline of Fiscal Incentive for Export

Scheme	Contents
Duty Draw-Back Scheme	Investors can get an exemption from the payment of customs duties and other taxes levied on imported and locally purchased raw materials used in the production of export goods. Duties and other taxes paid are drawn back 100% at the time of the export of the finished goods
Voucher Scheme	A voucher is a printed document having monetary value, which is used in lieu of duties and taxes payable on imported raw materials.
Bonded Export Factory Scheme	A factory under the control of the Ethiopian Revenues and Customs Authority (ERCA) which produces goods exclusively for export using raw materials imported free of duty
Bonded Export Manufacturing Warehouse Scheme	A warehouse under joint control of ERCA and the factory concerned, where raw materials imported free of duty for use in the production of goods destined exclusively for export as well as goods produced using such raw materials are stored

Scheme	Contents
Bonded Input Supplier Warehouse Scheme	A warehouse under the joint control of ERCA and the supplier concerned, where raw materials and accessories imported free of duty by a licensed supplier are stored until such time as they are sold to producers
Industrial Zone Scheme	An area set aside for industry which is equipped with the necessary infrastructural facilities and enjoys policy incentives including exemption of import duty for raw materials for using for export purpose

Source: JICA Study Team.

As far as the above incentive schemes are concerned, MOI formulate implementation directives which include selection criteria, except Duty Draw-Back Scheme. ERCA is responsible for review of application, administration and reconciliation including collecting duty. In practice, Kality Branch is in charge of the above tasks for all schemes. At the time of study, approximately 280 traders were granted approvals and about 80% of them utilized the Voucher Scheme.

The underlying reasons for the above-mentioned relative low utilization state can be attributed to the complicated procedures of each incentive scheme and time consuming process done manually and only by ERCA Kality Branch. In addition, in case the user cannot finish utilizing granted Vouchers within the approved period, they can apply for one-year extension for unused Vouchers. Although application prior to the expiry to ERCA is needed, a number of voucher holders are reluctant to go through the necessary process[25].

(2) Non Fiscal Incentives

- Franco valuta[26] import of raw materials are allowed for enterprises engaged in export processing; and
- Exporters can benefit from the export credit guarantee scheme, which is presently in place in order to ensure an exporter receives payment for goods shipped overseas in the event the customer defaults, reducing the risk of exporters' business and allowing it to keep its price competitive.

5.5.3 Consistency between Tax Incentive Scheme and Development Purpose and Effectiveness of Investment Promotion

As it has been mentioned earlier, Ethiopia's tax incentive scheme consists mainly of exemption of import duty and income tax for strategic industries including export-oriented industries. In line with the objective of achieving industrial development under GTP-I, the targeted sectors include all labor–intensive and export-oriented light industries and strategic import substitution industries. In this regard, the above-mentioned tax incentive scheme assures the consistency with national level development purpose. In addition, FDI in manufacturing and hotel sectors has achieved remarkable

[25] This statement is based on interview with ERCA.
[26] "Franco-valuta" refers to a process of importing goods by a person permitted to do so by using foreign currency from his own source.

growth in the last 10 years as has been mentioned in Chapter 3. Therefore, Ethiopia's tax incentive scheme can be regarded as one of the most effective policy measures to promote foreign investment. Ethiopia's major tax incentive scheme is summarized in the table below.

Table 5-5 Outline Ethiopia's Tax Incentive Scheme

<table>
<tr><th></th><th></th><th>Income Tax</th><th>Duty・VAT (Value Added Tax)</th><th>Others</th><th>Remarks</th></tr>
<tr><td rowspan="3">Export Oriented Co.</td><td>General</td><td>1-9 years exemption according to industry and location</td><td rowspan="3">・Exemption of import duty on capital goods and their spare parts (Note 1)
・Exemption of export duty
・Exemption of import duty and VAT on materials used for manufacturing export products (Note 2)</td><td rowspan="4">Companies which suffer losses during income tax exemption period can carry forward such losses up to half of such exemption period, following the expiry of the exemption period</td><td></td></tr>
<tr><td>More than 60% export ratio</td><td>Extension of 2 years exemption in addition to the above period</td><td></td></tr>
<tr><td>More than 80% export ratio and located in industrial parks</td><td>Further extension of 2 or 4 years exemption in addition to the above period</td><td></td></tr>
<tr><td rowspan="2">Domestic Market Oriented Co.</td><td>Import Substitution</td><td>1-6years exemption according to industry and location</td><td rowspan="2">・Exemption of import duty on capital goods and their spare parts (Note 1)</td><td>Manufacturing, Agriculture, ICT, etc.</td></tr>
<tr><td>Others</td><td>None</td><td></td><td>Hotel, Tourism, Construction, Real Estate, Education, Training, Medical Service, etc.</td></tr>
</table>

Note 1: Up to 15% of total value of capital goods
Note 2: For manufacturing and agriculture sector, the above import duty exemption period is indefinite and 5 years exemption period for other sectors.
Source: JICA Study Team based on various sources.

The table below compares Ethiopia's major tax incentive scheme with other African countries' such as Kenya, Rwanda, Tanzania, Zambia and Ghana.

Table 5-6 Comparison of Tax Incentive Scheme with Other African Countries

Country	Major Incentive Scheme
Ethiopia	・ Developers of industrial parks can get income tax holidays for 10-15 years according to location; ・ If an investor engaged in new manufacturing or agro-processing; the production of agricultural products; generation, transmission and supply of electrical energy; and ICT Development, it can get income tax holiday for 1-9 years; ・ If export ratio is higher than 60%, additional 2 years income tax exemption will be provided in addition to the original exemption period (regardless of location of investors); ・ In industrial parks, if export ratio is higher than 80%, further 2 or 4 years income tax exemption will be provided in addition to the above exemption period. ・ Exemption of import duty for capital goods (regardless of location) ・ Exemption of import duty and VAT for materials used for production of export products(regardless of location)
Kenya	・ In Export Processing Zone (EPZ), enterprises can get income tax incentive 1) 100% income tax exemption for the first 10 years; 2) 5% reduction of income tax for the next 10 years; 3) Exemption of withholding tax for dividend for 10 years; and 4)Exemption of VAT permanently ・ In the areas other than EPZ, enterprises can get 1)exemption of VAT for importation of capital goods; 2) exemption of import duty on raw material for production of export goods; 3) offsetting import duty with income tax for importation of capital goods with the approval of tax authority if the investment amount is more than USD 5 million.
Rwanda	・ In EPZ and Free Trade Zones (FTZ), tenant investors can get income tax holidays indefinitely(including exemption of withholding tax for dividend payment) and exemption of import duty on capital goods and raw materials. ・ In the areas other than the above zones, exemption of income tax up to 7 years for strategic sector such as manufacturing, power, tourism and health service. ・ In the areas other than the above zones, an international company which has headquarter or regional office in Rwanda can get a preferential corporate tax rate of 0% if it invests more than USD 10 million and management function such as finance, marketing, IT and R&D.
Tanzania	・ In SEZ and EPZ, income tax holiday (including exemption of withholding tax) for 10 years for tenant investors and exemption of import duty and VAT on capital goods and raw materials. ・ In the areas other than the above zones, investors of strategic sectors such as agriculture, mining, infrastructure development, airline, commercial banking, manufacturing and tourism can get exemption or reduction of import duty on capital goods.
Zambia	・ For investors who invest not less than USD 500,000 in Multi-Facility Economic Zone (MFEZ), an Industrial Park, a Priority Sector and invest in a Rural Enterprise under the Zambia Development Agency Act can get the following fiscal incentives (subject to approval of the Ministry of Finance): ➢ 5 years exemption of withholding tax for divided payment ➢ 5 years exemption of corporate income tax ➢ 5 years exemption of import duty for capital goods ・ The abovementioned Priority Sectors are defined as follows: ➢ Manufacturing activities located in a MFEZ, an Industrial Park, or a rural area ➢ Construction and infrastructure development in the following sectors: a) Education (education and skill training institutions) b) Health (health centers)

Country	Major Incentive Scheme
	c) Tourism (hotels, convention centers, exhibition centers, museums, theme parks, art galleries, theatres and large scale retail complex) d) Housing (development of 50 or more houses erected or managed) e) Agriculture (crop and grain storage facilities) ➢ Energy and water development
Ghana	・ 10 years corporate income tax exemption for FTZ tenant investors ・ In the areas other than FTZ, 5-7 years exemption of corporate tax for priority sectors such as agriculture, forestry and fishery, real estate, solid waste treatment and agro-processing industries ・ In the areas other than FTZ, reduction of corporate tax rate (tax rebate) for manufacturing and agro-processing industries according to regions

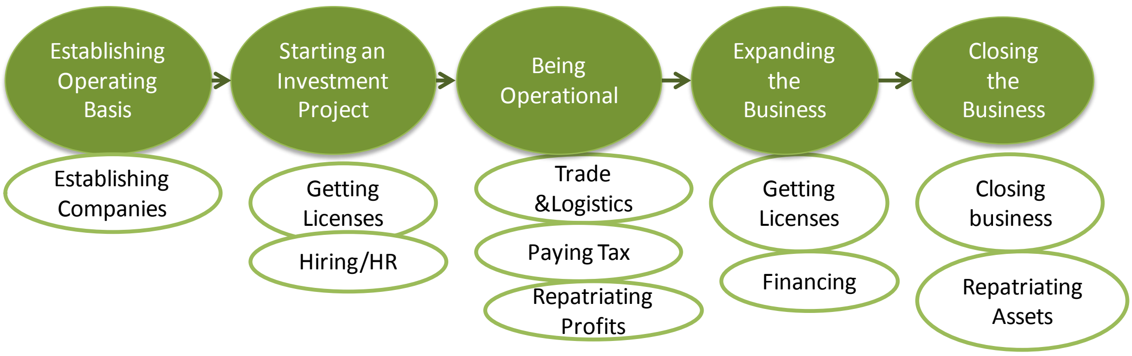
Source: JICA Study Team based on various sources.

Chapter 6 Analysis on Ethiopia's Investment Environment

6.1. Ethiopia's Investment Environment and the Methodology of Analysis

6.1.1 Methodology of Analysis of Investment Environment

Investment environment can be described from combination of various issues which are related to the business operations and launching of investment projects. It consists of regulatory environment, infrastructure development and other factors which can affect costs and time in business operation. In the course of life of the investment starting from the establishing a company to winding up of the business, investors are expect to encounter various operational and administrative procedures. Various conditions may affect the cost, quality and delivery of the business. The figure below depicts the life cycle of the investment and various types of procedures and transactions.



Source: JICA Study Team.

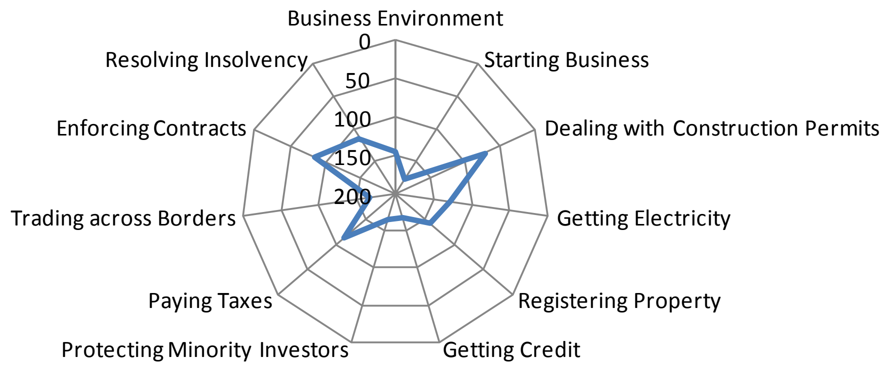
Figure 6-1 Course of Life of Investment and Various Procedures

The number and types of necessary procedures may vary depending on the types of industries and businesses. Availability of quality infrastructure is also important factors for business operation.

The analysis on investment environment in this section looked at the critical issues in regulatory environment and the situations of infrastructure in Ethiopia from the following aspects: i) frameworks and the structures including overall flows of the procedures, status of development and ii) actual situations based on the information on the experiences of investors in their business operation with the data on costs, times and other burdens. Following the analysis, iii) identification of the critical problems and iv) efforts of the Government and other development partners will be described.

6.1.2 Overview of Ethiopia's Investment Environment and Scope of the Analysis

"Doing Business" by the World Bank Group may give some rough overview of the business environment through the comparison with other countries. The report in 2016 introduced the Distance to Frontier (DTP) index. DTP is a composition index which calculates the degree of a certain country's score vis-à-vis the total score of the top country in percentage. Ethiopia's DTP increased slightly from 42.73% in 2015 to 49.24% in 2016. The rank based on the new calculation slightly improved from 148th to 146th in 2016. The categorized DTF score of Ethiopia in 2016 is shown in the figure below.



Source: World Bank (2016) Doing Business 2016.

Figure 6-2 Ethiopia's Categorized DTF Score in Doing Business (2016)

The results of 2016 ranked Ethiopia higher than 100th place in "Dealing with Construction Permit" and "Enforcing Contracts" among 189 countries. On the other hand, "Starting Business", "Getting Credit", and "Trading across Borders" shows especially low scores (below 150th place).

Various entities conducted surveys on business environment targeting domestic and foreign investors. The summary result is shown in the table below.

Table 6-1 Evaluation of Business Environment in Ethiopia by Existing Surveys

Research Title	Research Target	Surveyed or Published Year	Major problems identified in the Research
Enterprise Survey	Enterprises operating in Ethiopia including Foreign companies and state-owned enterprises	2011/12	- Access to finance - Access to land - Power - Tax and the rates - Customs clearance and export processing
Ethiopia's Business Climate: A Perspective from EU Investors	Investors of EU member countries	2013	- Tax - Governance (including the problems of clarity and certainty of application of laws and regulations) - Insufficiency of foreign reserves - Cumbersome procedures of getting license and registrations - Inconstancy in handling and application of rules for customs clearance (resulted in the delay of completion of process and increased cost)
Chinese FDI in Ethiopia: A World Bank Survey	Chinese investors	2012	- Regulatory framework of customs and customs clearance - Tax and tax rates - Access to finance - Instability of macroeconomics - Regulatory framework of Labor-related issues

Source: JICA Study Team based on the various survey results.

While the types of the problems raised may be similar, the degree of the perceived difficulties of each problem may be different across the survey. For example, the survey on Chinese investors with a significant portion of manufacturing companies pointed out the problems related to customs clearance. It is especially critical for manufactures as they import raw materials which are not available in domestic market. On the other hand, the Enterprise Survey in 2011/12 by the World

Bank identified the access to the finance as one of the major problems: it may be largely due to the nature of the survey where the large proportion of the surveyed companies is domestic establishments.

According to the data from 2008 to 2012, two FDI out of three could not transform from EIC's categorization of "Operational" phase from the investment "Implementation" phase[27]. It may imply concern on the operating environment for foreign investors. Therefore, more attention should be paid for the relevant issues in "Being Operational" and "Expanding Business" in Figure 6-1. On the other hand, the problems faced by the domestic investors indicate some different aspects of private sector development. The low score in "Starting Business" in Doing Business which surveys mainly domestic firms also requires some attention considering development of the broad based private sector.

Based on the observations above, further analysis on the investment environment focuses on the regulatory frameworks and required administrative process, actual situation and the experiences of investors in the implementation of the laws and regulation, the problems and the following areas. First, the procedures for starting a new investment are reviewed. Company registration, licensing, and securing land are the areas to be overviewed. Second, in order to understand the situations of business environment from the operational stage to the closing of business, some key areas are reviewed: namely, foreign currency allocation, profit repatriation, tax, labor, trade logistics including customs clearance, and power supply.

6.2. Current Situation of Investment Environment

6.2.1 Establishment of a Business and Investment Related Licensing System

(1) Overview of the System

Procedures for establishing a business and obtaining investment permission in Ethiopia are as follows.

1) Types of Operation

Foreign companies generally establish a business presence in Ethiopia in one of three modes; i) Representative office, ii) Branch office and iii) Subsidiary company as shown in the table below.

[27] World Bank (2015) 4th Ethiopia Economic Update: Overcoming Constraints in the Manufacturing Sector. The phases of investment defined by EIC are explained in detail in Table 6-5. The "Operational" under EIC definition is the phase after the investor started actual business activities such as marketing and rendering services.

Table 6-2 Types of Business Operation of Foreign Companies in Ethiopia

Types of business operation	Description and Constraints
Representative office	Representative offices are established as locations for implementing preparatory and supplemental tasks aimed at enabling foreign companies to engage in full-scale business operations in Ethiopia. They may conduct market surveys, collect information but they are not permitted to engage in sales activities directly.
Branch office	Branch offices are the simplest means for foreign companies to establish a base for business operations in Ethiopia. They can begin business operations upon the completion of the following processes: an office location is secured: the branch office representative is determined: and necessary information is registered. Because branch office does not have its own legal corporate status, the parent company is ultimately responsible for all debts and credits generated by the activities of its Ethiopian branch office.
Subsidiary company	Subsidiary companies are established for full-fledged business operations. The legal status can be chosen from Companies Limited By Shares or Private Limited Companies. Subsidiaries are separate corporations from the parent company, so parent company will bear the liability of an equity participant stipulated by law for all debts and credits generated by the activities of the subsidiary.

Source: JICA Study Team.

2) Procedures for Obtaining Investment Permit and Commercial Registration

Information regarding procedures for obtaining investment permit and commercial registration is mainly provided in the Investment Proclamation No.769/2012 and its Council of Ministers Regulation on Investment Incentives and Investment Areas Reserved for Domestics Investors, No. 270/2012 as well as the Commercial Registration and Business Licensing Proclamation No.686/2010. In addition, the Investment Guide and pamphlets are accessible through EIC website[28]. Documents related with procedures are available in the EIC office.

Those who wish to investment in Ethiopia need to set up a legal entity through obtaining investment permit from EIC and making an entry on the Commercial Register. Commercial registration is necessary for individual persons, business organizations incorporated in Ethiopia, and Ethiopian branches of a foreign business organization incorporated abroad to conduct business activities.

The following figure outlines procedures for foreign companies to obtain investment permit and commercial registration certificate. Delivery times stipulated in the EIC's client charter are also indicated. The delivery times indicate expected document processing time given that all the necessary documents are provided without deficiency.

[28] EIC website http://www.investethiopia.gov.et/

Applicants	• Applicants submit application (signed by an agent, and attaching a clearance letter to reserve the company name), a photocopy of article of association, a photocopy of the relevant pages of a valid passport and visa to EIC. (Necessary documents are stipulated in Article 14 of Investment Proclamation No. 769/2012)

EIC	• The EIC reviews application documents and check whether the investment area does not belong to the areas of investment reserved for the government or joint investment with the government, as well as the areas of investment reserved for domestic investors, based on the relevant proclamation and regulations. (Investment Proclamation No. 769/2012, and its Regulation No. 270/2012)	Deliver time (EIC client charter) • Max. 10 minutes
	• The EIC selects one company name out of three candidate names submitted from the applicant. (EIC checks the database of the MOT installed within the organization and confirms there is no overlap with the existing company name.) ➔Company name is registered in the MOT database afterwards.	• Max. 30 minutes
	• The EIC issues a letter addressed to a bank. ※ ※The letter is addressed to the NBE if an applicant will open a foreign currency account. If an applicant will open a local currency account[29], the letter is addressed to the Commercial Bank of Ethiopia (CBE)/private commercial banks.	• Max. 10 minutes

Applicants	• Applicants submit a letter issued by the EIC to a relevant bank.
Banks	• The NBE or the CBE/private commercial banks issue banking certification[30] to open a bank account.
Applicants	• Applicants open a bank account and deposit capital (minimum capital requirements: USD 200,000 for a single investment project, USD 150,000 for an investment in partnership with domestic investor(s))[31]
Banks	• The NBE or the CBE/private commercial banks issue confirmation letter that a bank account is opened and the necessary capital amount is deposited

Applicants	• The applicants submit application for the Tax Identification Number (TIN) to the ERCA Desk (ERCA Investment Desk Registration Center) within the EIC building.	
ERCA Desk	• The ERCA Desk issues a TIN number.	• Max. 1 hour

Applicants	• Applicants obtain authenticated office rental agreement from the Documentation and Authentication Office.

[29] According to the EIC, there are foreign companies which do not open foreign currency account but only open local currency account. Payments for office rental and salaries of employees are made from this local currency account.

[30] Banking certification gives permission to foreign investors to open a bank account in Ethiopia.

[31] In addition to capital payment, investment can be made in-kind such as equipments as well as combination of capital payment and in-kind payment. In such cases, commercial invoices are referred to in order to valuate machines. For the case of investing used machines, depreciation is taken into account for valuation.

Applicants	• Applicants submit bank certification, a TIN number and the authenticated office rental agreement to the EIC.	
EIC	• EIC reviews bank certification, a TIN number and the official rental agreement.	• Max. 10 minutes

Applicants	• Applicants pay investment permit fee (ETB 600) and commercial registration fee (ETB 100) to EIC.	
EIC	• The EIC issues investment permit and commercial registration certificate.	• Max. 3 hours

Source: JICA Study Team based on interviews with EIC.

Figure 6-3 Concrete Procedures for Foreign Companies to Make Investment in Ethiopia (For the case of Subsidiary companies)

3) Procedures for Renewal of Investment Permit, and Acquisition and Renewal of Business License

After obtaining investment permit and commercial registration certificate, investors shall renew investment permit (every year) and obtain and renew business license (every year) in order to do business as shown in the table below. The processes involved two regulatory bodies, namely, EIC and the Ministry of Trade (MOT).

Table 6-3 Renewal of Investment Permit, and Acquisition and Renewal of Business License

Renewal of Investment Permit (EIC)
• After acquiring investment permit, investors shall renew investment permit every year at EIC until investors commence the marketing of their products or services. (Investment Proclamation No.769/2012, Article 17) • Necessary documents: Application for renewal of investment permit and business progress report. (Business progress report shall be submitted to EIC every six months.)
Obtaining Business License (EIC)
• Investors shall obtain business license from EIC in order to commence production and sales or rendering of service[32]. (Investment Proclamation No.769/2012, Articles 16 and 30) • Necessary documents: Application for issuance of business license, competency letter from competent authority, and business progress report. (Maximum processing time is 10 working days if all the necessary documents are provided without deficiency.) • Investors acquire trade name after obtaining business license. MOT approves the trade name.
Renewal of Business License (MOT)
• After obtaining business license, investors shall renew business license every year at MOT. (Investment Proclamation No.686/2010, Article 36) • Necessary documents: Application for renewal of business license, clearance statement issued by the tax collecting office (including TIN), audited financial statements, renewed commercial registration certificate, competency letter issued by the competent authority. • It requires three working days to one week for clearance if all the necessary documents are provided without deficiency. For the issuance of competency letter, prior on-site survey and examination by the competent authority is necessary.

Source: JICA Study Team based on interviews with the EIC and the MOT.

The following table summarizes the competent authorities for obtaining investment license and commercial registration certificate, renewal of investment permit, and acquisition and renewal of

[32] According to EIC, investors may not be issued business license if the actual business contents deviate from the originally approved business purposes.

business license. EIC does not provide support for renewal of commercial registration certificate and business license because these procedures are under the jurisdiction of MOT, Trade Registration and License Directorate. Currently, commercial registration shall be renewed every year or every five years (Proclamation No. 686/2010, Article 18). According to the Director General of Trade Registration and License Directorate, periodic renewal requirements are going to be abolished in the expected new proclamation. But the same application process and approval procedures by the MOT are required in case some alteration and/or amendment occurred to the contents of commercial registration.

Table 6-4 Competent Authorities for the Procedures of Investment License, Commercial Registration Certificate, and Business License

Items	Competent Authorities
Issuance of investment permit and commercial registration certificate[33]	EIC
Renewal of investment certificate (every year until investors commence the marketing of their products or services)	EIC
Issuance of business license (necessary for investors to commence the marketing of their products or services)	EIC
Renewal of business license (every year)	MOT

Source: JICA Study Team based on interviews with the EIC

EIC categorizes investors' business activities in the following three phases.

Table 6-5 Three Phases of Investment Projects

Phase	Definition
Pre-implementation phase	• Period between submission of application of investment license and commercial registration until land is acquired.
Implementation phase	• Start-up period after acquiring land until the commencement of production and sales or rendering of service. (Specifically, periods such as constructing and setting up of factories, employing and training workers, and manufacturing products. Renewal of investment license at EIC is required every year during this period. Obtaining business license from EIC is necessary in order to proceed to the operation phase.)
Operation phase	• Period after obtaining business license from the EIC and commencing actual production and sales or rendering of service. (Renewal of business license is necessary every year at the MOT in order to continue these business activities.)

Source: JICA Study Team based on interviews with the EIC.

(2) Analysis of Problems

1) Renewal of Business License

After obtaining investment permit and, then, moving into operational phase with business license

[33] Article 18 of Proclamation No.686/2010 requires periodic renewal of commercial registration every year or for the future 5 years all together. (Renewal of commercial registration is under the jurisdiction of MOT.) According to MOT, this regulation is going to be abolished in the new proclamation to be publicized (within 2015 at the earliest). However, the same application process and approval procedures by the MOT are required in case some alteration and/or amendment occurred to the contents of commercial registration.

from the EIC, investors should renew their business license annually at MOT. This yearly procedure is troublesome. The government intends to comprehend and manage periodically whether investors are on course of commencing commercial activities and operate their business appropriately. As a consequence, investors suffer from further business cost due to bureaucratic work and procedural delay.

One of the problems is the procedure necessary for renewal of business license. For renewal, investors need to submit necessary documents such as tax statement cleared by ERCA. The renewal can be completed within the period of three days to one week if all the required documents are prepared satisfactory. However, once any issues are pointed out, the process may take a considerable amount of time involving the submission of additional document. One of the necessary documents is a competency letter per sector. Its issuance requires the prior inspection and review by appropriate government offices. For example, investors in agricultural sector shall obtain certificate from the Ministry of Agriculture and Rural Development by the investigation of business status and environmental management of water discharge. Businesses with rights to use land should obtain certificate issued by land management unit at provincial government.

There is a problem about review standards on renewal of business license. According to an interview with a foreign investor, the company was told not to authorize license renewal by MOT officials because of the net loss in two years since its incorporation; they finally solved this difficulty by explaining business plan logic and prospects for eventual profitability. As a result of this, business license was extended. Also, some companies experience hardships in renewing business license because they are continuously losing money. For this case, it is said that MOT has undisclosed internal rules in deciding the advisability of the license update. In fact, review standards have not been made public and therefore transparency is not sufficiently secured. Basically EIC does not provide any support for the renewal because it is under the jurisdiction of MOT.[34]

2) Support for SMEs

From the interviews with foreign investors, large enterprises with enough personnel are able to assign dedicated staff to cope with the license matters and consequently, there are few cases where they face specific problems about incorporation, investment permission and the renewal of business license. However, SMEs with limited human resources are unhappy about the red tape of the documents requirement at the related Ministries. In spite of no legal prescriptions, it is reported that

[34] As mentioned above, since MOT has the authority, coordination with MOT is necessary when considering effective measures. On the other hand, inclusion of support for business license renewal may be considered as part of EIC’s aftercare service. As discussed below, SMEs that need support most are not targeted for aftercare service at the moment. However, some improvements may be expected through expanding aftercare service for several years targeting to companies, including SMEs, which have acquired investment permits and have moved into operational phase with business licenses.

EIC shows reluctance to SMEs for authorizing investment application because they employ too few people and the amount of their investment is small. These practices exemplify the ambiguity of criteria of investment permission for SMEs.

3) Procedural Cost and Minimum Capital Requirement

As indicated in the table below, in comparing necessary procedures for incorporation with other African countries, Ethiopia is ranked relatively low in terms of procedural cost and minimum capital. The result indicates that businesses, especially SMEs, will encounter difficulty in doing business in Ethiopia. The minimum capital requirement is zero for East African countries around Ethiopia.

Table 6-6 Comparison with Other African Countries vs. Starting a Business in Ethiopia

Region/Country	Rank	Procedures (Number)	Time (Days)	Cost (% of income per capita)	Minimum Capital (% of income per capita)
Sub-Saharan Africa	—	8.0	26.8	53.4	45.1
Ethiopia	176	11.0	19.0	76.1	138.9
Kenya	151	11.0	26.0	35.3	0.0
Uganda	168	15.0	27.0	39.7	0.0
Tanzania	129	9.0	26.0	18.0	0.0
Rwanda	111	7.0	5.5	55.0	0.0

Note: The information in this table only comes from incorporation by domestic investors.
Source: World Bank (2016) Doing Business 2016.

Drawing on data in Doing Business by the World Bank, a comparison of the aforementioned business license with other countries does not show a big problem in its acquisition itself in Ethiopia. Other countries have licenses and permits similar to a business license in Ethiopia. When comparing application for a business license and like in starting a business with other countries, it can be said that acquiring a license itself does not take excessive time in Ethiopia.[35]

(3) Directions for Improvement (Government's Response and Donor Assistance, etc.)

EIC is expecting organizational restructuring under the initiative of PMO in order to strengthen its role to promote export and investment mainly in manufacturing sector. As regards investment related procedures, EIC's one stop service (OSS) functions are to be reinforced especially within the industrial parks. Specifically, EIC will establish Branch Offices in each industrial park and will function as a core organization for OSS to issue investment permits and business licenses as well as to supervise related ministries and agencies (ERCA, Immigration Office, National Bank etc.) which

[35] According to Doing Business, an investor shall acquire a similar business license after establishing a company as Post-Registration Process in Tanzania and Kenya. It takes six days and five days in Tanzania and Kenya, respectively, whereas it takes only one day to acquire a business license in Ethiopia (Source: World Bank Group, "Doing Business 2016").

have established their offices for investment related procedures within the industrial park. Currently, foreign investors outside industrial parks usually have to go to each competent authority to acquire necessary documents including competency letters; however, it is expected that all necessary investment related procedures to be completed under the OSS inside the industrial park with the support of EIC's project manager. Furthermore, renewal of various licenses/permits including business license, work permit and residence permit is expected to take place within the industrial parks; foreign investors currently need to submit application individually to competent authorities such as MOT and the Ministry of Labour and Social Affairs (MOLSA). With respect to obtaining the NBE approval letter to open a bank account, which is required for foreign investors to acquire investment permit and business license, the EIC's project managers will provide support to foreign investors in order to complete all the procedures within the industrial parks. Therefore, drastic improvement for investment related procedures is expected within industrial parks if these new services are enforced.

However, it is desirable that companies outside the industrial parks can also access to the same level of service as those inside the industrial parks. It is necessary that approvals are granted based on transparent rules so as to avoid ambiguous responses regarding such issues as the number of local employees and office size as seen in the examples described above.

As regards donor assistance, International Finance Corporation (IFC) as a lead donor, in collaboration with UK, Canada, Italy, Norway etc., provides comprehensive support to streamline and computerize various business related procedures through the Multi Donor Initiative for Private Sector Development – Investment Climate Program.

6.2.2 Labour System/VISA

(1) Overview of the current scheme

Core labor-related legislation in Ethiopia, Labor Proclamation No.377/2003, contains detailed stipulations of general labor-related affairs (contract, rights, obligations, retirement allowance, compensation etc.), general work-related affairs (wage, working hour, break time, holiday, working conditions, safety and hygiene, etc.), labor union, and labor dispute, among others, constituting a comprehensive set of rules. The labor system is regulated and supervised by MOLSA.

Foreigners are allowed to work in Ethiopia only when they obtain an entry or business visa. Without a business visa, visitors are not allowed to stay in the country for more than 60 days. Those who hope to work there for more than two months must obtain a work permit, issued by the Foreign Worker's Licensing Directorate, and a resident permit, issued by the Security, Immigration and Refugee Affairs Authority. A simple outline of the basic steps follows.

Applicant	The following documents shall be presented: ・Application form, passport, invitation letter, contract of employment, duration and nature of business etc ・It is possible to get one month, three month, six month or one year multiple entry visas and visa extension shall be made before expiry	
EIC	・Visa is issued based on the application and after review	7-10 days for processing

Procedures to obtain work permit

Applicant	The following documents shall be presented: ・Application form, copy of expat's passport and visa, company letter of request justifying the necessity of hiring the expatriate, support letter from the employer for the issuance of the work permit, educational and work experience testimonials (University degree, certificate etc), valid business license, photos, tax registration certificate etc	
EIC	・Work permit is issued by EIC delegating MOLSA ・One year with possibilities of extension for another two years. MOLSA authorizes extension period.	New：Maximum 2 hours Renewal：Maximum 1hour

Procedures to obtain residence permit

Applicant	The following documents shall be presented: ・Application form, copy of expat's passport, visa and work permit, support letter issued by MOLSA, Valid business license, photos and etc	
EIC	・Work permit is issued by the department for immigration and nationality affairs which has the office in EIC building as OSS ・Usually same as the validity of the work permit, 1 year and annually renewable	24 hours to 72 days from the date of payment

(2) Analysis of Problems

1) Visa for Expatriates

It is reported that invitation letters issued by local offices for a visitor or a resident employee to obtain a business visa are sometimes refused by the Immigration Bureau. Also, short-time visitors are denied a multiple entry visa with no reasonable explanation given. These are the examples of unreasonable treatment. In reality, due to a divergence in views on the necessity of the covered expat and the interpretations of rules among the different departments within the Immigration Bureau, visa application is not approved smoothly in the expected time period even though applicant hands in all the documents required in the regulations. This situation results in interference with the smooth operation of foreign companies in Ethiopia.

The difference probably comes from divergences in interpretation between officers in charge, and therefore, relevant agencies should establish a unified way of dealing with visa issuance. Likewise, there is room for discretion of interpretation in approving work permit upon the review of the reasons for the necessity of the expatriates provided by foreign investors.

For example, there are 27 types of status of residence in Japan and 17 of them are prescribed as authorized activities in Japan (working statuses) with period of stay per activity. Especially, the period of stay for highly skilled professional is set as indefinite as one of the preferential treatments in the immigration management. In Ethiopia, such transparent and concrete criteria should be established

2) Valid Period of Work Permit and Residence Permit

Valid period of work permit and residence permit for expatriates coincide with that of business license. Annual renewal of the permits is compulsory under current regulations. Investors shall apply for MOLSA or the Security, Immigration and Refugee Affairs Authority individually for extending eligible period. The renewal process is not dealt with at EIC, which makes it a cumbersome procedure. For the proactive promotion of FDI, extending the currently designated valid period for work permits may be desirable. According to a report by JETRO, some countries (e.g., Indonesia and Thailand) request annual renewal of work permit the same as the case of Ethiopia, but other countries (e.g., India, Malaysia, Vietnam, and Laos) have more than one-year duration (See the table below). The longer validation period is helpful for foreign investors in order to make mid-, or long-term human resource planning.

Table 6-7 Comparison of Valid Period of Work Permit among Asian Countries

Countries	Valid period of work permit	Memo
India	2-5 years	Specialist 5 years, IT engineer 3 years, Others 2 years
Indonesia	1 year	Annual renewal up to 5 years in total, priority for local employment
Thailand	1 year	Annual renewal
Malaysia	2-5 years	Decided by the estimated resident period
Vietnam	2 years	
Laos	Maximum 4 years	

Source: JETRO (2014), Comparison of work permit and visa scheme in major Asian countries.

3) Delegation to Ethiopian Nationals (Localization of Management Function)

Under a system designed in labor rules and regulations, foreign expatriates are allowed to stay as resident employees only when they have some special skill or qualification unavailable in Ethiopia. Foreign companies must provide specific training for Ethiopian employees to replace the foreigners within a certain period of time (3 to 5 years). From the viewpoint of investors, given higher cost to send resident employees from headquarters, it is realistic that management function may be partly delegated to local people for business reasons. However, a period of three years seems too short not only to change the management with the Ethiopian nationals, but also to find an Ethiopian employee with the necessary quality and experiences. Foreign investors are required to find the employees whom they can trust in terms of both capability and personality, and subsequently, designate them to responsible positions such as factory managers or local decision-makers. There is no concrete support from the Government about localizing high level staff, which means that every company must secure and train their own human resources.

4) Training local staff

Although there are no statutory requirements for minimum number of employees, in applying for a business license, a company is examined in terms of its actual track record of operation as an employer, such as the number of employees and payroll. The fact that GoE offers additional incentives to investors according to the number of locally employed can be assumed as GoE's policy intention to promote domestic employment. Given the high unemployment rate, it is not very difficult to find job applicants. Nevertheless, companies operating in Ethiopia place emphasis on benefit programs for employees in order to lower the turnover. With regard to training local staff, because training provided by vocational training institutions or industry promotional institutions (TIDI, LIDI, and MIDI) does not meet their needs, companies provide in-house training at their own expense. It is necessary for companies to employ and cultivate unskilled young people on their own because of the insufficiency of high skilled workers they require in Ethiopia. It is imperative for GoE to develop industrial work force which matches the needs of investors.

(3) Directions for Improvement (Government's Response and Donor Assistance, etc.)

First, it is necessary to set up a scheme for issuing visa promptly by making transparent standards and procedures for issuing business visa for status such as short-term engineers. It is desirable to organize the system in a way investors are satisfied with so that foreign companies are able to operate competitively. For instance, special policy attention may be paid to long-term expatriates in priority sectors GoE targets on: Extending the current 1-year valid period of work and residence permits can reduce burdensome procedures.

With regard to human resource development, mismatch is observed between the industry's technical requirement and the level of skills of actually available labor force despite training programs offered by the Government. Therefore, training programs under official vocational and technical education and training should consider actual industrial needs. Under the Competitiveness and Job Creation Program, the World Bank helps GoE provide customized training on the skill and knowledge based on the needs of enterprises in the industrial zones.

With regard to technical education, possible options are to enhance MIDI which is a key institution for training in engineering. Programs for customized training may be considered to meet company demand.

6.2.3 Foreign Exchange and Remittance Systems

(1) Overview of the System

As regards foreign exchange management system in Ethiopia, while current transaction has been liberalized, capital transaction has not. Regarding capital transaction, foreign borrowing is not allowed except for foreign companies or exporting companies. On the other hand for current transactions, application for forex allocation can be made for the purpose of import/export and travelling abroad. However, as regards actual enforcement, a long period of time is required in many cases (around three months) to get forex permission because of regulation on foreign currency retention as well as forex position of each bank which affects required time to make exchange from local currency to foreign currency.

1) Control on Foreign Currency Retention

Exporting companies in Ethiopia are required to retain their foreign currency earnings from exports by regulation. Concretely, NBE Directive (Retention and Utilization of Export Earnings and Inward Remittances Directive, No. FXD/11/1998) stipulates that foreign investors can retain 10% of the earned foreign currency in Forex Retention Account A for indefinite period of time; however, rest of the 90% shall be retained in Forex Retention Account B up to 29 days after which period any balance shall automatically be converted in the next working day into local currency.

Exporting companies may use foreign currency deposited in Forex Retention Account A with business-related current payment exemplified in the NBE Directive without restriction (Obtaining the NBE approval is not required for activities listed in the table below.) However, exporters shall obtain the NBE approval to use foreign currency deposited in Retention Account A for other purposes than these.

Table 6-8 Activities Allowed to Use Foreign Currency under the NEB Directive

• Import of goods and related services;
• Export promotion such as trade fair participation;
• Advertising and marketing expenses;
• Subscription of business magazines and news-papers;
• Payments for services rendered by non-residents against evidence that payment is contractually due; and
• Any other payment specifically approved by the NBE.

Source: NEB Directive.

2) Opening Letter of Credit (L/C)

When exporting companies import raw materials and machineries necessary for manufacturing, they can either chose to make payment by L/C or by Cash Against Documents (CAD). As an example, priority business areas for opening the L/C, necessary documents and requirements, required charges and time period for opening the L/C of CBE are summarized in the table below. In addition, procedures for opening the L/Cs are illustrated in the following figure. NBE does not intervene in the process for opening of L/Cs because it is an exclusive matter of CBE or private commercial banks. (NBE, based on relevant regulations, only supervises banks)

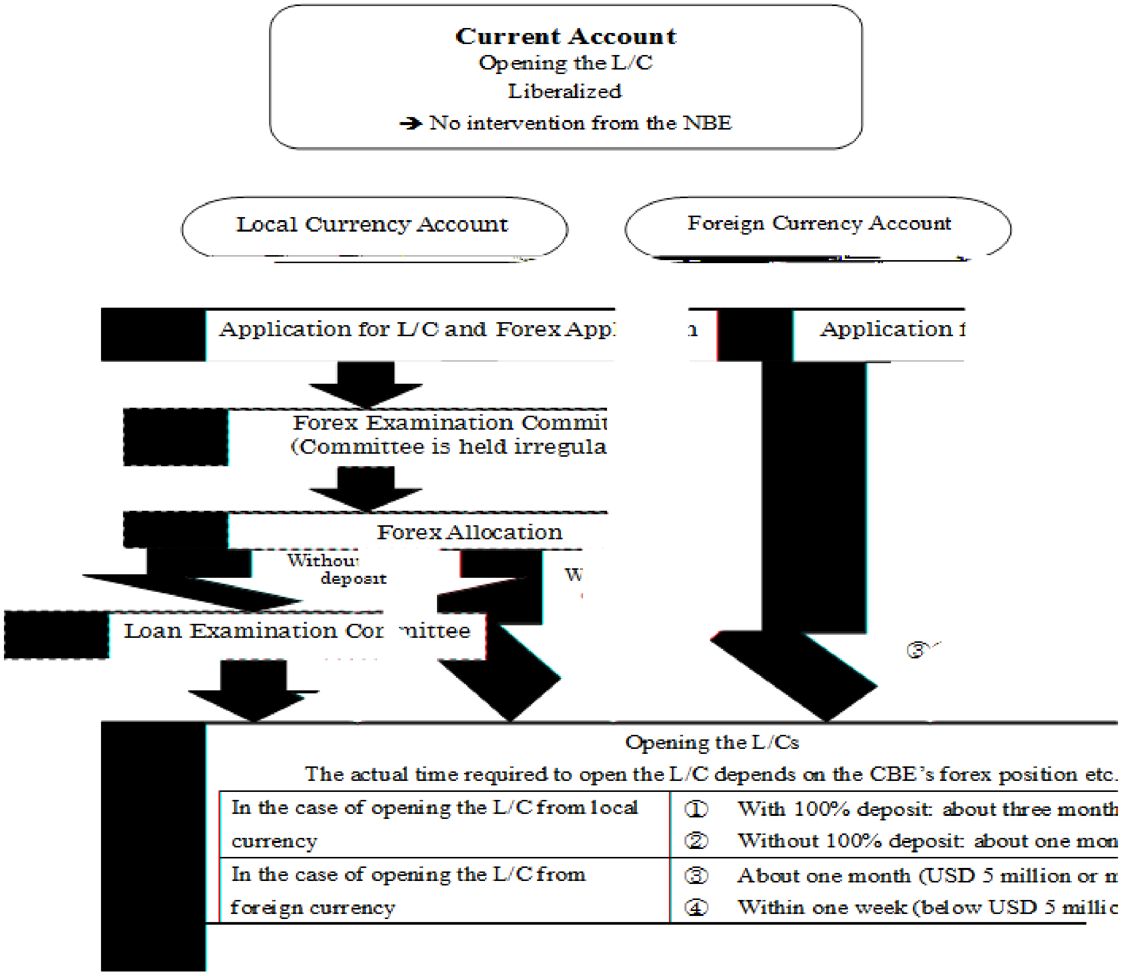
Table 6-9 Information Regarding Opening the L/C (the case of the CBE)

Priority Business Areas	i) Manufacturing (leather, leather product, and garment and textile product industries, etc.), ii) Agriculture, iii) Medical and pharmaceutical industries. No differentiation of priority is set between i), ii) and iii). Virtually all export oriented companies are preferred in the sense that they earn foreign currency and retain foreign currency accounts.
Necessary Documents	Application for opening the L/C Pro forma invoice Letter of guarantee The NBE number (A number for which the NBE manages import and export transactions using database. Refer to Table 6-13 below.) Investment permit and business license Tin Number Foreign exchange application for importers* An application to obtain forex permit. Letter of approval from competent authorities are necessary as accompanying document to the application. Issuing authorities vary according to import goods. (e.g., Automobile➔ Road Authority, medicines ➔ FMHACA (Reformation in the Ethiopian Food, medicines and health care Administration and Control Authority), construction equipments ➔ Ministry of Urban Development and Construction etc.) *In the case of opening the L/C from local currency Birr, foreign exchange application shall be submitted to the CBE and foreign currency allocation shall be obtained in the first place. (In the case of making telegraphic transfer advance payment, bank guarantee is necessary from the supplier side.) CBE may require other accompanying documents as may be necessary.
Requirements	In the case of opening the L/C from foreign currency: it is necessary to deposit L/C equivalent amount of foreign currency in the account. In other words, the L/C is opened with 100% equivalent amount of foreign currency as security. In the case of opening the L/C from local currency Birr: a part of settlement amount shall be deposited in the local currency account and the rest to be borrowed from the bank in the form of credit. After a ship arrives and import declaration is accepted, import bill, together with bank charge is paid to the bank as a usual practice. However, there are cases which importers are required to deposit 100% of the L/C equivalent amount, depending on importers' credit situation. Usually, importers are required to deposit 30% of the L/C amount, and shall have examination from the CBE Loan Examination Committee.
Charges	In the case of opening the L/C from foreign currency: 1.5% (service charge) + 0.5% (bank charge) = 2.0% When opening the L/C from foreign currency, forex charge is exempted because foreign exchange does not take place, as the L/C is opened based on 100% L/C equivalent deposit of foreign currency. In the case of opening the L/C from local currency Birr: 1.5% (service charge) +

	0.5% (bank charge) + 1.5% (forex charge) = 3.5%
Necessary Time Period	Rough required time for opening the L/C is as follows. It depends on the queue for L/C application (it is generally crowded toward the end of the month) and CEB's forex position. "USD 5 million" is considered as a threshold amount. In the case of opening the L/C from foreign currency: about one month for the amount of USD 5million or above, and within one week for the amount below USD 5 million. In the case of opening the L/C from local currency Birr: about three months if deposit of L/C equivalent amount is not made, and about one month if deposit of L/C equivalent amount is made. →Importers shall receive forex allocation via consideration at the Loan Examination Committee; however, since the Committee meeting is held irregularly, expected timing of forex allocation is not predictable.

Source: JICA Study Team based on interviews with the CBE.

Necessary documents for CAD are basically the same as the documents required for opening the L/Cs, according to CBE. Purchase order is necessary instead of submitting application for opening the L/Cs. Prior approval (letter of approval) from NBE is necessary to make deferred payment.



※ In the case of private commercial bank, Dashen Bank, depositing 30% of L/C equivalent amount or more is required when opening the L/C from foreign currency.

Source: JICA Study Team.

Figure 6-4 Procedures for Opening the L/C at the CBE

3) Foreign Remittance

Any foreign investor shall have the right to make foreign remittances of profits and dividends accruing from the investment, principal and interest payments on external loans, payments related to technical service fees etc. (Investment Proclamation No. 769/2012, Part 6, Article 26)[36].

Foreign investors shall obtain prior approval from NBE to make foreign remittance of profits and dividends, and principal and interest payments on external loans at CBE or private commercial banks. Prior approval from NBE is not required for foreign remittance of commission, royalty, import and export charges, service fee, salary etc. because the NBE's Foreign Exchange Directorate 07/1998 stipulates delegation of foreign remittances to CBE and private commercial banks.

Necessary documents for obtaining prior approval from NBE are as follows in the case of outward remittance of profits and dividends. Maximum time for NBE to make approval is one week (5 working days) if all the necessary documents are provided without deficiency.

Table 6-10 Necessary Documents to Obtain Prior Approval from NEB for Foreign Remittance

- Application letter
- Audited financial statements
- Article of association
- The minutes of the board of directors resolution or a letter from an authorized board member about making payments of profit/dividends
- The NBE letter issued at the time of obtaining investment permit (when capital payment deposited in the bank account)
- Valid business license
- Receipts of business tax payment
- Receipts of dividend tax payment (if payment has been made)

Source: NBE.

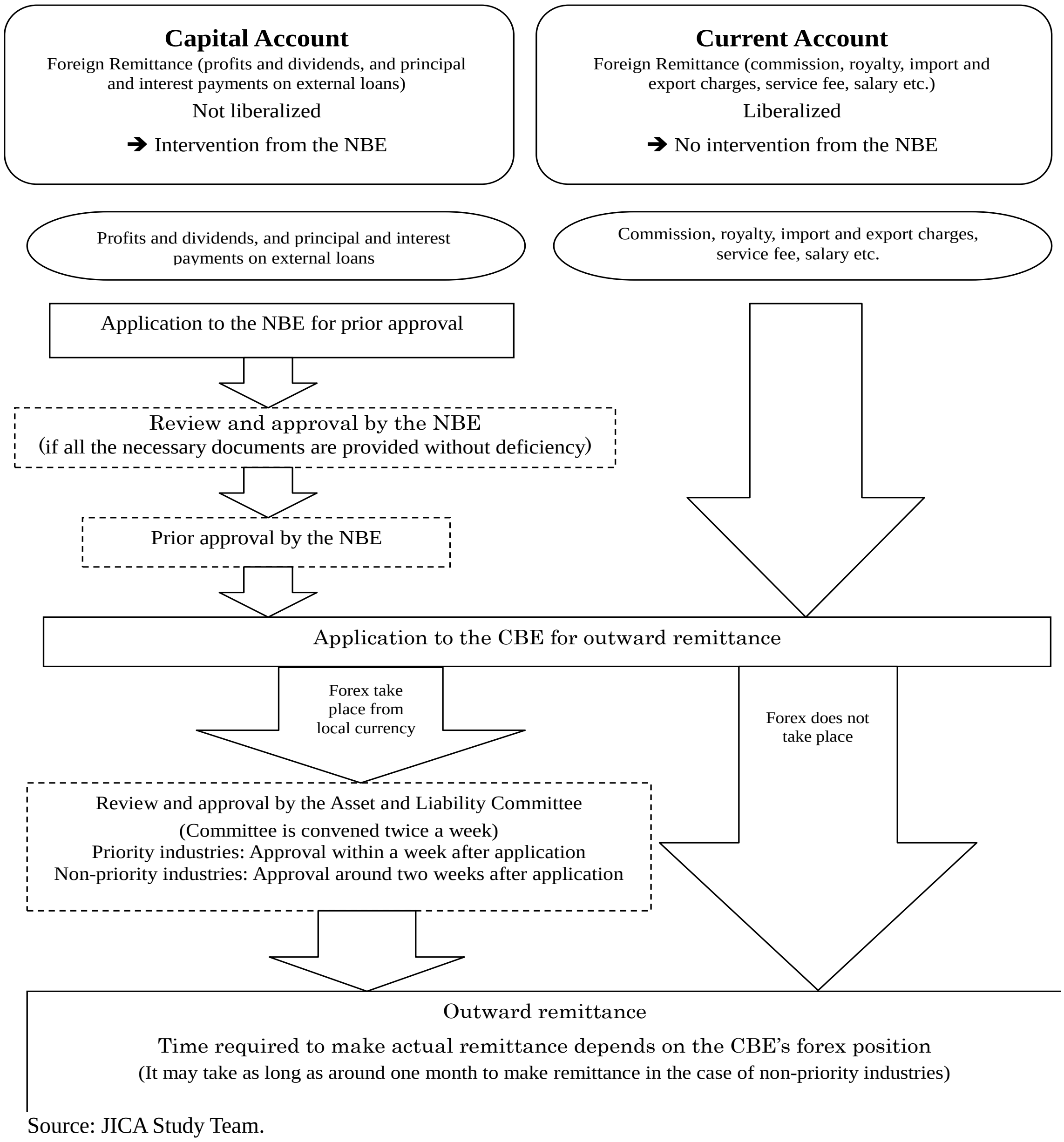
Necessary documents for making foreign remittance at the CBE/private commercial banks are: i) application for remittance, ii) audited financial statements, and iii) prior approval from the NBE regarding making foreign remittance (in the case of profits and dividends, and principal and interest payments on external loans).

For the case of CBE, foreign remittance is made via consideration and decision at the Asset and Liability Committee where the Governor acts as a Chair. The Committee is convened twice a week. Priority for foreign remittance approval is given to manufacturing (including industries for domestic demand), medical and pharmaceutical industries, agriculture and export oriented industries, which are the areas of the government's priority (usually, approval is made within a week after submitting application). It takes about two weeks to obtain approval for companies that fall under non-priority industries. From the standpoint of the purpose of foreign remittance, priority is higher for principal

[36] When borrowing from abroad, foreign investors shall obtain prior approval from the NBE in order to make foreign remittances of principal and interest payments on such external loans (Foreign investors cannot make outward remittances of principal and interest payments on external loans without the NBE's approval for foreign borrowing.).

and interest payments on external loans compared with other purposes. For the case of industries for domestic demand, payments of profits and dividends are made in local currency, but outward remittance can be made by converting them into foreign currency. When an applicant makes outward remittance from its foreign currency account (capital account or retention account), approval process of the above mentioned Committee is not required since foreign exchange does not take place.

Remittance is made after obtaining approval from the Asset and Liability Committee. The processing time required to make actual remittance depends on the CBE's forex position. (It may take as long as around one month to make remittance in the case of non-priority industries). The following figure illustrates the process for foreign remittance (for the case of CBE).



Source: JICA Study Team.

Figure 6-5 Procedures for Foreign Remittance (for the case of the CBE)

(2) Analysis of Problems

Because of the strict foreign exchange allocation due to the government's shortage of foreign exchange, the following significant business obstacles are found.

1) Opening of the L/Cs to make Import Settlement
- In the case of opening the L/C from foreign currency: Depositing L/C equivalent amount of foreign currency is required, which restricts importers cash flow. In other words, the L/C is opened with 100% equivalent amount of foreign currency as security. (for the case of CBE)
- In the case of opening the L/C from local currency Birr: First, importers shall receive forex allocation via consideration in the Loan Examination Committee, however, since the Committee meeting is held irregularly, expected timing of forex allocation is not predictable. After obtaining forex allocation, investors deposit a part of import settlement amount (30% or more) in the Birr account, and rest (maximum of 70%) to be borrowed from the bank in the form of credit. After a ship arrives and import declaration is accepted, import bill, together with bank charge (3.5% of settlement amount) is paid to the bank as a usual practice. In the case deposit of the L/C equivalent amount is not made, examination from the CBE Loan Examination Committee is necessary. In recent years improvements have seen, however, it was often pointed out that more time took place this year compared to the situation last year since forex position is worse this year. Furthermore, it was pointed out that there were cases that full application amount necessary for import settlement was not approved.

2) Restriction for Retaining Foreign Currency
- As per stipulated in the NBE Directive, exporting companies can retain foreign currency earnings in Forex Retention Accounts (Account A and B), however, Account B (which retains 90% of foreign currency earnings) shall be retained up to 29 days after which period any balance shall automatically be converted in the next working day into local currency.
- Foreign investors will have to adjust timing for exports and imports beforehand in order to utilize foreign currency in the Retention Account B to make settlement for importing raw materials in a timely manner. However, because of delays for various reasons including delays in shipping and customs, things do not go as planned, and some companies are facing problems of foreign currency shortage for necessary settlement.

3) Acquiring Foreign Currency for Import Substitution Oriented Companies
- Because of strict foreign exchange allocation, import substitution oriented companies face difficulty in securing enough foreign exchange. Therefore, some are forced to undertake exports of something in order solely to earn foreign currency. For example, a pharmaceutical company is raising cattle and exporting them to Middle East. Although there is no profit, the company considers that it has no other choice to get foreign exchange allocation. For other cases, some automobile importing companies are exporting coffee as a sideline business to earn foreign currency.

4) Foreign Remittance
- For making outward remittance of items that are categorized under capital account such as profit, prior approval from NBE is necessary for each transaction and is cumbersome. In the case of making remittance from local currency, it may take long time to actually make remittance after submitting an application due to the forex position of the bank.

There are restrictions for retaining foreign currency in Ethiopia because of the government's shortage of foreign exchange, and it is assumed that deregulation will take place in the medium to longer term period if forex position is improved in the future. For the case of other countries including Vietnam and Myanmar, where strict regulation on retention of foreign currency took place in the past, deregulation is taking place in recent years.

Table 6-11 Foreign Exchange Related System in China, Vietnam and Myanmar

- China (Foreign Currency Management Regulations)[37]
  "Foreign currency income and expenditure for trade transaction shall have a background of legitimate transaction. Foreign currency income can be retained or can be sold to financial institutions. As regards foreign currency expenditure, with valid evidence, foreign currency can be remitted with owned funds or by purchasing foreign currency from financial institutions."

- Vietnam (Foreign Exchange Management System)[38]
  "Vietnamese foreign currency market is strictly managed by the Foreign Exchange Management System, and institutional changes are carried out every year. Regulation regarding sales and exchange of foreign currency have been eased after 1999, and foreign companies are given right to exchange Vietnamese dong to USD for current payments since January 2001. Presently, compulsory exchange ratio of foreign currency income is set at 0%."

- Myanmar (Foreign Exchange Management Law)[39]
  In Myanmar, until Foreign Exchange Management Law, aiming to modernize financial sector was enforced on 10 August 2012, retention of foreign currency was restricted. Foreign Exchange Certificate (FEC) equivalent with USD substituted the foreign currency. Until then, "Myanmar nationals were prohibited to possess foreign currency and were allowed only to possess FEC. Furthermore, foreigners were restricted to withdraw funds in USD which was remitted from abroad, and were only allowed to withdraw FEC." However, after the Foreign Exchange Management Law was enacted, FEC was abolished and deregulation is advancing.

(3) Directions for Improvement (Government's Response and Donor Assistance etc.)

Major foreign currency revenue sources in Ethiopia are foreign exchange earnings from export companies, remittance from overseas Ethiopian Diaspora, foreign currency profit from FDI, etc. They have been showing increasing trend; however, they do not produce a drastic improvement in the short term. While the government has issued Euro-based government bonds and has sought ways to acquire foreign currency, it is necessary to wait until the government's investment projects become operational and the country enters into "forex earning cycle" to resolve forex demand-supply gap[40].

GoE, considering current mismatch between forex demand and supply, maintains its position that "leaving everything to the market is not the right option", NBE is now preparing a policy paper analyzing whether to stay with status quo or change policy. While it may take some time to eventually resolve the issue, business experiences in Vietnam and Myanmar, where transactions

[37] Source: JETRO http://www.jetro.go.jp/world/asia/cn/trade_04.html
[38] Source: JETRO http://www.jetro.go.jp/world/asia/vn/trade_04.html
[39] Source: JETRO https://www.jetro.go.jp/biznews/2013/05/5191f231bcf70.html
[40] For example, when the Grand Renaissance Dam currently under construction is completed and starts its operation, and electric power selling commences, this will become a huge source of foreign currency revenue.

without involving foreign currency have been realized as mentioned above, serve as a useful reference for investors as countermeasures. In the future, when Ethiopia's position of foreign exchange reserve improves, GoE should consider revising NBE's Directive to gradually deregulate the restriction of Retention Account A, which exporters can retain in foreign currency of export proceeds indefinitely. It is worth considering that GoE should also research foreign exchange deregulation process of other developing countries which used to have strict foreign exchange control policy to obtain policy implication for Ethiopia.

6.2.4 Land Acquisition System

(1) Overview of the System

1) Main Legal Basis and Related Organizations for Land Acquisition

Land is public property in Ethiopia, and individuals, companies and other organizations cannot own land but have only the right to use land. There are two broad classifications of land for rent or lease purposes: rural land (mainly for agriculture) and urban land. The former is stipulated mainly in the Rural Land Administration and Land Use Proclamation No. 456/2005, and the latter in the Urban Lands Lease Holding Proclamation No. 721/2011. While giving the acquired land as security or selling the land is not permitted, it is possible to take out a mortgage on the acquired land's rental price or lease price and the fixed asset as well as to transfer them to a third party.

According to an Investment Guide to Ethiopia 2015, there are nearly 11.55 million ha of potential land for farming, and the Ministry of Agriculture has been given the responsibility of providing information, technical support, public services etc. for investors who invested in agriculture. As for urban land, the government is paying much attention to industrial land to facilitate its utilization. EIC has the mandate to facilitate the allocation of land for FDI projects in urban areas and throughout the country.

(2) EIC's Support for Land Acquisition and its Procedures

Investors, after obtaining investment permit and commercial registration certificate, proceed with land acquisition process. The following table summarizes relevant organizations and their roles and issues to be noted for acquiring lease right.

Table 6-12 Relevant Organizations and their Roles, and Issues to be Noted for Land Acquisition (for the Case of Lease Right)

• After obtaining investment permit and commercial registration certificate, investors submit application for land acquisition. The EIC Facilitation and Aftercare Department provides support to investors to acquire land based on their request. Currently, the EIC issues a support letter to the Ministry of Agriculture, the Agricultural Investment Agency and the Land Administration Office of the relevant regional government where the land to be acquired is located. • Target time for land acquisition is not established in the EIC client charter because it is affected by individual circumstances such as proposed site, types of industry and

business activities.

- To acquire agricultural land, investors get land allocation from the Land Bank under the jurisdiction of the Agricultural Investment Agency or from the regional government. To acquire land in industrial park, IPDC and the EIC are the organizations in charge of for investors to consult.
- Competent authorities vary according to land acquisition area.
  - For land area of 5,000 ha or more: the Ministry of Agriculture and the Agricultural Investment Agency are in charge.
  - For land area less than 5,000 ha: Respective regional government is in charge.
- EIC puts priority on the government's priority industries – garment and textile industries, and leather and leather product industries – for investors to acquire land.
- Generally, acquiring land in Oromia Region is more difficult compared to land acquisition in other regions due to the issues of availability of land and requirements for additional procedures.

Source: JICA Study Team based on interviews with EIC.

The following figure illustrates concrete procedures for land acquisition.

Investors	• After obtaining investment permit and commercial registration certificate, investors submit application for land acquisition (accompanied by layout for project site and equipments, business plans etc.) to EIC.
EIC	• EIC issues a support letter to respective regional government where the candidate site is located. (For land areas of 5,000ha or more, the EIC issues support letter to the Ministry of Agriculture and the Agricultural Investment Agency, in addition to the respective regional government.) • EIC assigns a supporter who supports the investor.

Regional Government	• The regional government examines the feasibility of the business based on the application. • After passing the examination: ➢ The Oromia regional government issues a support letter to the Zonal Administration Office in the case of Oromia Region. ➢ The regional government issues an acquisition permit of the land in the case of regional government other than Oromia.

Zonal Administration Office in Oromia Region	• The Zonal Administration Office of Oromia Region examines the feasibility of the business based on the application. • After passing the examination, the Zonal Administration Office issues an acquisition permit of the land.

Source: JICA Study Team based on interviews with EIC.

Figure 6-6 Concrete Procedures for Land Acquisition

(3) Analysis of Problems

The current EIC's support to foreign investors for land acquisition is limited to issuing support letters to relevant authorities and regional government, and this is not sufficient. For example, EIC does not take note of the results of soil investigation of agricultural land, implemented by the Agricultural Transformation Agency. For this reason, mechanism to draw up important land information – critical for investors to make investment judgment – from relevant organizations and to provide it to investors, has not been established.

During the interview survey in Ethiopia, foreign investors pointed out that acquiring land was not easy. For example, for accruing agricultural land, the Land Bank or relevant regional government is in charge of land allocation, and it was pointed out that finding suitable land for the production of a certain crop was difficult. In fact, in coffee production, much of the land is widely cultivated, and land clearing in the neighboring land is necessary in order to secure new farm land. However, strict regulation for deforestation inhibits cultivating new land. In addition, the importance of strengthening investor services was emphasized given that frontline officers in charge are not necessarily acquainted with changes of laws and regulations. Furthermore, local companies pointed out that it usually takes around two to three years to actually acquire land after submitting application to a land administration office of competent local government.

(4) Directions for Improvement (Government's Response and Donor Assistance etc.)

GoE is considering strengthening EIC's OSS functions, and has submitted a proposal to the government to realize dispatching officers to EIC from each land administration office of competent local government, and establishing "Local Government Desk" within EIC building. Concrete movement has not been seen yet, and it may take some time to actualize reform.

Foreign investors may well acquire land within industrial parks in the future since development of industrial parks as well as strengthening of OSS functions within the industrial parks is expected.

6.2.5 Export and Import System

Trade Registration and License Directorate of MOT is in charge of renewal of commercial registration and business license as well as issuance of export and import licenses (Usually, officers in charge at the counter have the approval authority, but Director General will take care of complicated cases.).

Import license/export license are required for companies which fall under a business category to import from abroad and sell them domestically or abroad, or to export. However, basically, commercial transactions to import and sell products or to export certain commodities are prohibited for foreigners.

On the other hand, import license/export license are not required for companies which fall under a business category to manufacture goods in Ethiopia and sell them domestically or aboard, so long as relevant business licenses for such commercial transactions are issued. In other words, import license/export license are unnecessary because importing raw materials and equipments necessary for manufacturing and selling finished products are considered as associated activities which are permitted with a business license.

According to NBE, procedures for obtaining import and export licenses are described in the table below. However, as mentioned above, commercial activities to import and sell products or export are not permitted to foreign investors, but it is not required for foreign investors to obtain these licenses as long as products are manufactured in Ethiopia and sold at home and abroad.

Table 6-13 Procedures for Accruing Export and Import Licenses

- The MOT (Trade Registration and License Directorate) is in charge of issuing import license, and importers need to go through following procedures as part of import process.
  i) Importers obtain "NBE number" from the NBE and submit it to the CBE/private commercial banks with business relationship.
  ii) After examination by the relevant bank, importers receive forex permit from the bank, and then submit application for advance payment or opening the L/C etc. (Relevant banks have to submit photocopy of forex permit to NBE, customs and importers.)
  iii) After import freight is unloaded, importers receive trade documents from relevant banks and then do the customs procedures.
- For the above procedures, a number is given for each import transaction: i) "NBE number", ii) "forex permit number", and iii) "customs number", and are managed by a database. Therefore, for the case of default such as import freight not being unloaded, the fact can be grasped through NBE database. (Importers are given a chance to explain the reasons for default and can import again after a set period if there were reasonable grounds.)
- For exports, similar procedures are taken as imports, and a series of the processes are managed by a database.

Source: JICA Study Team based on interviews with NBE.

6.2.6 Finance and Financing System

(1) Financial Sector in Ethiopia

The central bank in Ethiopia is NBE. There are 19 banks operating in the country as of August 2015[41], and of them three are: state-owned CBE, DBE and Construction and Business Bank (CBB). The other 16 banks are private commercial banks and provide universal banking services (in addition to services such as holding savings account and checking account, getting short-term financing, foreign exchange, email remittance and cable remittance, equity investment and guarantee services are provided). The state-owned CBE is the largest bank in the country and finances large-scale infrastructure projects (short-term, medium-term and long-term lending), in addition to providing universal banking services. DBE, unlike commercial banks, is a specialized financial institution to promote agriculture and manufacturing which are priority areas for the government. As part of the EIC's OSS for investors, the DBE Desk was established in February 2014 inside EIC building (sixth floor), and provides consultation for finance and receive financing application targeting companies of the government's priority industries (see Column below for more information about the DBE.)

[41] 1. Awash International Bank, 2. Commercial Bank of Ethiopia, 3. Development Bank of Ethiopia, 4. Construction and Business Bank, 5. Dashen Bank, 6. Wegagen Bank, 7. Bank of Abyssinia, 8. United Bank, 9. NIB International Bank, 10. Cooperative Bank of Oromia, 11. Lion International Bank, 12. Zemen Bank, 13. Oromia International Bank, 14. Bunna International Bank, 15. Berhan International Bank, 16. Abay Bank S.C, 17. Addis International Bank S.C, 18. Debub Global Bank S.C, and 19. Enat Bank S.C.

CBB provides long-term loans for the construction of plants, producing housing construction materials and the construction of private schools, clinics, hospitals and real estate development.

Banking sector is an area which entry of the foreign capitals is prohibited. Foreign banks from Turkey and China as well as European Investment Bank have representative offices in Ethiopia; however, they cannot provide credit services. There are 17 insurance companies[42] in the country as of August 2015, and of these Ethiopian Insurance Corporation is state-owned. Insurance sector is also an area which entry of the foreign capitals is prohibited. In addition to this, there are micro finance institutions providing financial support to micro enterprises, urban poor and local residents.

Column 6-1 About DBE

- DEB is a government-owned bank established in 1909 to promote industrial development, and is one of the oldest banks in Ethiopia. The DBE does not provide universal banking services such as deposits and foreign exchange operations. The DBE Board members consist of members from more than ten relevant ministries including MOI, Ministry of Finance and Ministry of Agriculture.
- Priority areas where the DBE provides financing are: i) commercial agriculture, ii) agro-processing, and iii) manufacturing, but other sectors can also access to the DBE loans.
- Loan requirements are equal for both local and foreign investors as shown below.
  - Current interest rate is 8.5% p.a., which is lower than the CBE and private commercial banks.
  - Borrowers who wish to obtain financing for new projects are required to provide the minimum of equity contribution of 30% of the total project cost and the DBE will finance remaining balance up to 70%. For expansion loans, the debt to equity ratio stands at 60:40.
  - Maximum repayment period, depending on project type and cash flow, is 20 years (of which grace period is 5years).
- While DBE does not provide foreign currency loans, it can provide loans to export oriented industries and prioritized import substitution industries by converting local currency to foreign currency. In such cases, DBE reviews project proposals submitted from clients on foreign and local currency and portions as expenditure as well as expected revenue in foreign and local currency, and make decision.
- “To what extent the project contributes to export” becomes an important review standard for the case of foreign investors.
- When submitting budget to the DBE Management Committee, maximum financial needs are calculated considering on-going projects and expected new projects. The NBE loan is provided in case financial gap exists. In case of foreign currency shortage, borrower purchases foreign currency from equivalent local currency. Foreign investors must deposit capital of more than 30% of project cost in a foreign currency account. DBE has been managing necessary funds from its own sources for the past four years, and does not receive financing from NBE.
- Loan amount of less than ETB 25 million can be approved by a branch manager of DBE. For loan amount of ETB 25 million or more, decision is made through Loan Approval Committee (LAC) at the DBE head office. Loan decisions are made through following procedures based on Business Process Reengineering (BPR): Loan Department ➔ Loan Examination Department ➔ LAC. LAC members consist of Senior Process Managers.

[42] Africa Insurance Company S.C, 2. Awash Insurance Company S.C, 3. Global Insurance Company S.C, 4. Lion Insurance Company S.C, 5. NIB Insurance Company S.C, 6. Nile Insurance Company S.C, 7. Nyala Insurance Company S.C, 8. The United Insurance Company S.C, 9. Ethiopian Insurance Company S.C, 10. Abay Insurance Company S.C, 11. Berhan Insurance Company S.C, 12. National Insurance Company of Ethiopia S.C, 13. Oromia Insurance Company S.C, 14. Ethio-Life and General Insurance Company S.C, 15. Tsehay Insurance Company S.C, 16. Lucy Insurance Company S.C, 17. Bunna Insurance Company S.C.

• The DBE Research Department conducts risk analysis from market information on commodity semi-annually. As banking sector common prudential rule, DBE cannot provide finance for more than 25% of its capital per project. • DBE provides finance to SMEs recently but proportion of such lending in its entire loan is small. • DBE receives two-step loans from the World Bank, African Development Bank, European Investment Bank etc. (Especially in the areas of SME financing.)

Source: JICA Study Team based on interviews with DBE.

(2) Opening Bank Account (the Case of CBE)

Procedures in the following table are necessary for foreign investors to open a bank account at the state-owned CBE. See Figure 6-4 above. In addition, an export oriented company with foreign currency earnings shall open a retention account (foreign currency account) as mentioned below. Other than this retention account, a company can open foreign currency account (the case of CBE), and retain foreign currency for an indefinite period as long as a company continues[43].

Table 6-14 Procedures for Opening a Bank Account in CBE

Opening a Bank Account
• Foreign investors shall obtain banking certification issued by the NBE to open a foreign currency account at a bank. (The process for opening an account at CBE is as follows: i) Investors submit a support letter issued by the EIC to open a bank account directly to the CBE.➔ii) The NBE issues banking certification.➔iii) Investors submit banking certification to the CBE upon opening their foreign currency account.) • For opening a local currency account at the CBE, foreign investors shall submit to the CBE a support letter to open a local currency account issued by the EIC.

Source: JICA Study Team based on interviews with the CBE.

(3) Foreign Currency Borrowing

State-owned CBE and private commercial banks in Ethiopia do not provide foreign currency loans. Foreign investors can obtain the so-called "parent-subsidiary loan", where funds are provided to an overseas subsidiary from a mother company. In such case, prior approval from NBE is necessary: NBE gives approval after checking conditions of loans including interest rates as well as the debt to equity ratio (equity ratio shall be 50% or more) and repayment schedule. (NBE may not give approval in case interest rates are high etc. Interest rate within London Interbank Offered Rate (LIBOR) +5% is a current rough indication.) After obtaining prior approval from NBE, foreign investors request their parent companies to make remittance to the foreign currency accounts in CBE or private commercial banks where the investors hold their accounts. There is no limitation in the use of foreign currency as long as it is spent for business related activities.

[43] As regards a foreign currency account (an account to keep foreign currency which was brought in from abroad prior to starting a business in Ethiopia) to deposit necessary capital in order for foreign investor to obtain investment permit and business license, unlike the case of retention account, foreign currency can be retained for an indefinite period as long as a company continues.

6.2.7 Taxation, Accounting and Auditing Scheme

(1) Overview of the current scheme

In Ethiopia, taxes are classified according to how they are collected and levied, into direct tax (personal, real property, withholding, and corporate income taxes) and indirect tax (value-added, customs duty, consumption, and turnover taxes). Tax authority of Ethiopia is ERCA which administers and collects certain taxes.

Under the Ethiopia's Commercial Code, any company in operation shall keep books and produce balance sheet and profit and loss statement as of the end of a business year, and the responsibility for preparing financial statements and having them audited shall lie with directors.

While standards for financial reporting are as stipulated in Proclamation to Provide for Financial Reporting No.847/2014, the Accounting and Auditing Board of Ethiopia have authority to serve as a standards-setting body and a regulator, and to manage accounting and auditing systems.

Proclamation No. 847/2014, promulgated in 2014, applies to financial statements produced by any business entity set up under an Ethiopian law or operating in the country, and under this rule private-sector companies must conform to the International Financial Reporting Standards (IFRS[44]) or the IFRS for SMEs, while charities and public-sector enterprises must comply with the International Public Sector Accounting Standards (IPSAS). In fact, Ethiopia has set a target of implementing compulsory application of the IFRS to all companies by fiscal year 2019. On the current roadmap, the county aims at applying the standards to financial institutions, large-scale corporations and charities, and SMEs by fiscal 2017, 2018, and 2019, respectively.

Towards this end, an IFRS Implementation Task Force has been set up to supervise financial institutions in progress of work for application of IFRS, while the Accounting and Auditing Board conducts annual inspections of the other reporting entities to monitor the state of their preparations, a task to which they give priority at the moment. Also, actions are underway to modify and converge differences[45] between existing accounting standards unique to Ethiopia and IFRS.

In Ethiopia, tax period (year of assessment) is in principle the same as the Ethiopian budgetary year which runs from July 8 through July 7 of the following calendar year. Whereas company's accounting year may differ from the Ethiopian budgetary year, its base period for the tax year is the accounting year ending within the tax year. Taxable income shall be calculated based on the profit or loss account or income statement in compliance with the Commercial Code, Generally Accepted Accounting Principles, and provisions and directives issued by the ERCA. For instance, depreciation and bad debt expenses incurred for the purpose of earning normal business income are allowed as

[44] This includes IFRS for SMEs.
[45] International Accounting Standards (IAS) 1,2, 7,10,16,17,19,21,24,32,39.

deductible expenses. On the other hand, capital transactions, such as dividends and distributions of retained earnings, entertainment expenses, and donations are non-deductible expenses.

Table 6-15 Taxes on Corporate Income and Gains in Ethiopia at a Glance

Tax Item	Tax rate (%)	Remarks
Business Income Tax :	25、30、or 35	The standard business income tax rate is 30%. Income from large-scale mining operations, excluding petroleum, natural gas and oil shale, is taxed at a rate of 25%. A 35% rate applies to income from small-scale mining operations, with the same exclusions.
Capital Gains Tax Rate：	15 or 30	The 15% rate applies to gains derived from transfers of buildings located in municipal areas that are used for a business. The 30% rate applies to gains derived from transfers of shares of companies.
Withholding Tax：		
Dividends：	10	
Deposits/ Foreign Loans：	5 or 10	
Royalties	2~8	Tax rates vary among the types of minerals.
Purchases of Goods/Services：	2 or 30	2% applies if the supplier provides a TIN. Otherwise, the rate is 30%.The tax is withheld from payments for goods if the amount payable in a single transaction or supply contract is more than ETB10,000. For payments for services, tax is withheld if the amount payable in a single transaction or contract is more than ETB500.
VAT：	15	Levied on all supplies of goods and services made in Ethiopia and on imports, except for exempt items
Equalization turnover tax：	2 or 10	Imposed on persons not registered for VAT. 2% applies goods sold or services rendered locally. Otherwise, the rate is 10%
Excise tax：	10~100	Levied on specified goods manufactured in Ethiopia and on imports; for locally produced goods, tax is imposed when production is completed and is based on production cost; for imports, tax is imposed on Cost, Insurance and Freight (CIF) value; rates vary among products

Source: JICA Study Team.

1) Business income tax

Taxpayers are required to file an annual tax declaration in a form prescribed by the Tax Authority together with financial statements, and pay the tax shown in the tax return reduced by the amount of the advance payments withheld and any foreign tax credits. The Tax Authority audits the company's return and annual accounts to determine the final assessment. If a taxpayer has submitted a declaration of income within the time limit, the Tax Authority has five years to amend the assessment which period runs from the due date of the declaration. If a taxpayer has submitted a declaration after the due date for making a declaration, the Authority has five years to amend the assessment; the period runs from the date the declaration was received by the Authority. Taxpayers are classified into three categories, A, B and C, respectively depending on the sales volume below[46].

Table 6-16 Categories of Taxpayers

Category	Definition	Deliverables	Due date
A	・Any company incorporated under the laws of Ethiopia or in a foreign country; ・Any other business having an annual turnover of ETB 500,000 or more	Balance sheet, profit and loss statement and the related information	Within 4 months after the end of their accounting year
B	Unless already classified in category "A", any business having an annual turnover of over ETB 100,000	Profit and loss statement	Within 2 months after the end of their accounting year
C	Unless already classified in Categories "A" and "B" whose annual turnover is estimated by the Tax Authority as being up to ETB 100,000	Information about annual turnover, amount derived from a source other than its regular operations and, any change of business carried on	The taxpayer shall pay the tax determined in accordance with standard assessment from the 7th day of July to the 6th day of August every year.

Source: JICA Study Team.

Taxpayers who have any objection against an assessment made by the Tax Authority may file an appeal to the Tax Appeal Commission. In this case, taxpayers shall not only prepare a memorandum of appeal, but also make a deposit equivalent to half the tax in dispute to the Authority within 30 days after taxpayers receive a notice of assessment or the Review Committee issues a decision. In addition, taxpayers shall bear the burden of proof that the assessment is unfairly large, and that the decision made by tax authority contains a defect. Therefore, practically speaking, this appeal procedure is rarely utilized by taxpayers. Taxpayers dissatisfied with the decision of the Tax Appeal Commission may appeal to the competent court within 30 days from the date of the receipt of the written decision of the Appeal Commission.

2) VAT

VAT is prescribed in the Value Added Tax Proclamation, No.285/2002 and became effective from 2003 onwards (A Proclamation to Amend the Value Added Tax Proclamation, No.609/2008 was released in 2008). VAT is levied on the value of supplies of goods and services made in Ethiopia and on imports to registered entities with more than or estimated ETB 500,000 taxable transaction within 12 calendar months other than those goods specifically exempted in Ethiopia. Taxable transactions which shall be charged with zero percent are export of goods or services and import or supply of materials intended for export processing.

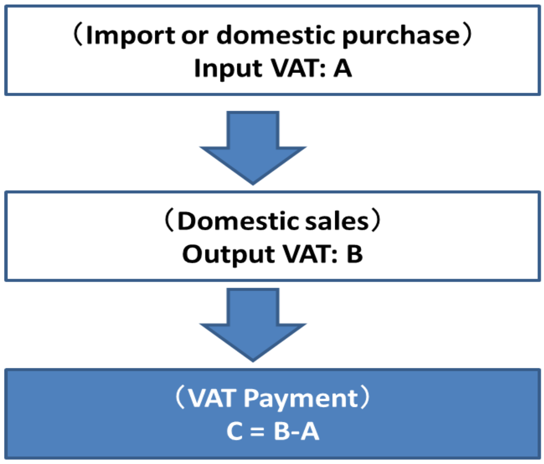
Every taxpayer shall file a VAT return with the Authority for each accounting period (monthly) by

[46] Income Tax Proclamation No.286/2002 SECTION IV and Council of Ministers Regulations No.78/2002.

calculating the difference between input VAT(the amount of tax charged when a company buys goods or services from another supplier) and output VAT (the amount of tax charged from its customer when a company sells its own goods or services). Taxpayers shall pay the tax for every accounting period no later than the last day of the calendar month of the accounting period. If the input VAT is larger than output VAT, such amount of credit is to be carried forward to the next five accounting periods and credited against payments for these periods. Any unused excess remaining after the end of this five-month period shall be refunded by the Authority within a period of two months after the registered entities file an application for refund accompanied by documentary proof of payment of the excess amounts such as genuine VAT invoice, TIN No. etc (VAT Proclamation Article 26, 27).

In case ERCA find that there is high tax risk of the entities who request tax refund, it conducts inspection and assesses the tax amount by checking their accounting records. In doing so, ERCA determines taxpayers' background and situations by analyzing factors such as whether they have dully paid tax in the past and whether their financial status are healthy without net loss in consecutive years. Companies often applying for VAT refund repeatedly are regarded as high risk taxpayers because they are likely to incur net loss in their operation.

In order to support the exporters with large volume in textile, leather and agro-processing industries, a new directive issued by MoFEC in July 2009 stipulates that authorized exporters are entitled to apply for VAT refund monthly, and get refunded within 7days on condition that necessary documents are presented properly. At the moment, about 40 exporters are enjoying the benefit of this scheme.



Note）If C>0, VAT Payment, C<0, VAT Refund
Any unused excess remaining after the end of five-month period shall be refunded by the Authority after the registered entities file an application for refund accompanied by documentary proof of payment of the excess amounts

Source: JICA Study Team.

Figure 6-7 VAT Payment Flow

(2) Analysis of Problems

Tax and accounting system in Ethiopia is put in place in early 2000s and has been on a learning curve to reflect the global business practice. Although proclamations and regulations are promulgated, procedures are not always stipulated the detailed implementation rules. Also, the discretional decision by ERCA officials and their insufficient capacity to carry out their duties put a burden on investors' operations as explained below.

1) Non-deductible Expenses

In deciding annual tax liability, there are examples where officials at ERCA deny deductibility of certain expenses directly related to normal business activities without providing any clear explanation due to their arbitrary interpretation of the tax code. Those expenses are travel expense of directors for shareholders meeting or travel expenses for president, etc. This situation would require companies to plan for unexpected cash outflows and cause a burden in carrying out their businesses. It is said that the Tax Authority has a target for collecting tax, which leads to significant arbitrariness in tax investigations that they conduct. Also, along with lack of common guidelines for tax collection within the Authority, high turnover rate of the employees and many officials with limited capacity with only two or three years of work experience lie behind the problems that companies operating in Ethiopia may encounter when they interact with ERCA. Accordingly, all of these factors contribute to the lack predictability of tax practice in Ethiopia.

2) VAT Refund

According to the interviews with enterprises and tax specialists in Ethiopia, ERCA tends to decide custom duty on inflated value of goods than actual import purchase value based on their own assessment. As a result, the amount of suspense paid tax (input VAT) is likely to exceed the amount of suspense received tax (output VAT), which means tax credit. For instance, an entity imports goods priced Birr100 but ERCA assesses them at ETB 200. In this case, input VAT will be ETB 30, 200 multiplied by 15% of VAT rate. If that entity set the sales price at ETB 160 considering the market competition and sales trend, output VAT will be ETB 24, 160 multiplied by 15% of VAT rate. Because the amount of input VAT is bigger than that of output VAT, tax credit becomes ETB 6 (ETB 24 subtracted from ETB 30).

However, ERCA usually declines this tax refund unless they confirm in their inspection that taxpayers use the assessed value by ERCA as their cost of goods sold. In fact, for businesses targeting the Ethiopian domestic market, ERCA usually does not accept their VAT refund claim based on the accounting record of actual import price if it is different from customs valuation by

ERCA. This practice results in higher VAT burden and impacts cash flow of the taxpayers[47].

3) Tax Inspection

The problems of quality and efficiency of tax inspection are often mentioned by interviewees. ERCA conducts tax inspection in the aforementioned VAT refund process, and this inspection continues for a very long time. Furthermore, once an official in charge is replaced, tax inspection may be restarted from the beginning, and in some cases, interpretation of tax matters can be changed. It is a matter of concern that by and large officials at ERCA have only limited expertise and they do not even understand the practice of corporate accounting sufficiently. Under this circumstance, it takes a considerable amount of time for taxpayers to negotiate with the Tax Authority, and accordingly, lower the predictability of taxes.

4) Tax Dispute

When they are treated unfairly on tax issues, investors have rights to claim domestic remedies at law such as appeal or trial. In Ethiopia, taxpayers who have any objection against an assessment made by the Tax Authority may file an appeal to the Tax Appeal Commission. However, it is very rare for them to do so because filing an appeal often takes more than a year to receive a notice of conclusion, and it gives great financial burdens to the investors as such expenses as legal costs, interests charged on unpaid taxes during the period, and payment of pending tax liability as deposit. Also, commissioners appointed on the recommendation of the Tax Authority, are inclined to give favorable decisions to the Authority. Given this situation, investors practically cannot be able to exercise their legal rights. Information about tax disputes is important data source for understanding the attitude and judgment of the Authority but there are few publications about tax-related administrative and civil cases. Public disclosures about tax matters need to be improved.

5) International Taxation

Ethiopia has concluded taxation treaties with 11 countries for the purposes of avoiding double taxation of income internationally and preventing tax evasion. For those investors from countries with agreements, applicable companies may be granted to utilize foreign tax credit if taxing residents on income that may have been taxed in another jurisdiction, namely Ethiopia. However, the existing tax code offers quite limited information about cross-border taxation. For instance, it has no mention about transfer pricing taxation system to address cross-border tax avoidance by foreign companies, other than the above outlined explanation. Currently, a project is underway with IFC's support to develop a separate legal framework that should follow the OECD model. Public comments are being invited on circular notices. GoE should issue them to complement laws and regulations. IFC and

[47] Yesegat W. A., noted this point in "Value Added Tax Administration in Ethiopia: A Reflection of Problems" in *e Journal of Tax Research* (2008) vol. 6, no. 2, pp. 157.

OECD are providing training for officers of ERCA and MoFEC. Such efforts that the Government is exerting should be appreciated. Under Tax Convention, the profits of an enterprise of a Contracting State shall be taxable only in that State if the enterprise carries on business through a permanent establishment (PE) situated therein. In the most of the developing countries, in order to expand the domestic taxation rights, the interpretation of PE is stretched to apply to business activities performed by visiting employees or secondments without any requirement of PE creation, or representative offices which usually do not earn any profit. This practice may cause double taxation issues for foreign investors. While existing Ethiopian Income Tax Proclamation only stipulates the definition of PE, the way of calculating taxable income and the treatment of its related internal transaction as well as cost allocation for PE recognition needs to be clarified in rules and regulations.

6) Accounting and Auditing System

The problem of Ethiopian accounting and auditing system is that the number of accounting professionals including certified accountants is insufficient and there are no programs for quality assurance and continuing professional education for them. Now, the Accounting and Auditing Board of Ethiopia is considering whether they can use university courses and offer educational programs for filling knowledge gaps for the purpose of increasing the total number of accounting experts as well as auditors so as to satisfy the needs of the business community. Although most of the companies cope with this situation by securing people well-acquainted with local practices or by hiring ex-ERCA officials as their accounting staff, it is essential that the situation on the number and quality of accounting and auditing personnel are further improved in the long-run.

(3) Directions for Improvement (Government's Response and Donor Assistance etc.)

IFC is working on several projects such as drafting new Income Tax Proclamation, new VAT proclamation, separate legal foundation of transfer pricing and its corresponding training toward ERCA officials, preliminary research about risk based audit and separate tax scheme for SME. Also, DfID is supporting capacity building program for tax inspectors.

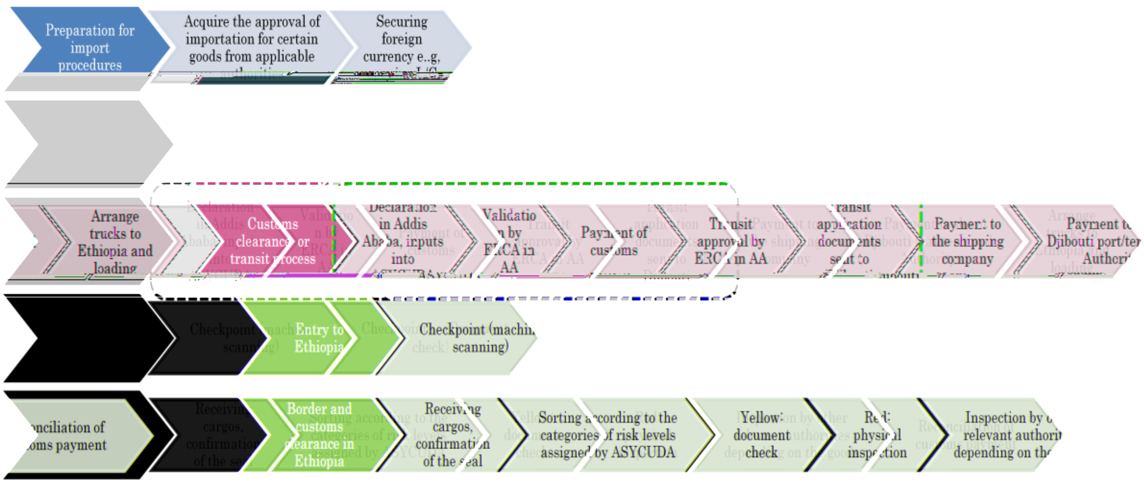
6.3. Present Condition of Infrastructure and Costs of Operation

6.3.1 Trade Logistics and Transportation

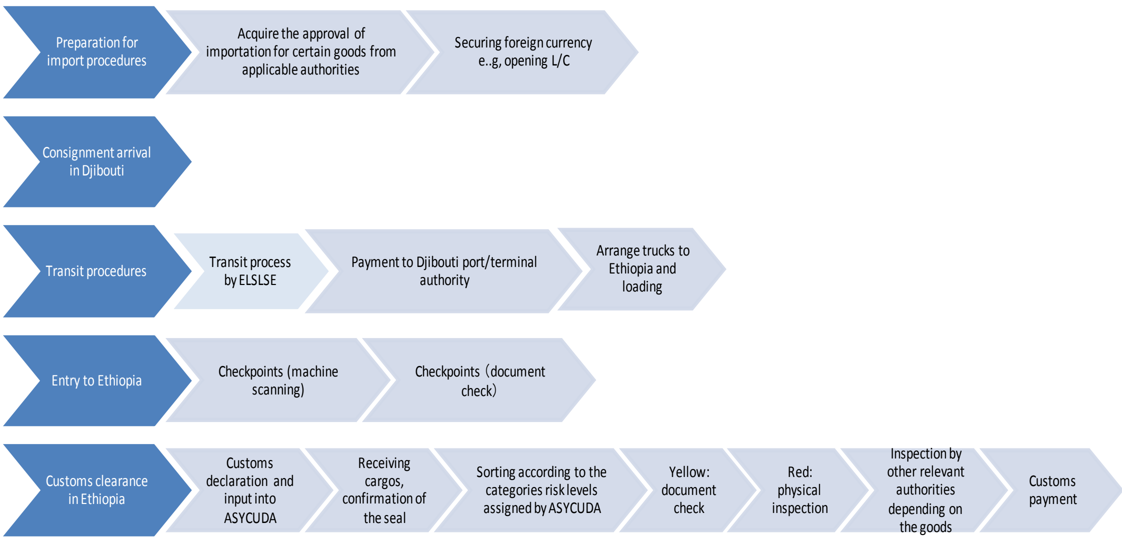
(1) Current status of the trade logistics

1) International Transportation

A large proportion of international transportation to and from Ethiopia is relying on the route via Djibouti. The figure below summarizes the procedures of import via Djibouti in case of unimodal and multimodal transportation system (MTS).



In Case of Unimodal Transportation System



In Case of Multimodal Transportation System (MTS)

Source: JICA Study Team.

Figure 6-8 Flow and Procedures of Sea and Inland Cargo Transportation for Import via Djibouti

Importing goods via Djibouti requires customs clearance in Djibouti before entering Ethiopia. Therefore, under the unimodal transportation systems as depicted in the first figure, customs clearance and transit process have to be completed when the cargo is still in Djibouti (the part indicated by the circle). In order to ease the congestion and demurrage of the cargo in the port of Djibouti, MTS was introduced (as shown in the second picture). Forwarding under MTS is exclusively undertaken by the state-owned company, Ethiopian Shipping and Logistics Services Enterprise (ESLSE). Only the specially acknowledged case can receive the waiver of using ESLSE.

The customs clearance under MTS can be done either at dry ports, project sites (in case for the cargo for such approved projects as infrastructure development), and bonded warehouses and bonded manufacturing warehouse. The Government is targeting to switch the share of MTS to 85% by 2017[48].

2017[48].

2) Cost and Time for Inland Transportation

The data collected through the interviews with private companies in Ethiopia in terms of the cost of the inland transportation is shown in the table below.

Table 6-17 Inland Transportation Freight Cost for Import and Export of Ethiopia, Kenya, and Uganda

Country and Types of Commodities		Distance of Inland Transportation (km)	Import (USD)	Export (USD)
Ethiopia (Djibouti-Addis Ababa)	Textile	790	2000	2800
	Leather/Shues		3200	2000
	Chemicals		3170	-
	Ref: Shipping Company		3300	600
	Ref：Shipping Company*		2000	—
Kenya (Mombasa-Nairobi)		530	1045	—
Uganda (Mombasa-Kampala)		930	3700	—

* in case of 20ft Containers
Note: The cost is for one 40ft container.
Source: Based on the interviews with private companies in Ethiopia. For Kenya and Uganda, based on the data of Shippers Council of East Africa（2014）"East Africa Logistics Performance Survey".

As the conditions of consignments per container are different depending on the types of commodities (e.g., weights per container are different), statistics are not adequate for accurate analysis. However, they may provide some rough idea of the cost of the inland transportation. According to interviews with private companies, the inland transportation cost from Djibouti to Addis Ababa is higher than that of Mombasa to Nairobi in Kenya partially due to the distance from the port. Depending on the international sea transportation cost to the nearest sea port, the freight cost for import to via Djibouti to Addis Ababa and via Mombasa to Kampala, Uganda, are approximately the same despite the fact that the distance from Mombasa to Kampala is longer than that to Addis Ababa: in some case, the freight to Addis Ababa was more expensive than to Kampala.

The required time for inland transportation between Djibouti to Addis Ababa is also compared with the data of Nairobi and Kampala as shown in the table below.

48 Based on the interview with ERCA.

Table 6-18 Time Required for Import and Export of Ethiopia, Kenya, and Uganda

	Commodities to be handled	Medicines	Textile	Agro-imputs	Chemicals	Raw Materials (Non ferrous metal)	Raw Materials (Non ferrous metal)
	Transit in Djibouti	-	-	0.5	15	5	0.5
	Dibouti-Addis Ababa	15～20	10	30～60	3～4	2.5	3
	Customs Clearance		＊	-	2～7	＊	＊
Kenya	Mombasa-Nairobi	15					
Uganda	Mombasa-Kampala	23					

(shaded)	With Waiver of use of ESLSE or Unimodal
＊	Customs clearance at own bonded warehouses, or with green status and clearance without inspection
–	No information

Source: Based on the interviews with private companies in Ethiopia. For Kenya and Uganda, based on the data of Shippers Council of East Africa（2014）"East Africa Logistics Performance Survey".

According to interviews with private companies, the days required to import goods from Mumbai, for example, to Addis Ababa range from around 30 to over 90 days. After arrival in Djibouti, it takes 10 to 60 days for consignments to be released from the customs in Ethiopia.

In addition, the lead time for importing goods is affected by the time required for securing foreign currency allocation and getting approvals for importing specific goods (see sections 6.2.3, 6.2.5).

3) Overview of the air transportation

Ethiopia's cargo handling volume by air transportation is larger than East African peer countries (Table 4-8). State-owned Ethiopian Airlines operates its air-cargo flights to connect with more than 50 cities in and outside of Africa, which provides a wide range of the destinations which can be accessed directly from and to Addis Ababa without transit. With the good connection with other African cities, a large share of the cargo handled at the Bole International Airport, Addis Ababa is transit cargo to other African cities rather than to Ethiopia.

According to Ethiopian Airlines, the major goods to be exported are floriculture and horticulture products and other fresh products. Import and transit cargo handles various goods including consumer and pharmaceutical products which are not only bound to Ethiopia but to other African countries[49].

(2) Analysis of Problems

The following problems are observed for import and export logistics.

The major problems for transportation of imports are the following: i) time required from the port of embarkation to Djibouti, ii) time and procedures required at the transit in Djibouti, iii) demurrage in Djibouti, iv) inland transportation between Djibouti and the destinations in Ethiopia, v) customs clearance at the dry ports in Ethiopia, and vi) transportation from dry ports to final destinations (premises of the importers). Each step is affected by factors such as efficiency of the logistics industry, times and cost required for administrative procedures (such as customs clearance), and the

[49] Based on the interview with Ethiopian Airlines.

insufficiently developed transportation infrastructure.

The situation of time and cost required for export is better than those for import due to the imbalance of the trade flows where demand for import cargo transportation is larger than that of export. Moreover, the logistics handling can be undertaken by the private operators, unlike the MTS system, it is not obliged to use ESLSE, state-owned logistics company. The problem may, on the other hand, start from domestic transportation. The problem effects are especially noted in the major export commodities such as coffee. Insufficient development of domestic transportation network increases time and cost for collecting commodities from the production areas. In addition, after the introduction of ECX, the trading is now done at the ECXs in the production areas. Therefore, exporters have to consider the transportation from the production areas to their packing sites. For example, transportation cost of a container from Addis Ababa to Djibouti cost only USD 1,000, whereas the cost from the locations near ECX to the warehouse in Addis Ababa is USD 900[50].

The causes of the problems may be found in the insufficient development of logistics industry and the infrastructure. On the other hand, the issue of customs clearance, another constraint, is further explained in section 6.3.2.

1) The Restriction to the Private Sector Participation in the Logistics Service Industry

Currently, there are some significant entry barriers for the logistics service sector. First, the businesses for packing, forwarding, transportation are reserved only for domestic operators[51]. Second, the forwarding operation for MTS is exclusively done by ESLSE. Despite the commencement of licensing private forwarders in 1998, the areas the private “forwarders” can undertake is actually limited to customs clearance especially under the circumstance where MTS are promoted but allowed to be undertaken only by ESLSE. Ethiopian Freight Forwarders and Shipping Agents Association (EFFSAA) estimates about 150 companies have been licensed so far. The license is issued by the Ministry of Transport based on the capacity recognition by the Ethiopian Maritime Affairs Authority (EMAA). While it is not very complicated to be licensed, limited opportunities to undertake the actual business limits the growth and sophistication of the industry.

Another issue is cargo facilities. Currently, the law stipulates that dry ports are to be developed, operated and managed exclusively by ESLSE. Out of five dry ports (namely, Mojo, Semera, Dire Dawa, Mekele, and Kombolcha), Mojo is the largest and handles mainly MTS cargos. However, increasing volume of the demand overwhelms the operational capacity of Mojo. Even together with Kality in the suburbs of Addis Ababa which handles MTS and unimodal cargos, the capacity as well as the quality of the facilities needs to be upgraded.

[50] Based on the interviews with private companies.
[51] Council of Minister Regulation on Investment Incentives and Investment Areas Reserved for Domestics Investors (No.270/2012) Article 3 restricts Packing, Forwarding and Shipping Agency only to the Ethiopian nationals.

Container freight stations or other types of privately operated facility do not exist. There are some small-scale transportation services for imported goods with one's own warehouses. However, very limited services are available for export. Exporters either containerize their consignments in their premises or transport to Djibouti as a loose bulk to containerize there. Small scale less-than container logistics services is not likely to exist[52].

2) Problems of Multimodal Transportation System (MTS)

While the introduction of MTS may improve some logistics efficiency for cargos from Djibouti, the system itself also has some problems, especially inefficiency. The law designates ESLSE as the exclusive operator for all types of services under MTS: namely, general, project and Ro-Ro cargo operations[53].

Forwarding services under MTS is only allowed for ESLSE, regardless of general or project cargos or Ro-Ro service. ESLSE was established by merging three state-owned enterprises in the logistics sector: namely, Ethiopia Shipping Line, Ethiopian Maritime and Transit Service, and Ethiopia Dry Port Service Enterprise. ESLSE owns only 13 vessels and ports that it calls on are limited to India (Mumbai), UAE (Sharja), and China (Tianjin and Shanghai). Therefore, ESLSE arranges transit shipment using the sub-contracted international carriers to cover all other ports. The share of the cargo handled by ESLSE in total volume of import is estimated to be 40% for dry cargo and 20% to 25% of Liquid Bulk, whereas its share amounts to 80% for general container cargo[54].

Multiple interviewees pointed out the problems of the unpredictable schedule and long waiting time before loading at the ports of embarkation. For those services to the ports where ESLSE has calls, the use of ESLSE's fleet is mandatory. The delay is caused by the limited capacity of ESLSE's fleet as well as the nature of the service which prioritizes the Government's procured consignments such as grains and project equipment over the private consignments. Inland transport is also arranged by ESLSE. Due to the limited number of trucks owned by ESLSE, inland transportation is also contracted to private trucks.

The industries for domestic market utilizing a large proportion of imported materials must cope with the long and unpredictable lead time caused by the transportation by accumulating a large volume of inventory of raw materials.

On the other hand, those industries which are priority industries with high proportion of export in the

[52] Based on the interview with EFFSAA.
[53] According to the newspaper article, a directive stipulates the exclusive operation of ESLSE. The specific directive was not able to be identified in the Survey (Source: "Ethiopian Ministry of Transport Issues Multimodal Directive" Addis Fortune, 27th December 2011 Addis Fortune, http://www.2merkato.com/news/business-proclamations-and-regulations/716-ethiopian-ministry-of-transport-issues-multimodal-directive).
[54] Based on the interview with ESLSE.

product are sometimes granted waiver status. Those companies which import heavy consignments also use unimodal as ESLSE does not have enough capacity of handling heavy cargos. Some examples of these companies indicate the benefit of using MTS may be cancelled by the operational problems. However, this also takes into the consideration that these company may also receive favorable treatment in the critical areas in trade logistics such as simplified customs clearance under Green Status or Authorized Economic Operator (AEO) status.

3) Bottlenecks and Constraints for Industrial Development Utilizing Air Cargo Networks

The congestion at the cargo terminal of the international airport has become increasingly problematic. Therefore, a new terminal is under construction. The logistics industries and their facilities and services in the surrounding area of the Bole International Airport are yet to be developed. Those companies which ship perishable products such as flowers, horticultural products, and meat own their own vehicles with refrigeration and transport the commodities, pack and load at their farms or factories, and transport to the specialized cargo terminal of Ethiopian Airlines[55]. A specialized service industry with efficiency and quality will be required in order to maximize the advantage of the well established transportation capacity of airfreight.

(3) Directions for Improvement (Government's Response and Donor Assistance, etc.)

1) Development of the National Logistics Strategy

GoE has drafted the National Logistics Strategy with the support of United Nation Development Programme (UNDP). Before the official launch of the strategy, the National Logistics Council was established with EMAA as the lead agency[56]. The main pillars of the strategy include institutional development, utilization of ICT, infrastructure development, and development of logistics network along the major supply chains. With the details upon the official launching of the National Logistics Strategy, other issues may be further revealed.

Development partners have started examining the future direction of support in the sector. Dry port development and operation, hard infrastructure development taking into the consideration of railway network development (see the next section), and private sector's capacity development for various service provision may be a few of such issues.

For the improvement of situations for investment promotion, special attention will be paid on the logistics development which assists development of the logistics network along the supply chains. The logistics network is expected to strengthen the supply chains through reduction of the freight costs, improvement of quality of logistics services and with shorter time for delivery of goods for productions from domestic or international origins. The following aspects should be taken into

[55] Based on the interviews with the Ethiopian Airlines and a flower farmer.
[56] Based on the interviews with EMAA and UNDP.

consideration: i) efficient and cheaper transportation, ii) smooth transshipment from one mode to another at the nodes or hubs of transportation, iii) quality improvement and capacity building of the transportation sector which can provide better and diversified services with quality, iv) reduction of time of administrative process, customs clearance, and certification, and v) infrastructure development and services improvement at the key logistics facilities such as internal container depots especially at the nodes and hubs in the industrial agglomerated areas. Private logistics sector development may be further encouraged to meet various demands of the industries which require such facilities as cold chains and less-than-container transport.

2) Starting the Railway Service and Domestic Transportation Network Development

Construction of the railway is one of the critical policy measures for the transportation network development. Mass transportation by the railway service is expected to deliver a significant positive impact on the cost and time for freights between Djibouti and Ethiopia. On the other hand, the efficiency of the railway transportation normally depends on the interconnection between the railway and the other modes of transportation which connects to the final destinations. Ethiopian Railway Corporation as a key institution has started coordination with other relevant entities for MTS using railway service.

On the other hand, capacity building in the logistics sector may also be necessary for export promotion. The exported products, mainly agricultural commodities, have been often transported as a loose cargo from Ethiopia to Djibouti. Stuffing into containers has then been, done in Djibouti[57]. Railway transportation, however, requires containerization. Therefore, it may be necessary to develop the capacity of the transportation service industries in order to undertake such services[58].

3) Simplification of Administrative Procedures for Trade Logistics

One of the major policy areas in the National Logistics Strategy is simplification of the administrative procedures of trade logistics through the introduction of ICT. Introduction of the Single Window into the procedures related to the movement of goods and people across borders has been under preparation with the support of multiple development partners including IFC.

6.3.2 Customs Clearance

(1) Procedures Required for Customs Clearance

The entire process and procedures for import are explained in section 6.3.1 (1). In this section, the current situations and the problems of customs clearance will be explained.

[57] According to the Ethiopia Pulse, Oil Seeds and Spices Processors and Exporters Association, a large proportion of the oil seeds are stuffed into bags and transported by trucks. Stuffing into a container is often done in Djibouti. Coffee exporters pack and containerize their products at their warehouses. The mode of packaging and the location of containerization may vary depending on the products and the size and capacity of exporters.
[58] According to the interview with ERC, it was acknowledged that various logistics services, infrastructure development around the key stations and logistics infrastructure require investment.

Necessary documents for import declaration to Ethiopia as well as to the peer countries are as listed and compared in the table below. While the basic requirement is the same across the countries, licenses and bank permits are only necessary for importing in Ethiopia. Electronic declaration and clearance is now introduced in all the countries in the list including Ethiopia. It is, however, noted that the hard copy of the declaration forms is anyway required to be submitted in Ethiopia.

Table 6-19 Necessary Documents for Import Customs Clearance in Ethiopia and the Peer Countries

Ethiopia	Kenya	Vietnam	Indonesia	Thailand
i) Import declaration form, ii) Bill of Lading (B/L) or Air Way Bill, iii) Packing list, iv) Commercial Invoice, v) Bank Permit, vi) Certificate of origin, vii) Insurance document, viii) Transit declaration in case of in land transport, ix) Import license, investment license or business registration to show the duty free status, trade license etc	i) Import declaration form, ii) Bill of Lading (B/L) or Air Way Bill, iii) Certificate of Conformity, iv) Packing list, v) Commercial Invoice, vi) Certificate of origin, vii) Certificate of the quality from relevant organizations (if applicable for such products as plants, medicine)	i) Import declaration form, ii) Commercial Invoice, iii) Purchase and sales contract, iv) Packing list, v) Certificate of origin, vi) Certificate of registration for quality inspection (import permit required prior to the importation)	i) Import declaration form, ii) Commercial Invoice, iii) Bill of Lading (B/L) or Air Way Bill, iv) Import permit and other documents (if required)	i) Customs declaration form ii) Bill of Lading (B/L) or Air Way Bill, iii) Commercial invoice, iv) Packing list, vi) Certificate of origin (if applicable), v) Import license(if applicable)

Source: Ethiopia: Customs Proclamation No.859/2014, interviews with ERCA, Kenya: Government of Kenya (2006) "Handbook on Importing and Exporting", other materials by the logistics service providers, Vietnam, Indonesia, Thailand: JETRO(2013)"ASEAN/Mekong Chiiki Saishin Butsuryu, Tsukan Jijo (Recent Situations of Logistics and Customs Clearance in ASEAN and Mekong areas).

Customs inspection is done based on the level of the risk. The entered data into the electronic system, ASYCUDA++ automatically sorts the cargos into four categories, namely, green, blue, yellow and red. Both the importer and types of goods to be imported are considered when assessing the risk. The process of customs clearance for each category is as indicated in the table below.

Table 6-20 Ethiopia's Customs Risk Management and the Clearance Process

Category	Applicable Importer/Goods and Process
Green	・ Granted based on the importers' track record and the types of goods (even with the green status, the specific consignments may be categorized as others depending on their types) ・ No inspection required.
Blue	・ AEO status holders. ・ No inspection at the time of import. Post-clearance audit will be done.

Category	Applicable Importer/Goods and Process
Yellow	・ Applied to goods with the requirement of technical control by other government agencies (e.g., medicine and medical equipment) ・ Document review
Red	・ The goods regarded as with high risk. ・ Document and physical inspection

Source: Interview with ERCA.

According to the interview with ERCA, 10% of the declared cases are categorized as "green" or "blue", and 40% to 45% are as "red". However, according to the interview with private companies, there are some cases where post-clearance audit was undertaken also for those categorized as "green". The physical inspections for those categorized as "red" used samples of 20% of the declared consignment[59].

(2) Laws and Institutional Frameworks for Customs and Customs Clearance

The customs related legal structure was renewed and modernized by the new customs proclamation, (the Customs Proclamation, No. 859/2014). Prior to the legal reform, the administrative organization of the customs-related government functions went through the organizational reform based on BPR in 2007. BPR clarified the overall organization of ERCA as well as the mandates vis-à-vis the other relevant organizations. ERCA eventually established by merging other revenue-related agencies. In terms of the actual business transaction, the necessity of standardization of the procedures was pointed out. At the same time, introduction of the concept of user satisfaction and the standard time for process were also proposed[60]. The Customs Proclamation (No.859/2014) encompasses the following contents.

Table 6-21 Contents of the Customs Proclamation of Ethiopia

	Title	Major contents (applicable chapter)
Part One、Two	General、Principles of Customs Operation	Definitions, principles
Part Three	Customs Procedure	Declaration (Chapter1), clearance process (Chapter 3), procedures in the customs warehouses (Chapter 8), customs clearance process of export processing (Chapter 9), electronic clearance (Chapter 12), Simplification of customs clearance procedures (Chapter 13)
Part Four	Customs Duties and Tax	Valuation (Chapter 1), Classification (Chapter 2), post-clearance audit (Chapter 3), duty and tax exemption (Chapter 7)
Part Six	Customs Control and Law Enforcement	Power, duty and obligation of ERCA and other relevant stakeholders (Chapter 1&2), Complaints and appeal (Chapter 3)
Part Eight	Miscellaneous	Establishing customs and customs bonded warehouses

Source: Customs Proclamation No.859/2014.

59 Based on the interview with ERCA.
60 Tsegaye Teklu, Negus, Endris (2011) "The Impact of Border Clearance Procedures on the Cost of Doing Business in Ethiopia" Private Sector Development Hub/Addis Ababa Chamber of Commerce and Sectoral Associations.

On the other hand, the regulatory mechanism has not been completed to operationalize the new proclamation due to the lack of important directives for implementation. In addition, legal documents for the AEO program and some other procedures are not fully translated into English. Therefore, the translation will be covered in the task of developing a guidebook for the private operators regarding customs clearance, licensing, and investment. The World Bank is supporting to develop the guidebook.

1) Efforts on Simplification of the Customs Clearance Procedures

A few measures have been taken in order to simplify the cumbersome customs clearance process. The aforementioned risk management system introduced and simplified the process for fewer risks. Other measures are explained below.

＜AEO＞

The legal framework for AEO was established in 2008. Its implementation was started in 2010. The system allows authorized operators to go through the clearance in priority or customs clearance in their own premises. They are subjected for the post-clearance audit[61]. The Directive Providing Simplified Customs Procedures Applicable for Authorized Economic Operators (No.65/2011) designates the following necessary documents for customs clearance for AEO: i) simplified customs declaration (AO7), ii) copy of the documents, and iii) cargo release letter by a bank or shipping lines. The importer pays the customs duty based on the self assessment. The cargos are categorized automatically as “blue”. The clearance should be done using the original documents within 30 days after the handing over of the cargo. Thirty one (31) operators including manufacturing, exporters, and customs clearance agents are authorized as AEOs[62].

＜Approval and Setting up of Bonded Facilities＞

For export promotion, bonded warehouses and manufacturing schemes are available. Revised Export Trade Duty Incentive Scheme Establishment Proclamation (No.768/2012) provides the legal framework for Bonded Export Factory Scheme, Bonded Manufacturing Factory Scheme, and Bonded Input Supply Warehouse Scheme. These schemes allow the authorized entities to go through the customs clearance in their premises. MOI provides the conditions, and ERCA specifies required conditions for facilities. The details are explained in section 5.5.3.

(3) Analysis of Problems

According to the interview with ERCA at the Mojo Dry Port, the customs clearance process only takes 30 to 40 minutes for those cargos categorized as “green” and “blue”, half a day for “yellow”,

[61] ERCA AEO Brochure 2012.
[62] Based on the interview with ERCA.

and 2.5 days for "red"[63]. However, private sector companies without "green" status answered that it may take from 2 to 3 days to 3 months. The reasons for demurrage are not only the capacity of the customs office for processing, but the adjustment regarding the customs valuation.

1) Capacity of Customs Offices and the Infrastructure

In the dry port in Mojo, 275 TEU (Twenty-foot Equivalent Unit) containers bound to Addis Ababa and the surrounding areas are transported per day. However, the customs office in Mojo has the capacity to process only 180 to 200 TEU per day. The dry port has yet to be fully furnished with necessary buildings and facilities fully installed: although a scanning machine is available, for example, it is not installed for use due to the lack of proper building. Specific areas with proper facilities for perishable goods have not been prepared[64].

The dry port also hosts the offices of other agencies which provide services of certifications and inspections such as Food Medicine Health Care Administration Authority (FMHCA) and the Ministry of Agriculture. However, these offices do not have the necessary facilities as laboratory to process all requirements on site.

2) Risk Management

ERCA sets the benchmark of risk management using India as its reference. However, high percentage of cargos are still categorized as "red" and inspected in the limited capacity of customs facilities. ERCA targets to reduce the percentage to around 20% in the future.

3) Customs Valuation and the Problems of Requesting Amendment

Many interviewees witnessed the problems of customs valuation. ERCA applies the valuation system of Indian customs. In principle, the valuation is based on the transaction values stated in the invoice. The valuation is reviewed based on the recorded values of similar products with similar specification in the latest 3 months. If there is more than 10% of the difference between the declared value and the value in ERCA database, the importer is requested to revise the value. The system does not consider well the capacity of importers which may be able to procure the goods at reduced prices. Moreover, some people witnessed that sometimes the reference value which ERCA officers use apart from the track record may not be suitable to infer the "market prices".

Multiple interviewees indicated that it is a difficult process for importers to prove the value of the consignments in the invoice in case of review. The Customs Proclamation encompasses the section on the complaints and appeal. It further refers to the procedures to appeal to the Tax Appeal Commission established under the Income Tax Proclamation in case the dispute is not settled by the

[63] Based on the ERCA in the Mojo Dry Port.
[64] Based on the interviews with ERCA and ESLSE Mojo Dry Port Terminal.

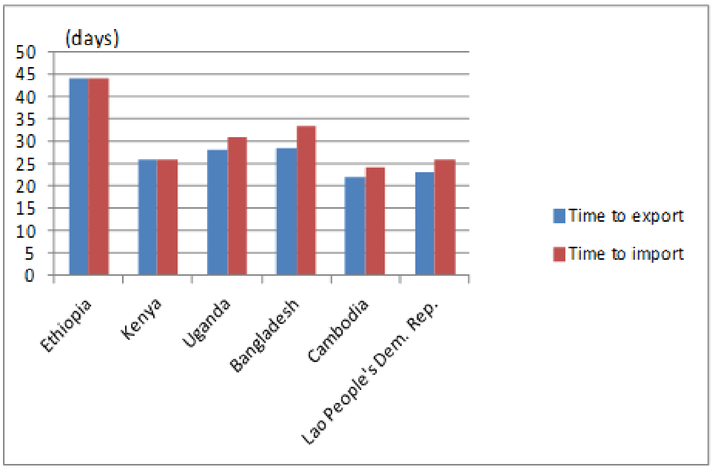
function in ERCA. However, in case the importer wants to file the issue to the Tax Appeal Commission, the duty has to be first paid before going to the commission.

The adjustment of the valuation is not only a problem for those without favored treatment in the priority industries since some products are regarded as “red” even though the importer may have the “green” status, but they also encounter the lengthy process of the customs clearance depending on the imported products.

4) Cumbersome Process for Declaration

As mentioned earlier, import into Ethiopia requires more documents than peer African and Asian countries. The number of the documents reflects to the length of the lead time for trading.

The comparison of the indices of Trading Across Borders in Doing Business shows the disadvantageous situation of Ethiopia (see the figure below).



Source: World Bank (2015) Doing Business 2015.

Figure 6-9 Time Required for Import and Export

5) Development of Systems Integrating the Logistics Arising through Railway Development

A new system for logistics flows arising through the newly operating railway is an important issue. The customs clearance process is also integrated in the system. As mentioned in the next section, institutional and regulatory reform has been promoted with the support of development partners.

(4) Direction for the Improvement and Actions for Improvement

The promulgation of the new customs proclamation as well as the legal and institutional development based on the new law is an important measure for improvement of customs issues. The following measures are also under preparation. The supports by other donors are also explained. On the other hand, further needs for infrastructure and capacity development may be identified since the transportation sector led by the railway development is progressing.

1) Further Legal Development for Customs Clearance Process

As a part of the efforts for improvement of the investment climate, Investment Climate Program by IFC and the multiple donors' financial support is working on the development of directive for implementation of the new customs proclamation. Such areas include customs transit procedures, customs valuation, advance ruling, and licensing of services for completion of customs procedures through electronic information exchange system.

2) Simplification and Improvement of the Customs Procedure through Electronic Transaction System

Investment Climate Program mentioned above also supports ERCA to develop the manual for customs procedures. The introduction of the Single Window for import and export is also supported.

The existing electronic customs declaration and clearance system, ASYCUDA++, is expected to be replaced by a new system which will further enable Ethiopian system to connect with Djibouti system. The initiative is supported by EU. Other processes such as the approval and administration of the export promotion incentives are expected to also be integrated in future[65].

6.3.3 Power sector

(1) Current Situation of Power Supply

Ethiopia's electricity demand has been growing rapidly in recent years. The consumption has grown from 1,595.1 GWh in 2002 to 4,069 GWh in 2012. The number of subscribers for industrial use also increased from 7,959 in 2002 to 21,071 in 2012 for low voltage and from 96 to 163 in the same period for high voltage[66]. Apart from the industrial use, Universal Electric Access Programme has been pushing up the demand in the household sector. As mentioned in Chapter 4, the tariff has been maintained at a low level since there is the serious problem of the quality of electricity supply.

The generation capacity in Ethiopia has been improved from 1,784 GWh in 2002 to 4,954 GWh in 2011. However, the demand is expected to grow further from 6,425 GWh in 2012 to 111,388 GWh by 2037. In order to meet the demand, various types of generation may be pursued apart from geothermal[67].

GTP-II sets the target of access to electricity to 90% in 2019/20 from the base line 60% in 2014/15. In addition to the domestic demand, Ethiopia participates in EAPP and plans to export the excess electricity to East African countries. The construction of the transmission line from Ethiopia to Kenya has commenced (see Chapter 4).

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[65] Based on the interview with ERCA.
[66] EEPCo (2013)"Ethiopia Power System Expansion Master Plan Study".
[67] JICA/Nippon Koei/JMC Geothermal Engineering Co. Ltd./Sumiko Resources Exploration & Development Co. Ltd (2015) "Final Report of Project for Formulating Master Plan on Development of Geothermal Energy in Ethiopia".

The degree of ease in access to the electricity is evaluated by Doing Business 2016 by the World Bank Group as indicated in the table below[68].

Table 6-22 Comparison of Time and Cost for Getting Electricity in Ethiopia and in Peer Countries

	Ethiopia	Kenya	Cambodia	Vietnam	SSA
Procedure (number)	4	4	4	6	5.4
Time (day)	95	110	179	59	130.1
Cost (% of per capita GDP)	1414.9	732.3	2336.1	1322.6	4075.6

Note: Cost refers to the cost borne by arranging the documents for the subscription, procurement of necessary equipment, and fee for installation and necessary work..
Source: World Bank (2016) Doing Business 2016.

Comparing with Sub-Saharan average, evaluation on the ease of electricity access in Ethiopia is relatively good although it is ranked in 129th place. Comparing with the neighboring Kenya, the cost of getting electricity is almost double.

(2) Private sector involvement in the power sector

The Proclamation of Investment rules out private sector investment in the power transmission and distribution in the National Integrated Grid System[69]. One recent experience of private sector involvement in the transmission and distribution is the management contract with Ethiopian Electric Utility (EEU) and an Indian company. During the transition time when the previous Ethiopian Electric Power Corporation (EEPCo) undertook generation, transmission and distribution was divided into the Ethiopian Electric Power (EEP) and EEU, an Indian company. EEU was in charge of transmission and distribution under the management contract in 2013 worth USD 32 million for 2.5 years[70].

After division into generation and transmission/distribution, the former has been undertaken by EEP.[71] The license of geothermal generation for three locations has been provided to Reykjavik Geothermal Ltd (RG). The head of terms Power Purchase Agreement was already concluded between RG and EEP (then EEPCo)[72].

In addition, some areas such as provision of facilities and equipment and the technical cooperation

68 From 2016 version, the ranking is decided based on the composite index calculated using the data on the evaluation on procedures, time, cost as well as the transparency of setting tariff and tariff per kWh.
69 EIC (2015) Invest in Ethiopia: An Investment Guide to Ethiopia 2015, Regulation of Council of Ministers No.84/2003.
70 JICA/Nippon Koei/JMC Geothermal Engineering Co. Ltd./Sumiko Resources Exploration & Development Co. Ltd (2015) "Final Report of Project for Formulating Master Plan on Development of Geothermal Energy in Ethiopia".
71 Supplying in high voltage (more than 33kV) is referred to as "transmission" and in lower and medium voltage (less than 33kV) is referred to as "distribution" (Source: Proclamation on Energy No.810/2013).
72 According to the interview with Geological Survey of Ethiopia (GSE), the actual agreement has not been reached due to the difference in the level of feed-in tariff as of August 2015.

for generation allow private sector participation. For example, EEU (then EEPCo) and Cambridge Industries made a turn-key contract for a waste-to-energy plant.

(3) Analysis of Problems

The problems in the power sector can be categorized as problem of power supply and the institutional framework. The problem of power supply is mainly found in the quality of the electricity supply. Frequent outage which causes low productivity and damage to the machinery and equipment as well as the necessity of stocks of the machinery and equipment are the major issues raised during the interviews with the private sector companies. The cause of the outage and fluctuation is assumed to be old facilities and equipment of substations and transmission and distribution systems.[73]

Transmission and distribution in the National Integrated Grid System is allowed only by the Government institution. On the other hand, off-grid does not rule out private operators. The license is issued and renewed by EEA.

EEA has the mandates of issuance and renewal of licenses and the issuance of the certificate of competency for generation, transmission, distribution, sales as well as other electric energy related services such as energy audit and consulting. EEA also submits the tariff for the national grid. The tariff for off-grid is regulated and approved by EEA[74]. The procedures for licensing are mentioned in Electricity Operations Council of Minister Regulation (No.86/1997) which was promulgated based on the Proclamation Relating to Electricity (No.86/1997).

The Proclamation on Energy, No.810/2013 also stipulates that EEA is in charge of administering the investment to power sector. For geothermal generation, the proclamation which regulates the sector is being prepared to be promulgated. The proclamation will provide the rules for development, generation, PPP, conditions for IPP and feed-in tariff[75].

Apart from the institutional development, a critical problem is identified as the low power tariff set by the Government. While it is an important tool of the Government policy for broad-based electrification, the fixed tariff level does not cover the cost for generation and transmission[76].

(4) Direction for the Improvement and Actions for Improvement

Under the national power development policy, various development partners (including the private sector) provide support to the sector development. In the area of generation, support to hydropower

[73] JICA/Nippon Koei/JMC Geothermal Engineering Co. Ltd./Sumiko Resources Exploration & Development Co. Ltd (2015).
[74] Proclamation on Energy No.12/2013.
[75] Based on the interview with GSE.
[76] Economic analysis in the geothermal master plan by JICA in 2013 pointed out that the then-average tariff (as of 2013) is not the sufficient level to cover the cost of financing for the loans from private financial institutions.

as well as other types of renewable energy development has been on-going. The field of geothermal power generation receives support from such organizations as the World Bank, IFC, and USAID in addition to the Government of Japan.

For transmission and distribution, organizational development and the renewal of transmission lines is supported by the African Development Bank (AfDB). The World Bank also implements the technical assistance for the capacity building of EEP. USAID is implementing the project to support Power Africa initiative. It is also noted that EEU once introduced the management contract with Indian firm. After the expiry of the contract, a few experts will be directly contracted for the operational capacity building of EEU as private sector involvement into the sector to a limited extent.

Chapter 7 Analysis of Investment Promotion Agencies in Ethiopia

7.1. Agencies related to Investment Promotion and their Roles

There are three investment promotion agencies (IPAs) in Ethiopia: EIC, Regional Investment Offices (RIOs), and IPDC. PFI defines that the roles of IPAs as: i) image building, ii) investment generation, iii) investor facilitation and services, and iv) policy advocacy. Each role is handled by different IPAs in Ethiopia as shown in the table below.

Table 7-1 Roles of IPAs

Role of IPAs in PFI	To foreign investors	To domestic investors	To investors in industrial parks
Image building	EIC	RIOs	IPDC
Investment generation	EIC	RIOs	IPDC
Investor facilitation & services	EIC	RIOs/EIC	IPDC/EIC
Policy advocacy	EIC	RIOs	EIC

Source: JICA Study Team based on the hearings from EIC, IPDC and Oromia Provincial Investment Office.

The next section explains the roles which are shared with different IPAs especially highlighting investor facilitation and services in industrial parks, and support for the procedures of licenses and permits.

7.1.1 Role of IPAs in Industrial Park Development

As shown in the table below, EIC supervises and regulates the development of industrial parks and provides licenses and permits, while IPDC is in charge of the development and management of each industrial park. As for the licenses and permits for operations in industrial parks, EIC plans to establish OSS in each industrial park and will request related ministries (ERCA, Ministry of Environment etc) to dispatch staff so that all the necessary licenses and permits can be issued at the OSS in each industrial park. However, the regulations to define those services have not been issued yet and needs further follow up[77].

Also, MOI is expected to provide technical supports and trainings on techniques and marketing for staff members in the industrial parks, and the regulations to define such tasks will be issued in future. The World Bank supports to establish a structure to provide customized technical training upon a request from companies located in the SEZs. The bank will consider providing support to make a curriculum of soft training (e.g. work ethics, working manners, 5S) as well as technical training in collaboration with TIDI and LIDI.

[77] According to IPDC, regulations for IPDC operation will be issued within 2015, while regulations for EIC to be issued in a few months. However, neither has been disseminated during the survey period.

Table 7-2 Roles of EIC and IPDC in the Development of Industrial Parks

Operation for industrial park development	EIC	IPDC
Industrial park development policy	○	
Supervision and regulation of industrial parks	○	
Issue of licenses and permits to a developer for industrial parks	○	
Development of industrial parks		○
Issue of licenses and permits to companies in industrial parks	○	
Operation of industrial parks		○

Note: After EIC's approval, IPDC can delegate the authority of develop and operation industrial parks to a private company.
Source: JICA Study Team.

7.1.2 Roles of IPAs in Industrial Licenses and Permits

Regional Investment Offices (RIOs) issues licenses and permits to domestic investors while EIC issues those to foreign investors. However, there are some exceptions. Firstly, it is EIC to issue licenses and permits for investments in the sectors that the Federal Government supervises even for domestic investors[78]. Secondly, Ethiopian Energy Authority (EEA) and Ethiopian Civil Aviation Authority (ECAA) issue licenses and permits for the investors in energy and aviation sectors, respectively, with the obligation to report the investment status to EIC. Lastly, the Ministry of Mining issues licenses and permits for investors in mining sector but EIC does not have information of the investments in the sector.

Table 7-3 Roles of IPAs in Investment Licenses and Permits

Type	Sector	IPAs to issue licenses and permits
Domestic investment	Sectors supervised by the Federal Government	EIC
	Others	RIO
Foreign investment	Mining	Ministry of Mining
	Electricity	EEA
	Civil aviation	ECAA
	Others	EIC

Source: JICA Study Team.

As RIOs are the ones for domestic investors, the survey focuses more on EIC and IPDC.

7.2. Organization and Functions of Ethiopian Investment Commission (EIC)

7.2.1 Legal basis of Establishment of EIC

As explained in Chapter 5, the Investment Proclamation (No.769/2012) states "the investment objectives of the Federal Democratic Republic of Ethiopia are designed to improve the living standards of the peoples of Ethiopia through the realization of sustainable economic and social development". Based on the objectives, GoE has established EIA and regional investment organs, which is called Regional Investment Offices (RIO) in each province. In 2014, GoE promulgated the Investment (Amendment) Proclamation (No.849/2014) and transformed EIA to EIC, which has EIB

78 The sectors which operate across provinces (e.g., higher education, hospitals, and tourism).

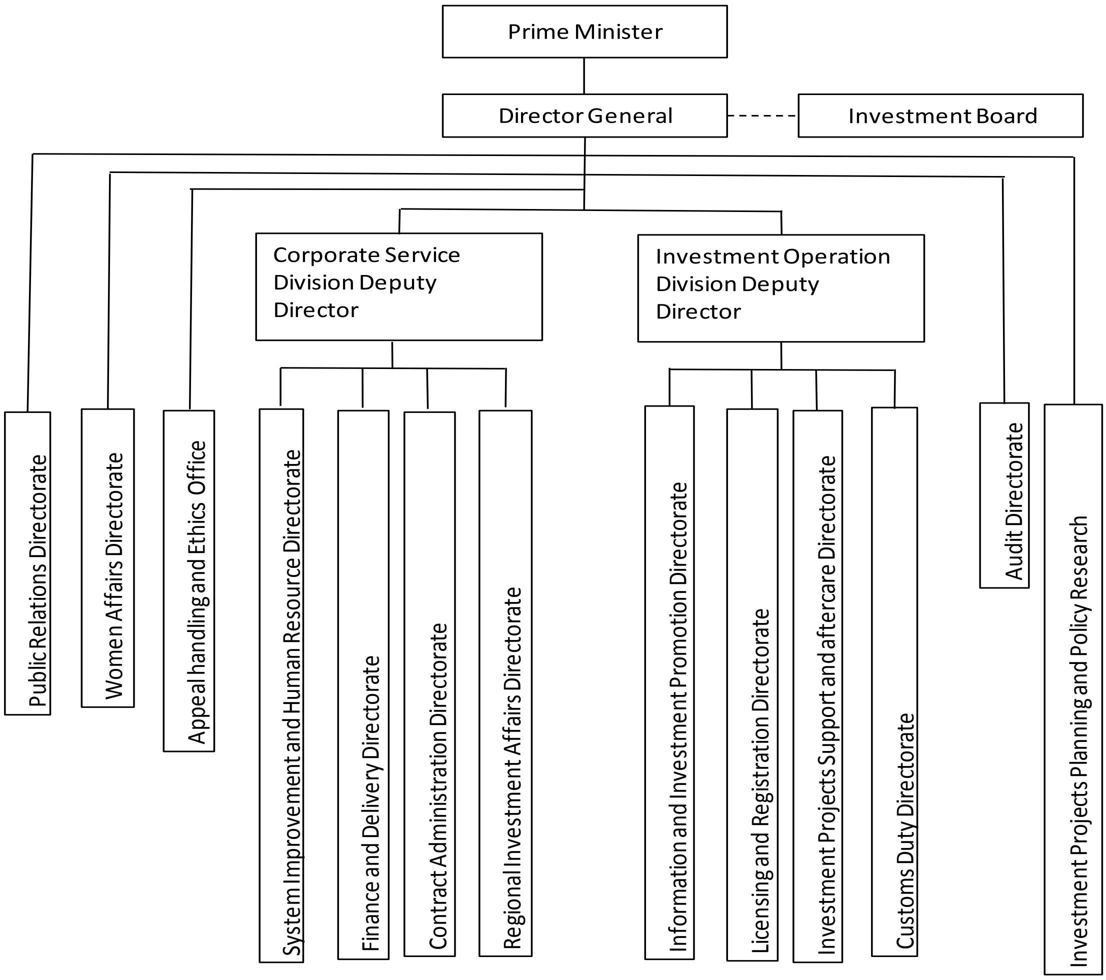
chaired by the Prime Minister as the final decision making organization. As a result, EIC was established directly under the Prime Minister (whereas EIA was under MOI).

The Investment (Amendment) Proclamation (No.849/2014) also defines that it is EIC who supervises areas designated for industrial development (e.g. SEZs, industrial parks, techno parks, EPZ, and FTZ) as well as makes a decision on the reduction and expansion of such areas.

7.2.2 Organizational Structure of EIC

(1) Current Organizational Structure

EIC structure at the time of the survey is shown in the figure below. EIC has the Director General as its head, with five directorates directly supervised by DG. Eight directorates, which are supervised through two Division Deputy Directors, are also aligned under DG. There are teams under directorates as listed in the table below. Some teams are divided into several units for certain functions.



Source: JICA Study Team based on information from EIC.

Figure 7-1 Organizational Structure of EIC (as of November 2015)

Table 7-4 List of Teams and Main Tasks by Directorate

Directorate/Team	Main tasks
Investment Projects Planning and Policy Research Directorate	
1. Plan Preparation and Evaluation Team 2. Project Planning and Monitoring and Evaluation Team 3. Policy Research Team	· To make the investment policy competitive · To conduct research/studies on constraints related to laws and working procedures hindering the progress and/or expansion of investment activities, and decisions on corrective measures · To conduct periodic research and studies on the impacts of foreign investments on the socio-economic situation in Ethiopia · To conduct research and studies on investment opportunities, sectors and sub-sectors based on the Government's economic policy, strategy and directions · In collaboration with stake holders, developing investment projects profiles and updating the already developed ones · Developing the agency's strategic and annual plan, action plan, annual budget, submit for approval, conducting monitoring of the performance/ progress, and compiling periodic reports · Preparing projects that could bring technical support to achieve the investment objectives of the country
Information and Investment Promotion Directorate	
1. Promotion Team 2. Diaspora Team 3. Information and IT Management Team	· To develop Investment promotion strategies · To gather, analyze, compile and distribute investment related data · To prepare, print and distribute investment promotion materials · To conduct image building activities to attract investments · To attract investment through conducting focused promotion activities and lobbying · To identify investors and match making · To develop the policy suggestions and recommendations as advocacy to enhance competitive and suitable investment climate · To create enabling environment for expansion of investment, ensuring cooperation among investors, investment implementing executive bodies and other stakeholders · To raise the awareness of investors and executive bodies on investment and related laws
Licensing and Registration Directorate	
1. Licensing Registration Team	· To process registration, change/amendment, and cancellation of trade names and to issue Certificates · To issue and amending TIN and the certificates · To issue, renewing, and cancelling Investment permit for new and expansion · To issue and renew of investment permit for new and expansion · To issue business licenses · To issue construction permits/ licenses · To issue, renew, cancel work permits/ licenses · To register Technology Transfer Agreements
Investment Projects Support and Aftercare Directorate	
1. Textile and Leather Team 2. Agro-processing Team	· To support investors to obtain residence permit requests · To support investors to process land requests · To support investors to process the requests of the

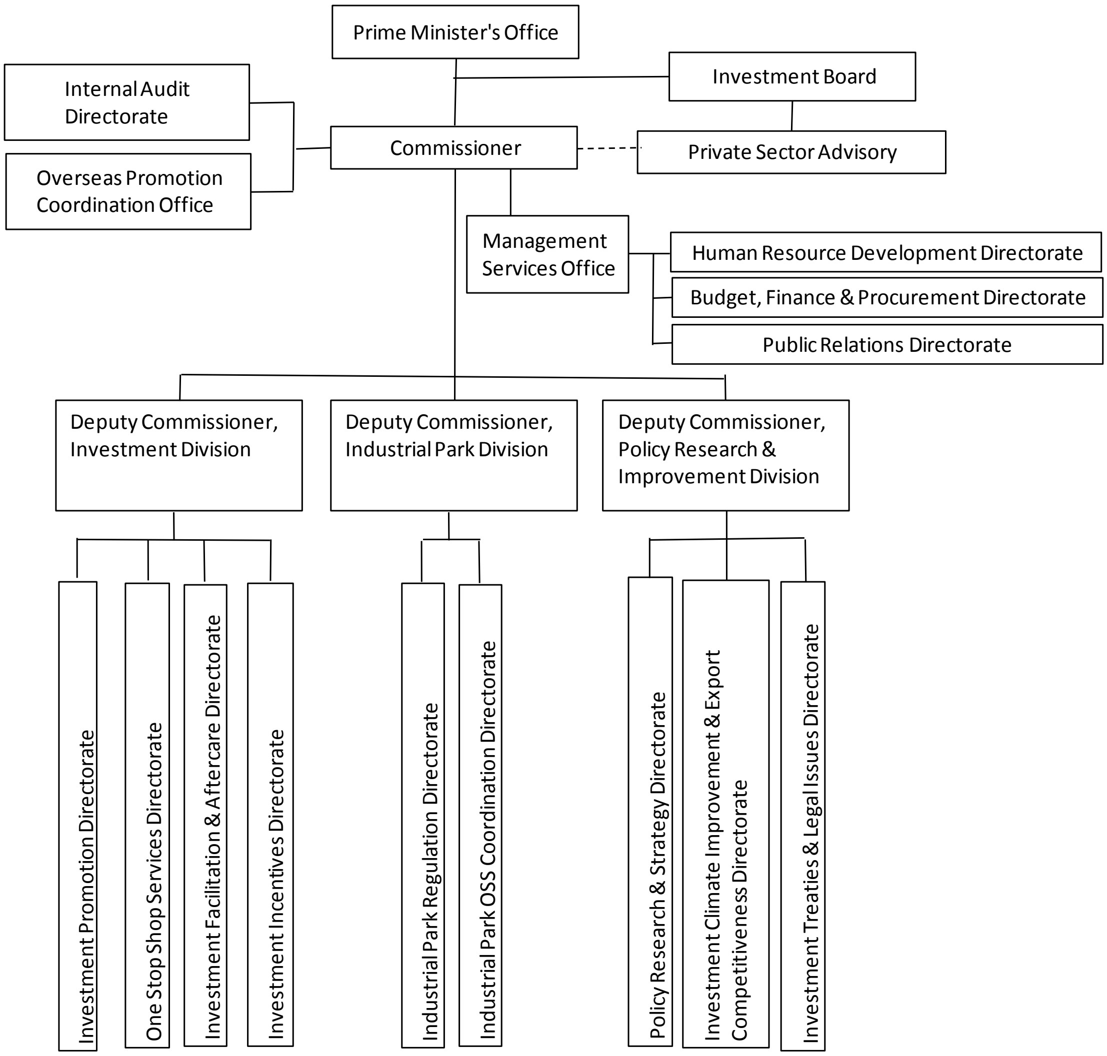
Directorate/Team	Main tasks
3. Metal and Engineering Team 4. Chemical and Pharmaceutical Team 5. Other Manufacturing Team 6. Agriculture Team 7. Service Team	environmental impact assessment studies ・ To support the processing of loan requests ・ To support investors to process requests on water, electric power, and telephone services ・ To conduct regular performance monitoring and aftercare through Identification of projects which have meaningful contribution to the economy ・ To ensure whether investment incentives utilized for intended purposes or not
Customs Duty Directorate	
1. Customs Duty Team	・ To issue permits on Custom Duty Free Importation of production tools and equipments and their accessories. ・ To issue Permits on Custom Duty Free Importation of Laboratory tools and equipments ・ To issue permit on Custom Duty Free importation of spare parts ・ To issue permit on Custom Duty Free Importation of Basic Construction Materials ・ To issue permit on Custom Duty Free importation of vehicles
System Improvement and Human Resource Directorate	
1. System Improvement Team 2. Human Resource Development Team	・ To conduct work/job analysis, compile human resources plan, and selection ・ To follow up and supporting change activities ・ To conduct work Environment health and security activities ・ To conduct training need assessment, organizing trainings and conducting evaluation
Finance and Delivery Directorate	
1. Finance Administration Team 2. Procurement and Property Administration Team	・ To collect money / income ・ To administer budget ・ To conduct accounting activities ・ To make effect payments ・ To compile reports on financial performances ・ To conduct procurement, property administration, and service delivery
Contract Administration Directorate	
1. Contract Administration Team	・ To take necessary measures together with other concerned bodies if investment incentives are not utilized for the intended purpose. Ensuring the implementation of investment laws ・ To negotiate and approve bilateral investment agreements for signing ・ To conduct follow up and reporting of approved agreements ・ To review investment-related policies periodically whether they are consistent with each other. ・ To draft the amendment. ・ To give advices and opinions on investment and related laws to GoE ・ To conduct follow up the certain issues upon the legal disputes arise
Regional Investment Affairs Directorate	
1. Regional Investment Affairs Team	・ To work to ensure consistent organization and procedures between EIC and regional investment bureaus ・ To give technical support and advices to regional investment offices ・ To work to ensure enhanced and proactive information/data

Directorate/Team	Main tasks
	exchange between the agency and regional investment offices through utilization of modern technologies ・ To coordinate to ensure working in collaboration with EIC and regional executive bodies to avail land for investors ・ To organize consultative meetings between the agency, federal and regional executive bodies ・ To coordinate and follow up on the transformation of local investors engaged in the service sectors to productive industry sectors
Audit Directorate	
	・ To audit of Resource Utilization ・ To conduct performance Auditing ・ To conduct service delivery auditing ・ To compile reports on the findings of auditing
Public Relations Directorate	
	・ To conduct promotion activities for EIC ・ To monitor media ・ To disseminate of various public relation documents to media ・ To conduct other public relation activities
Women Affairs Directorate	
	・ To conduct various advocacy activities on women and facilitation of trainings ・ To conduct follow up on the implementation of EIC's gender related activities ・ To conduct empowerment activities to build the capacity of EICs female workers
Appeal Handling and Ethics Directorate	
	・ To monitor EIC activities from the aspect of compliance with laws and regulations satisfying the set standards ・ To give decisions on the investors' complaints and appeals ・ To give trainings for EIC's officers for Ethics ・ To monitor the EIC officers in terms of the compliance to the codes of ethics of EIC ・ To ensure anti-corruption in the agency ・ To conduct a follow up and take necessary measures whenever any violation of the codes of ethics occurs

Note: There is no team under Audit Directorate, Public Relations Directorate, Women Affairs Directorate, Appeal Handling and Ethics Directorate.
Source: JICA Study Team based on information from EIC.

(2) Progress of EIC's Reorganization

Currently, EIC is preparing for a structural reform based on the "Study Document for Restructuring EIC" which proposes the organizational reform based on the benchmarking of other investment promotion agencies in Singapore, Korea, Rwanda, and Malaysia. The decision on the EIC's new structure is yet disseminated. According to the interview with an EIC official, there will be Commissioner (instead of DG) under PMO with the Management Service Office under the Commissioner. There will be three Deputy Commissioners, and each Deputy Commissioner will supervise i) Investment Division, ii) Industrial Park Division, and iii) Policy Research and Improvement Division (see the figure below).



Source: EIC (2015) Study Document for Restructuring EIC (Draft).

Figure 7-2 New Organizational Structure of EIC (planned)

7.2.3 Budget and Human Resources Allocation of EIC

The latest annual budget of EIC is approximately 30 million birr. 35% of the total budget is for salary and the rest is the budget for administrations and various activities. The items of the budget are organized per activity.

At EIC, each directorate negotiates its budget with management of EIC based on its annual activity plan. Final decision is made by the management, after which the budget is distributed to directorates. The percentage of the budget for the Investment Project Support & Aftercare Directorate and for the Information & Investment Promotion Directorate is 40% and 20%, respectively.

The planned number of staff is 361, while EIC operates with 188 staff as of November 2015. Most of the directorates are run with half of the planned allocation of staff. Only a quarter of the planned staff is assigned at the Regional Investment Affairs Directorate and the Customs Duty Directorate.

Furthermore, the planned number of staff of EIC under the new organizational structure expects to be reduced to approximately 300 people as opposed to the current number of 350 as of November 2015. Thus, it is recognized that that EIC requires more efficient staff members with professional skills than the current situation.

Table 7-5 Staff Allocation of EIC (As of November 2015)

Directorate	Planned	Actual	%
DG Office	4	4	100%
Audit Directorate	8	4	50%
Investment Projects Plan and Policy Research Directorate	23	11	48%
Public Relations Directorate	10	6	60%
Women Affairs Directorate	6	3	50%
Appeal Handling and Ethics Office	6	2	33%
Corporate Services Division Deputy Director	3	2	67%
System Improvement and Human Resources Directorate	17	9	53%
Finance and Delivery Directorate	89	67	75%
Contract Administration Directorate	9	4	44%
Regional Investment Affairs Directorate	12	3	25%
Investment Operation Division Deputy Director	2	1	50%
Information and Investment Promotion Directorate	48	30	63%
Licensing and Registration Directorate	27	9	33%
Investment Projects Support and Aftercare Directorate	77	29	38%
Customs Duty Directorate	20	4	20%
Total	361	188	52%

Source: JICA Study Team based on information from EIC.

7.3. Services and Functions of Ethiopian Investment Commission (EIC)

7.3.1 Information Services by EIC

(1) Information for Promoting FDI

EIC is expected to collect data and information on FDI to prepare investment promotion policy programs and offer them to investors. As an agency working to promote investment under EIC, the Information & Investment Promotion Directorate (IIPD) supervises provision of these services. They are offered mainly on its website[79] and in investment guidebooks it issues, "An Investment Guide to Ethiopia," and "Brochure." These media offer a broad range of contents as listed below. Information provided in them is brought up to date annually. Investors can find the latest information useful for them on what EIC distributes.

[79] http://www.investethiopia.gov.et/

- General information about the society and economy;
- Information on permits and licenses needed to start a business and/or start operation, such as investment application, corporation registry, and taxes;
- Legal information on investment;

As a tool for providing services and information and promoting investment, EIC uses its website in an effective manner. For instance, the website carries on it names of senior officials and representatives, their positions, mail addresses, and telephone numbers to help potential investors make direct contact with them.

(2) Information on Promising Industries

EIC places importance on export-oriented and import substitution industries, mentioning as priority sectors: i) textile and garments, ii) leather and leather products, iii) food processing (food and beverage), iv) sugar manufacture, v) chemicals, vi) pharmaceuticals, and vii) mining. For these industries, as well as others, comprehensive information on investment and specific incentives for the investors for those industries is available on the EIC's website, and in its investment guides and leaflets. A booklet, titled "Factor Costs," offers specific cost data useful for potential investors to consider where to locate a project, such as costs of land, labor, power, tax, and transportation.

(3) Legislation Information, etc.

Basic laws on investment and some application forms for administrative processes that investors need can be found on the EIC website. "An Investment Guide to Ethiopia" and "Brochure" are also available in paper versions. However, information on laws that potential investors may need in terms of incorporation, tax and accounting, labor, land, import and export, and other business-related affairs is not always offered in English. At the moment, the EIC has no department designated to collect such information and make it available widely to potential investors. They have to access the websites of other ministries and agencies and find the information they need.

(4) Statistics

Statistical data of Ethiopia's socio-economic situation is important information for potential investors to prepare strategies and plans for investment and business. EIC offers general information online as well as on paper, but the latest year data cannot be found there. In Ethiopia, the Central Statistical Agency produces social and economic statistics. While the agency releases consumer and producer price indexes, and foreign trade statistics, among others, it fails to post updates on a regular basis. Data released by the Central Statistical Agency are not available on EIC website, leaving them less useful as statistical information.

7.3.2 Counter Services by EIC

(1) Public Relations and Investment Attraction

As part of public relations that the country carries out, diplomats in charge of commercial affairs at embassies and consulates, taking into account characteristics of the country they stay in, choose companies or sectors of companies they should invite, and suggest that seminars, workshops, or other events be held, which the EIC headquarters reviews, before giving approval. For example, in 2014, around 10 events were held in Japan, the United States, Belgium, the Netherlands, Germany, and Turkey, among others. They also use the EIC web pages, and business partners for word-of-mouth communication to promote investment, working with foreign investors in investment promotion campaigns with involvement of high-level representatives. Trade fairs take place in cooperation with Ethiopian embassies overseas. Their focus is placed especially on Turkey (textiles and textile products, and construction), Germany (shoe production), Japan (leather and leather products, textiles and textile products, agricultural produce processing, and education), China (a broad range of industries), India (a broad range of industries), and South Korea (several industries).The country also invited home 70,000 Ethiopian Diaspora to show the state of investment in domestic industries and consult their interest to invest. Regular meetings are hosted with business forums consisting of companies coming to operate there from Turkey, India, China, and the EU to exchange opinions with them as part of steady public relations effort to improve investment environments in Ethiopia. The Director of the IIPD raised the following investors as significant achievements of investment promotion into Ethiopia: i) Midroc Ethiopia (conglomerate in hotel business, construction, and mining; Saudi Arabia) ii) Dangote (cement production; Nigeria), iii) Ayka (textile and garments manufacturing; Turkey), vi) George Shoe (shoe manufacturing; Taiwan), v) HuaJin (shoe manufacturing; China), and vi) Etour (textile manufacturing; Turkey).

(2) Investment consultation

Potential investors considering whether to make an investment in a foreign country usually hope not only to refer to publicly available information on investment environments and the state of industries there, but also to have consultations and clarify application procedures and other issues. EIC has assigned a staff to work on full-time basis for such services. IIPD serves as a temporary window to provide consultations, offering information on procedures investors must complete, requirements they must satisfy, and incentives they may obtain. The Licensing & Registration Directorate accepts and processes applications, issues investment licenses, and deals with commercial registry. Later in the operation phase, the Investment Project Support & Aftercare Directorate (IPSAD) plays a central role. EIC has prepared job descriptions of its people for internal use, which defines procedures of tasks for providing comprehensive services of investment consultation. Its departments of course maintain records of investment consultations they give, so that they can share needs and requests of investors within the EIC. The Commission also has regular meetings with other ministries and agencies, private-sector companies, donors, business forums of countries, and commercial affairs departments of embassies. They have other mechanisms in place as well to find needs of investors and organizations concerned and reflect them in their activities.

(3) Aftercare service

Aftercare services are imperative in order to support the existing companies to be able to take root in Ethiopia. It is further important since the successful business can be further encouraged to reinvest. The successful operation of investors can eventually spread the good reputation of Ethiopia and attract other investors to the country. Within EIC, IPSAD is in charge of aftercare services. Job descriptions that the Commission has prepared define duties each of the staff members must perform for aftercare services and workflows for them. EIC has also developed a database that its personnel there can use to monitor investor companies and provide them with relevant aftercare services. In addition to individual support services that they offer to companies operating in each of the priority sectors, the Commission provides investors with support from acquisition of land through start of operation. When, for instance, they have any trouble in access to public infrastructure, such as power, telecommunications, water, and roads, a department in charge supports them, writing letters to relevant ministries and agencies and/or visiting them for negotiations and coordination, among other actions. Currently, EIC as a whole deals with about 1,300 investment projects, and give priority to 60 of them to follow up intensively ("Relationship Program with Investor"). In principle, priority is given to projects for large enterprises, with 50 employees or more, and four EIC members have interviews with them on a semi-annual basis to examine progress of their business plans, ask about possibility of future business expansion, and collect information on companies that ceased business activities.

To provide better services, EIC must enhance capabilities of its personnel, and for that purpose, the Commission has set up eight courses like customer handling training or communication training for them. EIC is sometimes asked how to deal with an application for investment permit by a company hoping to operate in a type of industry that is not allowed in the current regulations. In such cases, EIC examines the type of investment for which an application is filed to see what effects it may generate, and what security problems the investment may cause. EIC expresses its opinions on whether to grant permission for it in a letter it sends to the Board of Commissioners. The Board is authorized to make some decision beyond the law to allow a new type of business that is not covered by the existing regulations to operate in Ethiopia.

7.3.3 Networking and policy recommendation (advocacy)

EIC has so far served to promote FDI and domestic investment as its main task. At the moment, Ethiopia has a plan to reorganize the Commission under the initiative of PMO, so that the EIC will play more significant roles to promote foreign trade and investment. Specifically, study is underway for assigning new roles to EIC to: i) regulate development of industrial parks, ii) promote foreign trade, and iii) set up overseas offices solely for the EIC, other than embassies and consulates. Details of the plan will be stated in two Regulations that should be issued for the EIC, IPDC and Ministries of Industry.

Within the EIC, activities for networking and policy recommendation (advocacy) are under the charge of the Investment Projects Planning & Policy Research Directorate (IPPPRD). As secretariat, the Directorate works to develop networks among private-sector investors, especially foreign ones, and donors for establishing a close relationship with them and to acquire support from them for study of policy issues and activities for investment promotion. In a close relationship they maintain with the Ethiopian Chamber of Commerce and Sectorial Associations, EIC intends to develop connections with private-sector companies. To have talks with private-sector investors and improve investment environments for them, EIC has a plan to set up within it a unit for Public Private Dialogue. This dialogue will be designed not for investors from specific countries but in such as a manner to include those from any country.

IPPPRD is also engaged in policy recommendation. Under the present condition, the Directorate is assigned roles to draft a plan of realigning the Investment proclamations and government regulations, and help prepare relevant preferential treatments and schemes for investors. Policy recommendations for investment environments and preferential treatment can be made only after cases of other countries are studied. However, no comprehensive survey has been performed under the initiative of the EIC to examine the best practices among countries in terms of investment promotion, preferential treatment, and other related issues. Given that policy proposal itself is so complicated a process that it takes significant time for coordination, the work has so far been put off.

The Director says they have had dialogues with private-sector companies, without success. This is because it has only been around 20 years since Ethiopia accepted FDI, too short to accumulate experience, and because EIC has not been given very strong authority. Even when investors have an issue for which they expect the EIC to make a quick decision, the EIC often lacks mandate to do so, and instead they must spend quite a long time working to achieve coordination between the ministries and agencies concerned.

7.3.4 Analysis of challenges in the current information services

In EIC, both the senior officials and other members have clear principles regarding purposes for fields and methods with which they collect information and data, and understand how important it is to distribute the information and data in a timely manner. They have already established an organization for systematically providing investment information services. To collect information and data, they need to design a website and revise leaflets, although updated at the least frequency needed, or compile them in other forms when necessary, the Commission seems to have secured sufficient human capital, skills, equipment, budget, time, and experience to a certain extent. On the other hand, despite channels the EIC has built with other ministries and agencies, the Central Statistical Agency, the Legislative Bureau, the private-sector, and donors, among other parties, the Commission has yet to secure smooth flow of information and data coming from them. That prevents the EIC from acquiring investment-related information sufficient for potential investors to make investment decisions. Below is an analysis of specific challenges they should address.

(1) Useful information service essential for investors

EIC provides investors with little information about investment environments that is helpful to make investment decision. For instance, technical details for agricultural land are obtained from Ethiopian Agricultural Transformation Agency under the Ministry of Agriculture, and the Commission does not grasp the result of land inspection significant for investors. Additionally, business cost information such as utilities, wage and logistics, the EIC releases through Investment Guide, Brochure, and Factor Costs seems too general to be helpful for anyone. Concise general facts of industrial parks in Bole Lemi or Kilinto are posted on websites but land, surrounding environment and accessibility of industrial parks needs to be explained elaborately. As mentioned in the opening part of this section, according to a report from World Bank, implementation phase of enterprises does not always lead to the operational phase in Ethiopia. It is requested to improve this status by providing details about land acquisition and supporting investors.

(2) Information about Investment and business-related rules and regulations

EIC does not provide major rules and regulations relevant to investment and business operations online. For instance, topics about investment, setting up business, land acquisition, import and export, customs clearance, foreign exchange, taxes, labor and visas and work permits can be found on the website of competent authorities. However, it is time-consuming to search for key data, and moreover, some data is not translated in English. Among Asian investment promotion agencies, CDC is cited as an agency whose web pages for investment and business matters are continuously updated in English. It is possible for EIC to benefit from this case as a reference in the future.

(3) Timeliness of investment information

Currently, it is when information is released on the website or annual revisions are made to investment guidebooks that contents are streamlined. Websites are designed by information service divisions, while work for updating is carried out by IT sections. As EIC offers richer contents than ever, half-yearly or quarterly constant updating about new rules and regulations would attract greater attention from potential investors.

7.4. Contents of Investment Authorization Operations (OSS etc.)

7.4.1 Overview of OSS

EIC was designated as an organization to provide OSS in accordance with the Investment Proclamation (No. 769/2012). EIC is in charge of: i) providing investment related information, ii) issuing investment permit and commercial registration certificate, renewing investment permit, issuing business license, and approving investment expansion or upgrading, and iii) facilitating aftercare of investors.

According to EIC, the EIC's operation is categorized into following three: i) services provided by the EIC directly, ii) services which are delegated from competent authorities to the EIC, and directly undertaken by the EIC, and iii) services provided through the "Desk", established by competent authorities within the EIC building.

Details of item i), such as issuance and renewal of investment permit, expansion and upgrading of investment, change and cancellation of investment, and application of technology transfer are stipulated in the Investment Proclamation (No.769/2012).

As regards item ii), EIC undertakes investment related operations on behalf of competent authorities based on the Investment Proclamation (No.769/2012). EIC issues business license (on behalf of MOT), work permit (on behalf of MOLSA), construction permit (on behalf of the Ministry of Urban Development and Construction,) and so on.

As regards item iii), ERCA Desk (TIN number) (sixth floor), Immigration Desk (resident permit) (sixth floor), CBE (bank account) (at the EIC entrance), DBE (sixth floor) are physically established within the EIC building and conducting relevant operations.

Column 7-1 Overview of the "Desk" Established within the EIC

- ERCA Desk (sixth floor)
  - Issue TIN (ten digit number) and provide consultation to investors
  - Two officers, who are given authority to provide TIN are deployed
  - Average of three to five investors visit the Desk per day
  - It takes about 15 minutes to issue TIN, given there is no internet problem
  - About 180 TIN was issued between February 2014 to August 2015
- DBE (sixth floor)
  - Established in February 2014 within the EIC building
  - Provide consultation for finance and receive financing application targeting companies of the government's priority industries (screening and approval are conducted at the head office)
  - Capital ratio for financing is 30%. Current interest rate is 8.5% p.a.
  - Maximum period from application of financing to approval is about three months
  - The number of application was 45 projects (manufacturing and agriculture) from February 2014 to August 2015. Of which, 4 projects were approved (one foreign capital and three domestic capital).

- Immigration Desk (sixth floor)
  - Accept applications for resident permit.
  - Through Immigration Desk application, 102 new resident permits were issued and 40 resident permits were renewed between February 2014 and August 2015.
- CBE (at the entrance of EIC building)
  - Established in February 2015 within the EIC building (regarded as a branch office of a bank)
  - Necessary documents to open a bank account: investment permit, EIC letter addressed to the bank, banking certification issued by the NBE to open bank account, and articles of association. General Manager must go to the bank in order to open the account. It takes five to ten minutes to open an account if all the necessary documents are provided without deficiency.

Source: JICA Study Team based on interviews with each Desk and EIC Annual Report (2014-2015).

7.4.2 Actual Situation of OSS

As mentioned in sections 6.2.1 and 6.2.2, the EIC's OSS function related with establishing a business and investment related licensing places emphasis on foreign investors' entry stage. However, EIC's aftercare is not sufficient since it does not cover follow-up services for renewal of business license and work permit once investors enter into operation phase. In addition, as mentioned in section 6.2.4, land acquisition procedures in Ethiopia are complicated and time consuming and the EIC's OSS remains in the form of issuing support letters.

The following table summarizes the actual situation of OSS and remarks based on the categorization of EIC's operation regarding major approvals, licenses and relevant services as mentioned above in section 7.5.1 Overview of OSS.

Table 7-6 EIC's Major Approvals, Licenses and Services and their Actual Situation

i) Major services provided by the EIC directly		
Approvals, Licenses and Services		Actual Situation and Remarks
Issuance and renewal of investment permit		Ambiguous responses of some EIC officers are pointed out especially from SME investors
Expansion or upgrading of investment permit		After issuance of initial investment permit, EIC provides aftercare services targeting large enterprises
Amendment of investment permit		EIC directly provides this service
Cancellation of investment permit		EIC directly provides this service
Registration of technology transfer agreements		EIC directly provides this service
ii) Major services which are delegated from competent authorities to the EIC, and directly undertaken by the EIC		
Approvals, Licenses and Services	Authorities Concerned	Actual Situation and Remarks
Permitting exemption incentives from the payment of customs duty	ERCA	EIC permits customs duty exemptions as part of investment incentives
Effectuation of commercial registration and registration of trade or firm name	MOT	EIC effects commercial registration and registration of trade or firm name as per delegated from MOT

Issuance of business license	MOT	EIC issues initial business license but renewal is under MOT (beyond EIC's OSS)
Issuance of work permit	MOLSA	EIC issues initial work permit but renewal is under MOLSA's jurisdiction (beyond EIC's OSS)
iii) Services provided through the "Desk", established by competent authorities within the EIC building		
Approvals, Licenses and Services	Desk	Actual Situation and Remarks
Issuance of TIN	ERCA Desk	ERCA Desk issues TIN (required time is about 15 minutes)
Accepting applications for resident permit	Immigration Desk	Examination, approval, and issuance of resident permit are carried out at the Immigration Office (the main office)
Opening bank account	CBE	EIC issues letters regarding opening bank accounts to relevant banks
Provision of consultation for finance and receiving financing application	DBE	Screening and approval are conducted at the DBE head office
iv) Other Services		
Content of Services	Authorities and Organizations Concerned	Actual Situation (EIC's Involvement)
Support for land acquisition	Ministry of Agriculture, Agricultural Investment Agency / Land Bank and Land Administration Office of relevant regional government	EIC's support to foreign investors for land acquisition is limited to issuing support letters to relevant authorities and regional government
Support for accessing utility/infrastructures including electricity, communication, water supply, and access road	Competent authorities and organizations	EIC issues support letters to competent authorities and organizations as well as negotiate / coordinate with them as necessary

Source: JICA Study Team based on interviews with relevant authorities and organizations.

7.5. Investment Data Collection and Administration

7.5.1 The Types of Investment Data Collected

As shown below, different government organizations collect investment data based on type and sector of investments. All the domestic investment data is captured in the database at EIC[80]. As for foreign investment, there are two types of investments: green field investment and brown field investment. Green field investment except for mining sector is captured by EIC. The one for mining sector is captured by the Ministry of Mining. All the brown field investment is captured by the

[80] As written in the end of this section, the accuracy of the data is open to question.

Ministry of Trade. This is because brown field investment needs to be approved by the Ministry of Trade in advance due to the lack of stock exchange market in Ethiopia.

The data on green field investment in mining sector and all the brown field investment are not captured by EIC because a communication system between EIC and the Ministry of Mining and the Ministry of Trade is not well established. On the other hand, the data on green field investment in electricity sector and civil aviation sector is captured by EIC because there is regular reporting system from EEA and ECAA to EIC.

Table 7-7 Organizations in Charge of Investment Data Collection

Investment	Type	Sector	Organization to collect data
Domestic investment	-	Sectors supervised by the federal government	EIC
		Others	Report from RIOs to EIC
Foreign investment	Green field	Mining	Ministry of Mining
		Electricity	Report from EEA to EIC
		Civil Aviation	Report from ECAA to EIC
		Others	EIC
	Brown field	-	Ministry of Trade

Note: Brown field: Investment that a foreign company partially/fully purchases existing Ethiopian company. Green field: Investment that a foreign company establishes a company in invested country.
Source: JICA Study Team based on interviews with EIC.

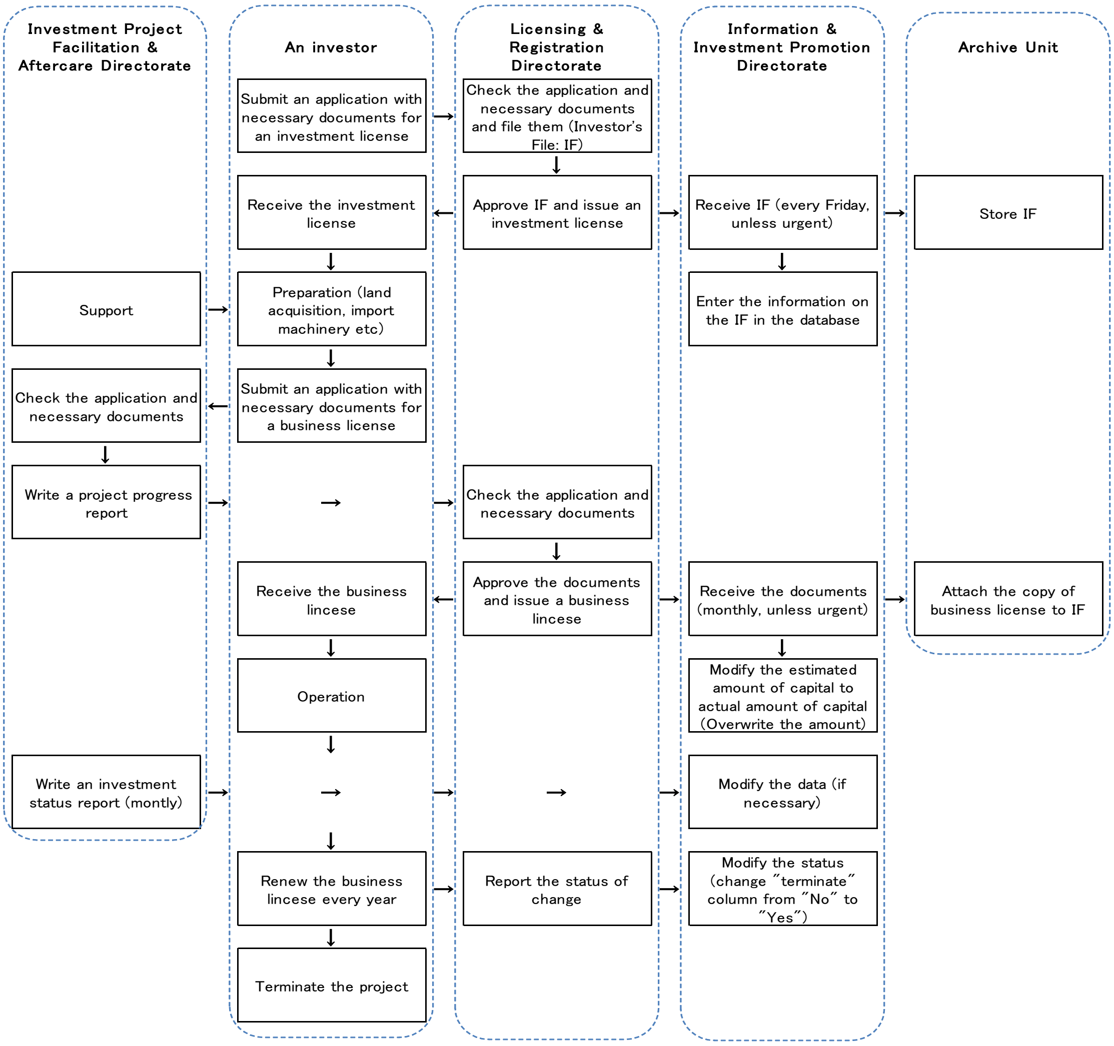
The data collection system in Ethiopia is compared with other countries. Firstly, the Board of Investment in Thailand does not include investments without incentives to get their data. Also, investments with less than 10% of foreign capital are not included in the database. In case of a JV, the amount of investment is included in both countries as it is difficult to divide the amount. Secondly, the Zambia Development Agency captures only the investments which the agency approves. The overall investment amounts are summarized at the central bank and/or the statistical office. As explained, an investment promotion agency is not in charge of capturing all the foreign investments in many countries (especially developing countries). Currently EIC seems to confuse users of the data because necessary remarks are not clearly mentioned when the data is provided with them. Therefore, it is necessary for EIC to understand the whole picture of the database and to provide the remarks when EIC provide the data to users.

As industrial parks will be operated and all the licenses and permits will be issued at the industrial parks in Ethiopia soon, the government needs to regulate how to collect investment data in each industrial park. For the information, all the investments (both foreign and domestic) in industrial parks are collected by an organization and the ones outside of industrial parks are collected by another organization in Cambodia.

7.5.2 Data Entry System

EIC enters the investment data captured by EIC (domestic investment for the sectors that the Federal

Government supervises, the green field investments for the all the sectors except for mining, electricity, and civil aviation) by following the below work flow.



Source: JICA Study Team based on interviews with EIC.

Figure 7-3 Work Flow of Investment Data Entry by EIC

A unique characteristic is that EIC focuses more on actual investment amount than approved one. Currently, EIC enters approved investment amount when an investment project is in the stage of pre-implementation and implementation. However, the approved investment amount is overwritten by actual one when the project applies for a business license. As a result, it is impossible to compare the approved investment amount and actual one. Also, the approved investment amount is not open to public. This system is quite different from the case in other countries as Thailand, Cambodia, and Zambia have a work flow of entering approved investment amount and actual amounts are not open to public[81]. According to EIC, this system is employed because the Government focuses more on

[81] Usually this is because a monitoring system for investment projects is not clearly set up in these countries, though

how much foreign currency the country actually obtains. The amount of investment in Ethiopia looks lower than other countries although differences between the approved amount and actual amount of investment do not allow simple comparison (because the publicized investment data is usually approved ones while some projects may not be launched despite the approval). Also, because the actual amount of foreign currency obtained can be captured at NBE, EIC could consider informing the approved amount of investments.

EIC enters the investment data it captures based on the monthly report from Regional Investment Offices (RIOs) [82], EEA (electricity), and ECAA (civil aviation). The accuracy of the data from EEA and ECAA is relatively high as EEA and ECAA submit the monthly report to the Information & IT Management Team as well as the copy of documents for licenses and permits to the Licensing and Registration Directorate. On the other hand, the Information & IT Management Team reveals that the accuracy of the data from RIOs is quite low. During the Survey, the data entry system at Oromia Investment Office (OIO) was reviewed as an example.

Table 7-8 Data Entry System at Oromia Investment Office (OIO)

Method	1. Each district submits investment data to OIO via email. 2. Staff of OIO collects when he/she monitors a projects on site
Item	· Type of investor (sole, limited, share) · Name of the project · Location of the project · Sector · Outline of the project · Capital amount (approved and actual) · Number of employment (Female/male, permanent/temporally) (in paper/actual) · Import and export products[83]
Entering process	Software: Excel 1. Print out the data that each district office sends the end of every month. 2. Compare the data on screen and the one in printed paper one by one. If there is any update, correct the data on screen

Source: Oromia Investment Office.

The reasons of low accuracy of the data from RIOs are: i) the items that RIOs enters in its database are not consistent with the ones that EIC enters in its database, and ii) RIOs check and correct the updated data manually. In addition, EIC thinks that another reason is because of the low capacity at RIOs. Therefore, the Regional Investment Affairs Directorate will try to improve their capacity by planning and conducting trainings on investment strategy planning, investment promotion, aftercare, and implementation of rules and regulations, and importance of data for staff at RIOs. In the near future, the training on how to collect, enter, and manage data will be conducted. EIC cannot instruct but needs to request RIOs what to do because Ethiopia has the federal system. Therefore, EIC also collaborates with the Ministry of Federal Affairs.

it is necessary to confirm it.

[82] It was quarterly till last year, but changed to monthly from this year.

[83] This item remains as blank and ERCA is the one in charge.

7.6. Development and Administration of Industrial Parks

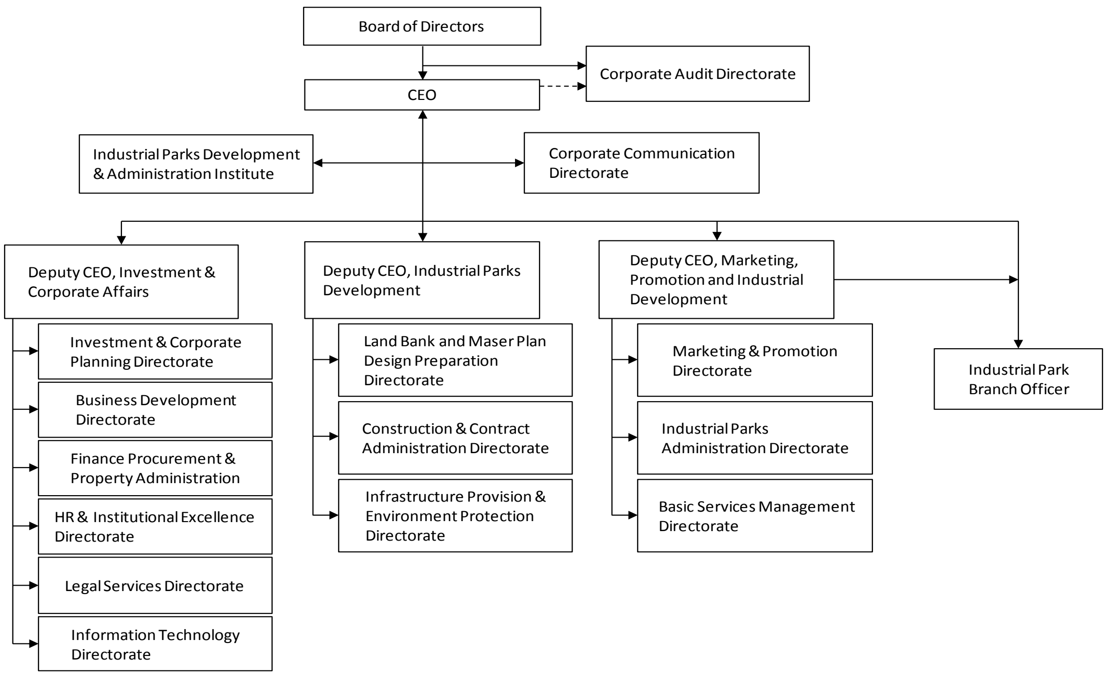
7.6.1 Organization of Industrial Parks Development Corporation (IPDC)

(1) Legal Background for Establishment of IPDC

Industrial Park Proclamation (No. 886/2015) was issued in April 2015. In order to implement the law, its regulations stipulating details for the licensing and administration of industrial parks have been under discussion. As written in section 7.1, EIC is to supervise and regulate industrial parks, whereas IPDC is a developer and operator of industrial parks. EIC will be empowered with additional mandates and play an important role as OSS in each industrial park so that tenants of industrial parks do not need to go out the industrial parks for dealing with administrative processes such as getting and renewal of necessary licenses and permits. All the specific tasks of EIC and IPDC will be defined in regulations under Industrial Park Proclamation (No.886/2015), but they have not been issued t the time of the Survey[84].

(2) Organization of IPDC

Currently, IPDC is governed by the Board of Directors and has three Deputy CEO under the ECO. Each Deputy CEO are in charge of: i) Investment & Corporative Affairs, ii) Industrial Parks Development, and iii) Marketing Promotion and Industrial Development, each of which has a few directorates. Branch Offices at each industrial park is directly supervised by CEO. The Figure below depicts the current structure.

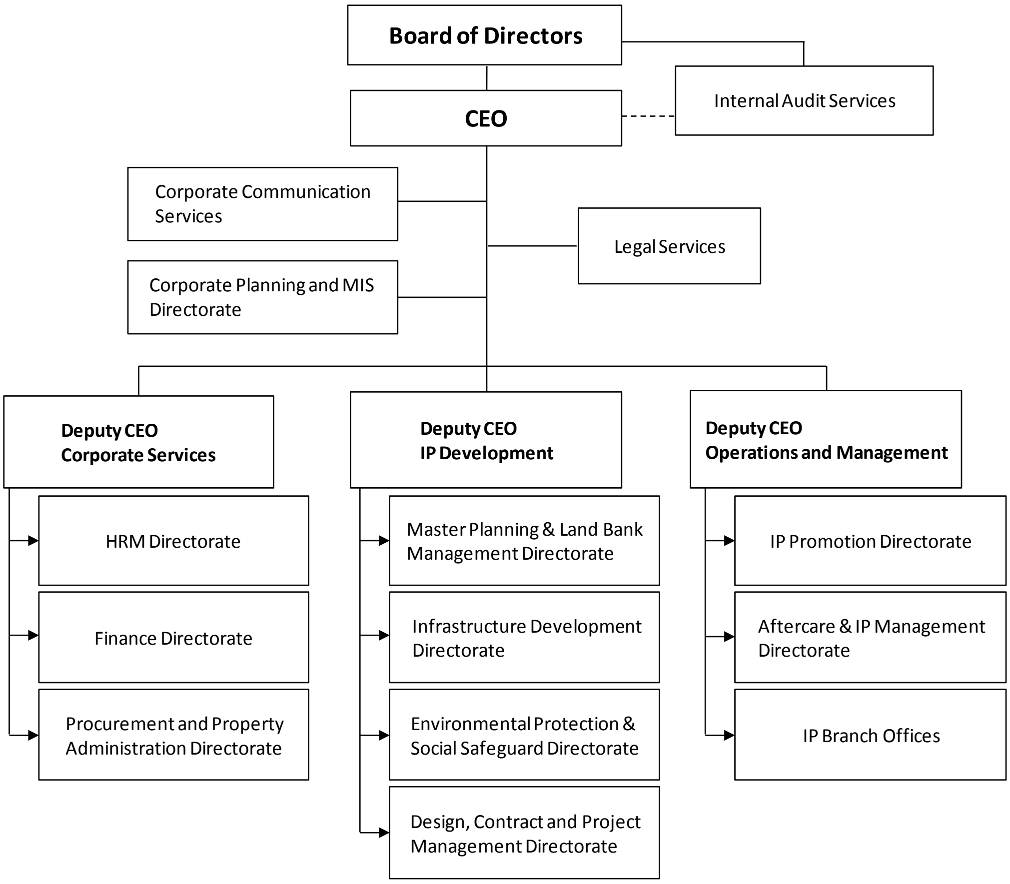


Source: Information from IPDC.

Figure 7-4 Organizational Structure of IPDC (as of January 2016)

[84] According to IPDC, the regulations will be issued by the end of December 2015, but the World Bank which is supporting IPDC to make the regulations expressed that is not realistic.

Like EIC, IPDC is also currently under restructuring. This is because a Malaysian consultant dispatched by the World Bank suggested a new organizational structure which is similar to JTC Corporation in Singapore after the current organizational structure was approved in December 2014. Like the current structure, the new structure also has the Board of Directors as the governing body and has three Deputy CEOs under CEO. However, a branch office of each industrial park, which is currently supervised directly by CEO, will be supervised by the Operation & Management. This new structure is approved by the Board of Directors and now waiting for the approval signed by the Prime Minister. However, the exact date of the signature is not yet decided.



Source: Information from IPDC.

Figure 7-5 New Organizational Structure of IPDC (planned)

IPDC's vision and mission as well as the functions are as shown in the table below.

Table 7-9 Mission and Vision of IPDC

Vision	To be an innovative and leading eco-industrial parks developer and operator in Africa by 2025.
Mission	1. To boost industrial parks development through the highest standards of professionalism; and 2. To drive industrialization, promote exports, and create employment opportunities thereby the country's development goal will achieve the middle-income status.

Mandates	1. Develop and administer Industrial Parks, lease developed land and lease and transfer, through sale, constructions thereon; 2. Prepare detailed national Industrial Parks Master plan based on the national special Master plan, and serve as the industrial park land bank in accordance with the agreements concluded with regional governments; 3. In collaboration with the concerned bodies, ensure that necessary infrastructure is accessible to Industrial Park developers; 4. Outsource, though management contracts, when it is deemed necessary, the management of Industrial Parks; 5. Promote extensively the benefits of Industrial Parks and thereby attract investors to the parks; 6. In line with directives and policy guidelines issued by MoFEC, sell and pledge bonds and negotiate and sign loan agreement with local and international financial sources; and 7. Engage in other related activities necessaries for the attainment of its purposes.
Services	1. Industrial park (IP) lease and/or sub-lease approval 2. Transfer of pre-built factory sheds 3. Insurance certificate for leased buildings and/or factories 4. Issuance of IP identity cards and renewals 5. Access pass and renewals 6. Park security service 7. Processing and follow-up maintenance and repair requests 8. Meeting arrangement with concerned stakeholders 9. Transfer of sub-lease land 10. One-stop-shop services 11. Waste treatment service 12. Fire prevention and protection service 13. After care service 14. Other common facility services

Source: IPDC website.

(3) Capacity of IPDC

IPDC currently has 90 staff, 60 of which are at the headquarters and 30 of which are at industrial parks. In addition, IPDC hires consultants from the Philippines and Malaysia to receive advice on the management of industrial parks and consultants from Pakistan to receive advices on engineering. Despite the organization formed, many vacant positions are still left in IPDC. Therefore, recruitment of staffs and experts are still on-going.

7.6.2 Existing and Planned Industrial Parks and their Status

Currently, there are two (2) industrial parks under operation, one (1) industrial park under construction and two (2) industrial parks under designing.

Table 7-10 Industrial Parks in Ethiopia

1) Under Operation

Industrial Park	Location	Proximity to the Port	Delimited land (Hectare)	Eligible Industries	Operation Started
Addis Industrial Village	Addis Ababa	863 km	88	Apparel	1980's
Bole Lemi Industrial Park Phase I	Addis Ababa	863 km	156	Apparel	2014

2) Other Industrial Parks

Name of park	Location from Addis Ababa	Distance from Addis Ababa	Proximity to the port (Djibouti)	Total delimited land (hectare)	Eligible Industries	Completion period
Industrial Parks under Construction						
Hawassa	South	275	998	300	Textile and apparel	2016
Industrial Parks under Designing						
Bole Lemi II	Addis Ababa	Addis Ababa	863	186	Textile and apparel	2017
Kilinto	Addis Ababa	Addis Ababa	863	337	Mixed	2017
Industrial Parks planned to be built by 2019						
Dire Dawa	East	473	380	1500	Textile and apparel, vehicles assembly and food processing	2016 (original plan)
Kombolcha	Northeast	380	480	700	Textile and apparel, and food processing	2016 (original plan)
Mekelle	North	760	750	1000	Textile and apparel, and food processing	2016 (original plan)
Adama	Southeast	74	678	2000	Textile and apparel, vehicles assembly and food processing	2016 (original plan)
Bahir Dar	Northwest	578	985	1000	Textile and apparel, and food processing	2016/17 (original plan)
Jimma	Southwest	346	1098	500	Textile and apparel, and food processing	2016/17 (original plan)
Air Lines Logistics park	Addis Ababa	Addis Ababa	863	200	Logistics service	2019 (original plan)

Source: IPDC website.

(1) Bole Lemi Industrial Park (BLIP)

Bole Lemi is Ethiopia's first organized industrial park developed by IPDC. Bole Lemi-I (156 ha) started operations in 2014, with all pre-erected factories already rented-out to 9 corporations, which came from India (4), China (3), South Korea (1) and Bahrain (1). Bole Lemi-II (186 ha) is currently under designing process in collaboration with the World Bank, and should include both serviced land and order made pre-erected factory sheds.

		
Pict-1. Overall View	Pict-2. Fullness Space	Pict-3. Pre-erected Factory
		
Pict-4. Construction Progress	Pict-5. Construction of Bldg.	Pict-6. Construction of Plant

Bole-Lemi Industrial Park

Bole Lemi-I was developed with abundant space utilization and increase the development cost per square meter and reduced the saleable area. Currently the infrastructure developments, such as electricity and sewerage treatment plant, are still on-going. However, the construction works are not managed well by IPDC, since no safety measure is taken by the Contractor. The effects on the current factories' operation are not taken into consideration.

(2) Addis Industrial Village

Addis Industrial Village was the first ever industrial assembly (88 ha) established in Ethiopia, in the 1980's. 10 government-built factory buildings are rented to investors, and 9 privately-built factory buildings are developed on leased land.

(3) Hawassa Industrial Park (HIP)

Hawassa Industrial Park (HIP) is located 275 km from Addis Ababa, close to Lake Hawassa. HIP is IPDC's flagship project with total area of 300 ha, focused on textile and garment products. HIP plan to be Ethiopia's first major eco-friendly development. The design and construction of Hawassa will be conceived around energy and water conservation principles including renewable electricity sources (hydro-electricity), maximization of natural lightning and ventilation, solar powered LED street lights, and recycling of rain water. Construction of Phase 1 cycle 1 with total area of 100 ha is currently on-going.

		
Pict-1. Billboard	Pict-2. Earth Works	Pict-3. Pre-erected Factory

Hawassa Industrial Park

(4) Kilinto Industrial Park (KIP)

Kilinto is located in the south of Addis Ababa within the greater Addis Ababa. With a total size about 240 ha, Kilinto will be developed as a mixed-use park for manufacturers in agro-processing, pharmaceuticals, electric and electronics products, wood and furniture, both for export and to serve local consumers. Kilinto will be developed in 2 phases in collaboration with the World Bank, with phase 1 on 153 ha which is currently under design stage. Design works is delayed since it is required curtain time period to determine project boundary. Also, changes on design concept make several works duplications.

7.6.3 Analysis of Problems of Industrial Park Development

(1) Overall Observation on IPDC

Lack of staff and experience are critical issues faced by IPDC currently. As a result, many works was sublet out without proper instruction, management and control, including contract management itself.

The major challenges faced are:

- Planning work for the new industrial parks,
- Operation and maintenance works for the existing industrial parks, and
- Provision of One-Stop-Shop service for the tenants of industrial parks, which is necessary collaboration between EIC, Ethiopian Revenue, Custom Authority and more institutions.

(2) Supports by World Bank

IPDC is the implementing agency for the “Competitiveness and Job Creation Project” financed by the IDA-WB. The World Bank dispatches the experts intermittently for the Consultancy Service of International Investment Promotion, to support the IPDC to achieve its ambitious goal to: i) attract significant amount and number of foreign investments into its Industrial Parks, ii) developing Industrial Parks (IPs) to host them, and iii) contributing to Ethiopia's competitiveness and job creation in strategic sectors and industries.

The World Bank is procuring the Consultancy Service for the following task and plan to dispatch the experts from March 2016 (Expression of Interest (EoI) was closed on 7 December 2015). One expert will assigned permanently, who also will act as a coordinator and manage other necessary experts assignment.

- Support IPDC in finalizing its detailed 5-year Marketing & Investment Promotion Strategy and corresponding detailed Plan & Budget to attract users and developers to IPDC's IPs;
- Provide international benchmarking, research and analysis for 2 strategic sectors/industries as defined within IPDC's Strategy;
- Design and implement IPDC's Investment Promotion Job Descriptions and Operations Manual; Guide IPDC Management and staff about investment promotion/business development for industrial parks, including attracting IP developers; and
- Support IPDC with implementation of a proactive Investment Promotion methodology, while leading 2 outreach campaigns to target markets for the 2 strategic sectors/industries.

Also the World Bank is conducting the procurement for the International Environment Adviser for the Consultancy Service to reinforce the capacity of the IPDC in the Management of Industrial waste (set up and operation of Effluent Treatment Plants) through adopting best available technologies and best environmental practices (EoI was closed on 8 September 2015). The task is as listed below:

- Assess the capabilities, systems, and institutional structures that are in place in IPDC for environmental compliance monitoring and enforcement;
- Draw up a Comprehensive Training Program for Environmental staff in IPDC, including preparation of training modules and materials and conduct training;
- Prepare manuals and guidelines for Environmental Management System in general and for the set up, operation and management of Effluent Treatment Plants in particular; and
- Formulate liquid and solid waste management guidelines, including waste segregation, reuse and recycling options, emergency preparedness and response, disposal protocol, waste flow monitoring, and periodical sampling and testing of environmental parameters for to ensure proper disposal.

(3) Challenges to be Tackled

To ensure the proper technical cooperation for the field technical matter, the following challenges should be considered:

1) Lack of legal framework

Legal framework will be prepared by EIC under World Bank assistance. The package should include technical standard required by IPDC for the development of industrial parks. Currently, the World Bank just drafted the directions, which need to be released before preparation of the standards. Therefore, preparation of the technical standard will take further time to be completed.

Although Industrial Parks already exist, operation and maintenance works are implemented without proper guideline and/or standard. The standard can be prepared based on the necessary works done at the field. However, it may only be utilized for that specific Industrial Parks and may be replaced by the future standard which will be prepared with consideration of the common technical standard for all Industrial Park in Ethiopia.

2) Organization under Development

IPDC is still doing the recruitment for their staff. It may be necessary to consider sublet contract for operation and maintenance works, considering current capability and future staffing plan. Moreover, the capacity building program also shall be adjusted to the future staffing plan.

3) Consideration on the Future OSS

Realization of OSS requires coordination among relevant government authorities, which is beyond the power and authority of IPDC. However, technical services for OSS will be not limited to the internal infrastructure (e.g. road and drainage), but will include external infrastructure (e.g. electricity and water supply). Therefore, to determine the functions of future OSS service scheme, it is necessary to consider integration of IPDC's roles including the relation between external infrastructure-related agencies.

4) Proper Input to the Authority of IPDC

Technical cooperation at the level beyond the capacity of IPDC will create stress and miscommunication. Capacity building should be considered within authority of IPDC as was summarized in the preceding sections. The following areas in IPDC's current capacity may require some strengthening:

- Supervision to field technical works for operation and maintenance of existing industrial parks
- On-the Job-Training through operation and maintenance works above.
- Recommendation on technical organization, including necessary sublet work.
- Overall technical recommendations and suggestion, including for the future industrial parks as well as Japanese IP.

EIC may require further capacity building for preparation of technical standard rightly. IPDC has not been mandated to prepare the standard and not in a position to coordinate relevant government authorities for OSS. In line with the supports on the preparation of Industrial Park Regulation, World Bank will continues to support the preparation of the Directions, and the Standards as well. Currently, the task of standards preparation supports is not fixed. Since it will be extensive volume of work required, the World Bank national staff looking forward to the involvement of other donors' supports on technical standards preparation.

Chapter 8 Donor Assistance on Investment Promotion

8.1. Assistance on Investment Promotion

8.1.1 Development Assistance in Ethiopia

In order to strengthen aid coordination, 28 bilateral and multi-lateral organizations established Development Assistance Group (DAG), with UNDP Ethiopia Office as the secretariat, in Ethiopia in 2001. DAG has 11 working groups[85] by sector, and Private Sector Development and Trade Group is one of them. Each working group has a chair(s) and co-chairs. The Private Sector Development and Trade Group has co-chairs from the EU Delegation and the World Bank.

In relation to investment promotion, several donors, spearheaded by the IFC, is implementing the Multi-Donor Initiative for Private Sector Development. The project promotes integration and automation of trade logistics-related transactions by introducing a single window system comprising the multiple systems to monitor and administer movements of people and goods, as well as customs clearance. Also, the project supports such areas as formulation of rules and regulations on customs, capacity development of customs risk management, and drafting of manuals on standard procedures at ERCA. Simultaneously, Ethiopia decided to use the same single window system as the one used in Korea with the financial support of the Korean Government.

For industrial park development, the World Bank supports overall development of industrial parks by implementing the Competitiveness and Job Creation Project which has three components: i) development of legal framework for IPDC establishment, ii) capacity building of IPDC, and iii) development of local industry through IPDC.

As for logistics, UNDP supported GoE to draft the National Logistics Strategy. The strategy is to be disseminated after the approval by the Prime Minister. Prior to the approval, the National Logistics Council was established with the Deputy Prime Minister as the chair and EMAA as the secretariat. The council started coordination among governmental officials and parties related to the strategy. In addition, IFC will conduct a study to formulate a project to provide a new large loan to improve the operation of dry ports through such measures as establishing networks with important nodes and hubs including Djibouti.

Also, the Private Sector Development and Trade Group will implement various projects in the areas of specific industrial sector development, trade promotion, and SME development as listed in the table below.

[85] Gender, Civil Society, Transport, Rural Economic Development and Food Security, Water, Monitoring & Evaluation, Private Sector Development & Trade, Public Financial Management, Education, Health, and Macroeconomics.

Table 8-1 List of Projects Implemented in the Field of Private Sector Development and Trade in Ethiopia

Project name	Donors	Imprimentation agencies	Period	Sector
Multi donor Initiative for Private Sector Development - Investment Climate Program	IDC, Canada, DFID, SIDA	IFC/MOI/ERCA/MOT	2013-2015	Investment licenses and permits
Transformation Triggering Facility (TTF)	European Union	MOFED, MOI/EIC and Addis Abebe University	2013-2017	Investment promotion
Trade Enhancement and Facilitation Program (TEFaP)	European Union	MOT/ERCA	2014-2017	Customs
National Logistics Strategy	UNDP	Ministry of Transport / Maritime Affairs Authority	2013-2014	Logistics
Preparation of business plan for piloting Integrated Agro- Food Parks (IAFP) in Ethiopia	Italian Development Cooperation (IDC) FAO UNIDO	MoI, MoA, UNIDO, FAO	2014	Industrial parks
Competitiveness and Job Creation (CJC) project	World Bank	Ministry of Industry	2014-2020	Industrial parks
Development Credit Authority (DCA)	USAID	Bank of Abyssinia, Dashen Bank, Zemen Bank, Oromia International bank, Oromia Cooperative bank, Nib bank, Awash International Bank	October 2004 - September 2020	Finance, Financing system
Policy Dialogue for Industrial Development	JICA	(Dialogue with Ministry of Industry and stakeholders such as the PM Office; National Planning Commission and others)	2011-2015	Industrial policy
Capacity Building for Dissemination of Quality and Productivity Improvement (KAIZEN)	JICA	Ethiopian KAIZEN Institute (EKI)	Nov 2011 - Nov 2014 (May be extended)	Private sector development
Empowering Non-State Business Actors/Associations	European Union	Addis Abeba Chamber of Commerce and Sectoral Associations	February 2014 -2016	Private sector development
National Quality Infrastructure project	EU GIZ	MOST,ESA,EACE, MNIE, ENAO	2010-2016	Trade promotion
Connecting 150 Women and Girls to Export Markets Ethiopia	Canada	CAWEE	2014-2016	Trade promotion
USAID Agricultural Growth Project - Livestock Market Development (AGP-LMD)	USAID	CNFA	2012 - 2017	Trade promotion
Ethiopia Sustainable Tourism dev't Project	World Bank	MoCT	2009-2014	Industrial promotion
Technical Assistance Project for the Up-Grading of the Ethiopian Leather and Leather Products Industry	IDC	UNIDO, MoI	2014-2015	Industrial promotion
Support for Agricultural Marketing Development in Ethiopia	EU	ECX, ECAE, MoT	2010-2015	Industrial promotion
Industrial Development Program	UNDP	Ministry of Industry	2012-2015	Industrial promotion
Capacity Strengthening for Ethiopian Tourism Organization	UNDP	Ethiopian Tourism Organization/ Ministry of Culture and Tourism	2014-2015	Industrial promotion
AGP-made	USAID	ACDI/VOCA	May 2011 - May 2016	Industrial promotion
Ethiopians Driving Growth Through Entrepreneurship and Trade (EDGET)	Canada	MEDA	2010-2016	Industrial promotion
Pastoralist Resiliency Improvement through Market Expansion (PRIME)	USAID	Mercy Corps International	October 2012- October 2017	Industrial promotion
Engaging the Private Sector in Support of Smallholder Farmers	Canada	UNDP	2013-2017	SME development
Private Enterprise Program Ethiopia	DFID	DAI, MOI	2013-2020	SME development
Entrepreneurship Development (EDP) / Local Economic Development (LED)	UNDP	FeMSEDA, ReMSEDA, City Administration, Public Universities	2013-2015	Enterpreneurship support
Women Entrepreneurship Program	World bank/ DFID/CIDA	MoUDC and DBE	2012/13-2016/17	Enterpreneurship support
Entrepreneurship and Business Growth for Youth	Canada	Digital Opportunity Trust	2012/13-2016/17	Enterpreneurship support
Improving and Integrating Animal Health Services in the Livestock Value Chain through Public Private Dialogue in Ethiopia	EU	MOA	2010-2014 (May be extended till 2015)	Legal development
Strengthening Education for the Mining Sector	Canada	Canadian Executing Agency to be recruited	2014/15-2018/19	Vocational training

Source: JICA Study Team based on information from DAG.

The table shows the amount of donor assistance in the field of private sector development in Ethiopia in the last 10 years. The amount stays at the level between USD 0.3 million to USD 0.6 million with gradual increase. The majority of the donors' support to the private sector development is allocated to the projects for "transport and storage" followed by the energy sector. However, the share of the assistance to the private sector development amounts only to around 15% in Ethiopia.

Table 8-2 Amount of the Assistance to Private Sector Development in Ethiopia

(Gross disbursement, Unit: Million USD)

in constant 2013 USD thousands	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total sector allocable ODA	**1.74**	**1.94**	**2.13**	**2.19**	**7.08**	**2.54**	**3.28**	**4.00**	**3.58**	**3.49**	**3.24**	**3.90**
Private sector development-related Gross ODA(A	**0.50**	**0.22**	**0.31**	**0.32**	**0.45**	**0.42**	**0.48**	**0.64**	**0.41**	**0.49**	**0.41**	**0.60**
Private sector development-related ODA as % total sector-allocable ODA	**29%**	**11%**	**15%**	**15%**	**6%**	**17%**	**15%**	**16%**	**11%**	**14%**	**13%**	**15%**
Economic Infrastructure & Services(A)	**0.38**	**0.22**	**0.25**	**0.31**	**0.43**	**0.40**	**0.47**	**0.62**	**0.38**	**0.46**	**0.40**	**0.54**
Transport & Storage	0.21	0.16	0.16	0.15	0.23	0.23	0.31	0.24	0.24	0.32	0.26	0.32
Communications	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01	0.00
Energy	0.09	0.05	0.04	0.12	0.14	0.10	0.11	0.21	0.12	0.11	0.11	0.18
Banking & Financial Services	0.08	0.00	0.05	0.01	0.01	0.02	0.01	0.14	0.00	0.02	0.00	0.02
Business & Other Services	0.00	0.00	0.00	0.02	0.04	0.04	0.03	0.02	0.01	0.01	0.02	0.02
Industry, Mining, Construction(B)	**0.12**	**0.00**	**0.06**	**0.01**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.01**	**0.02**
Industry	0.12	0.00	0.06	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.02
Mineral Resources & Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade Policies & Regulations(C)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.03**
Tourism(D)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.01**

Source: OECD/DAC (http://www.oecd.org/dac/stats/).

The Government of Japan focuses on Agriculture and Agriculture Development, Private Sector Support, Infrastructure, and Education. Japan keeps its assistance to the private sector development at the level between USD 10,000 and USD 20,000 in the last 10 years. The amount increased from USD 10,000 to USD 60,000 in the last 4 years. The table below shows that the share of the assistance to the private sector development from Japan accounts for only a small percent.

Table 8-3 Assistance to Private Sector Development by the Government of Japan

(Gross disbursement, Unit: Million USD)

in constant 2013 USD thousands	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total sector allocable ODA	**0.04**	**0.06**	**0.03**	**0.04**	**0.06**	**0.04**	**0.05**	**0.09**	**0.08**	**0.10**	**0.09**	**0.15**
Private sector development-related Gross ODA(A+B+C+D)	**0.02**	**0.03**	**0.02**	**0.01**	**0.01**	**0.01**	**0.01**	**0.02**	**0.01**	**0.02**	**0.02**	**0.06**
Private sector development-related ODA as % total sector-allocable ODA	**53%**	**47%**	**50%**	**24%**	**19%**	**37%**	**12%**	**19%**	**6%**	**16%**	**21%**	**40%**
Economic Infrastructure & Services(A)	**0.02**	**0.03**	**0.02**	**0.01**	**0.01**	**0.01**	**0.01**	**0.02**	**0.00**	**0.01**	**0.02**	**0.05**
Transport & Storage	0.02	0.02	0.02	0.01	0.01	0.01	0.00	0.02	0.00	0.01	0.02	0.05
Communications	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Energy	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Banking & Financial Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Business & Other Services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Industry, Mining, Construction(B)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Industry	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mineral Resources & Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Trade Policies & Regulations(C)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Tourism(D)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Share of Japanese ODA in the total private sector development	4.35%	12.77%	5.34%	2.60%	2.65%	3.55%	1.18%	2.64%	1.24%	3.21%	4.57%	10.01%

Source: OECD/DAC (http://www.oecd.org/dac/stats/).

Chapter 9 Conclusions and Recommendations

9.1. Conclusions

Ethiopia has achieved remarkable economic growth by recording double digit economic growth in the past 10 years. The country has been recently getting attention from the investors from emerging countries like China, India and Turkey as well as Western countries because of factors like potentially huge domestic market, cheap labor, good security and less corruption. The FDI inflow shows steady increase of 2.3 times from Burr 3 billion in 2005 to Burr 7 billion in 2014 although there were some ups and downs during the ten years. GoE thorough GTP-I targets to become a lower middle country by 2025 and expects FDI to play an important role in generating employment, earning foreign currency and productivity enhancement. GoE has set a target of becoming middle income country by 2025 in GTP-I and GTP-II. FDI is expected to be a driving force to achieve the above-mentioned goals through generation of employment, earning foreign currency and productivity enhancement.

In Ethiopia, EIC has been reorganized under PMO by strong leadership of prime minister and its organization will be augmented by adding new function of regulating and overseeing industrial parks. In addition, by the establishment of IPDC, GoE has been actively implementing industrial park development in various areas. In this regard, GoE has been exercising its strong initiative in promoting investment. On the other hand, as far as some sectors like telecommunication and transportation are concerned, such strong state intervention has had negative impact on their markets in terms of high cost and inefficiency.

Ethiopia is still in the transitional period from agro-based economy to labor intensive light industry. The investment climate is influenced by the state of the underdeveloped infrastructure and some issues arising in the dynamics of economic transformation. Trade deficit caused by large increase of imports and a shortage of foreign capital as a result is one of such major issues. In addition, since industrialization has only just begun, securing stable and high quality raw materials needed for production purpose is still a challenge. Such issues can be improved gradually with economic growth, institutional development, and infrastructure development.

On the other hand, according to the interviews with foreign investors that are already operating in Ethiopia, during operational stage after obtaining business license, many of them face difficulty in terms of dealing with operational license, visas, tax and customs clearance. The common problems found such areas can be listed as follows: i) administrative procedure is unclear and ii) cost and time taken for the procedures is burdensome. In fact, some foreign investors showed a serious concern for the continuation or expansion of business operation in Ethiopia. GoE should pay more attention to the voice of such existing foreign investors in order to gain their confidence for further investment expansion, in addition to promoting Greenfield investment.

9.2. Priority issues to be addressed by GoE

GoE is required to tackle with the following issues in order to improve investment climate and to increase capacity of investment promotion in Ethiopia.

9.2.1 Issues to be addressed to improve investment climate

(1) Foreign Exchange

In the future, when Ethiopia's position of foreign exchange reserve improves, GoE should consider revising NBE's Directive to gradually deregulate the restriction of Retention Account A, which exporters can retain in foreign currency of export proceeds indefinitely. It is worth considering that GoE should also research foreign exchange deregulation process of other developing countries which used to have strict foreign exchange control policy to obtain policy implication for Ethiopia.

(2) Taxation and Accounting

It is necessary to implement policy measures to increase transparency and predictability of tax administrative procedures. In this regard, GoE should develop clear rules and guidelines for most problematic area such as tax audit, VAT refund, deductible expense, etc. as well as capacity building of relevant officials. In addition, in order to improve tax administrative service for private businesses, GoE should consider expanding tax consultation window.

(3) Labor

It is necessary to implement capacity enhancement of EIC in terms of strengthening OSS function. As for human resource development, GoE is required to augment training service which matches with investors' needs.

(4) Logistics

Upon the official approval of the National Logistics Strategy, priority policy areas are expected to be identified. The main pillars of the strategy are assumed to be institutional development, utilization of ICT, infrastructure development, and development of logistics network along the major supply chains. GoE needs to implement infrastructure development and operational capacity building. The important areas for development may include establishing MTS with railway transportation, transport nodes of air cargoes and road transportation, and the network connecting major industrial areas and logistics hubs.

(5) Customs Duty and Customs Clearance

Institutional building and reform for customs duty has been implemented in GoE in order to promote streamlining of customs administration. With a view to responding to increasing logistics volume in line with the speed of economic development, it is needed to implement policy measures to improve efficiency of customs operation in accordance with relevant policy as export promotion. For example, at the time of opening railway system, it is required to construct efficient logistic and customs clearance flow.

9.2.2 Issued to be addressed to Develop the Capacity of IPAs

(1) Capacity Building of EIC

As mentioned earlier, EIC is expected to expand its functions such as regulating and overseeing industrial park operation and export promotion. In this regard, EIC should research other countries' experiences of supervision of industrial parks. In addition, currently World Bank is assisting GoE to develop rules and regulations for industrial park development. It is urgently required to formulate such legal framework based on in depth coordination with relevant authorities as well as learning lessons from other countries in order to assure necessary quality of industrial parks.

(2) Capacity Building of IPDC

IPDC is required to enhance capacity of planning, operation and management of industrial parks as a developer. In line with the detailed rules and regulations supported by the World Bank, it is needed to pay particular attention to the progress and final contents of such legal framework as well as the coordination with relevant authorities.