

# Business in Ethiopia



Ethiopia is a federal state with a civil law legal system combined with procedural laws principally inspired by the common law system. The Federal Democratic Republic of Ethiopia (FDRE) Constitution, international treaties, proclamations, decrees, regulations, directives, and customary laws are sources of Ethiopian laws.

The Constitution allows the adjudication of disputes relating to personal and family laws in accordance with religious or customary laws with the consent of the parties to the dispute and gives federal and regional legislatures the authority to enact laws to govern this. Accordingly, Sharia Courts hear family cases involving Muslims with the consent of the parties to the dispute.

Ethiopia is the second most populous country in Africa. Following the government's recent initiation to liberalise key sectors of the economy and to partially or fully privatise state monopolies, the Ethiopian Communications Authority has recently issued the first private telecom license to Global Partnership for Ethiopia (Safaricom Telecommunications Ethiopia PLC). The second Request for Proposal (RFP) for full-service telecommunications license (License B) is also launched on September 28, 2021. In addition, the Ministry of Finance launched an RFP to sell 40% of the equity share capital of Ethio Telecom on September 14, 2021.

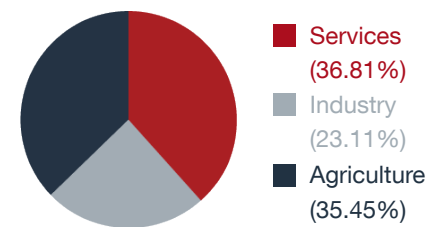


## Population

117.9 million



## GDP Breakdown by Sector



## Currency

Ethiopian Birr (ETB)

## Foreign Direct Investment (est. 2020)

3.9 billion (USD)

## GDP Growth (2021)

6.1%

## Business Climate

Ethiopia is a landlocked state with a total area of 1,136.3sq km, and it shares border with Eritrea, Djibouti, Somalia, Kenya, South Sudan, and Sudan.

The top agricultural exports of Ethiopia are coffee, pulses, oil seeds and flowers. Ethiopia is the 5th largest coffee producer and one of the largest livestock herds in Africa. It has the second largest hydropower potential next to the Democratic Republic of Congo. It has petroleum and rich mineral resources which remain largely untapped including gold, tantalum, potash, lithium, gemstones, iron ore as well as various other industrial, energy and construction minerals. The main industries include food processing, beverages, textiles, leather, garments, chemicals, metals processing and cement.

### Banking System

The Ethiopian banking system is currently comprised of the National Bank of Ethiopia (NBE), one state-owned development bank, a state-owned commercial bank, and private banks. Prior to the new investment law that allows foreign nationals of Ethiopian origin to engage in banking business, only Ethiopian nationals were allowed

to engage in the banking business. Directives issued by the NBE determine, among others, conditions, limitations and circumstances under which residents and non-residents can possess and utilize foreign currency or instruments of payments in foreign exchange, establishes the terms and conditions for the transfer of foreign exchange to and from Ethiopia and the settlement of any foreign exchange that results from export, import or transfer.

### Intellectual Property

Intellectual property rights in Ethiopia are governed by various proclamations, regulations, and directives. Inventions, Minor Inventions, and Industrial Designs Proclamation No. 123/1995 and Regulation No. 12/1997 regulate Patents and Industrial Designs, Copyright and Neighboring Rights Protection Proclamation No. 410/2004 (as amended by Proclamation No. 872/2014) regulates copyright, and Trademark Registration and Protection Proclamation NO. 501/2006 and Regulation No. 273/2012 regulate trademarks. The Ethiopian Intellectual Property Office (EIPO) registers IP rights and oversees IP issues.

## International Trade

Ethiopia allows any commodity to be traded internationally with the exception of prohibited and restricted goods. However, an import and/or export license is required to import and/or export commodities. The rate of customs duty on imported goods ranges from 0% to 35%, whereas the rate is 0% (with the exception of raw hides and skins) on exports.

### Trade Agreements

Ethiopia is the signatory of the following trade agreements:

- Common Market for Eastern and Southern Africa (COMESA)
- Intergovernmental Authority on Development (IGAD)
- African, Caribbean, and Pacific Group States (ACP) – European Union (EU) Economic Partnership Agreement (Cotonou Agreement)
- The African Continental Free Trade Area (AfCFTA)
- Abuja Treaty that aims to establish an Africa Economic Community among the continents 54 countries

Ethiopia is not a WTO member, and its accession to the WTO has been underway since 2003.

### Foreign Trade Zones

Ethiopia does not have a foreign trade zone.

### Foreign Direct Investment Policy

All areas of investment, other than those expressly reserved for domestic investors and joint investment with the government and domestic investors, are open for foreign investors. In addition, Ethiopia provides a favorable investment climate by offering fiscal incentives and investment guarantees to foreign investors. The investment incentives include exemption from payment of import duties and income tax holiday. The Guarantees include repatriation of capital and profits (including dividends and interest payment on foreign loans, payment for technology transfer agreements (TTA), repatriation of proceeds from sale or transfer of shares) and guarantee against expropriation.

The main industries include leather, food processing, beverages, textiles, garments, and chemicals.



## Tax Regime

Income tax is the main type of direct tax in Ethiopia, and both individuals and entities are subject to it.

### Some of the main applicable income taxes in Ethiopia are:

- **Business Income Tax:** applies to traders and professional service providers that are residents of Ethiopia on their worldwide income. In Ethiopia, corporate income tax is flat rate (30%), whilst business income tax is progressive (10% to 35%) on individual traders, and small and medium micro-finance enterprises.
- **Personal Income Tax:** resident individuals in Ethiopia are subject to personal income tax mainly from the income they earn from employment, rental, and disposal of assets found in Ethiopia. Employment and rental income tax are progressive, and the applicable rates range from 10% to 35%.
- **Income Tax Imposed on non-residents:** non-resident individuals and entities are subject to income tax on their income and gains from Ethiopian source, including on payments of royalty (5%), interest (10%), insurance premium (5%), management and technical fee (15%).
- **Turnover Tax (ToT):** ToT is imposed on all goods and services that are not subject to VAT—save for exempt goods and services. The applicable ToT rate is 2% on locally sold goods. Similarly, services that are rendered locally by contractors, grain-mills, tractors, and combine-harvesters are subject to ToT at the rate of 2%. The rate for other services which are rendered locally is 10%.
- **Sur Tax:** unless otherwise exempted, imported goods are subject to sur tax at the rate of 10%.
- **Excise Duty:** selected goods manufactured in Ethiopia, listed goods imported into Ethiopia, and excisable services supplied in Ethiopia by a licensed person are subject to excise tax. Excise tax is charged at the rate specified by law.
- **Value-Added Tax (VAT):** VAT is payable on taxable supplies made in Ethiopia by a taxable person in the course or furtherance of taxable activity, and every transaction carried out by a registered person other than exempt supply is regarded taxable for the purpose of VAT. The standard VAT rate is 15%, and some taxable transactions (including export) are zero-rated.

### The main indirect taxes applicable in Ethiopia are:

- **Customs Duty:** subject to duty-free exemptions for individuals and entities by law, imported goods are subject to customs duty. There are five rates over which customs-duty is paid ranging from 5% to 35%.



## Establishing a Business

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In March 2021, Ethiopia enacted its new Commercial Code, recognizing the following seven forms of business organizations. The Code also recognizes holding companies and allows the same to own shares in subsidiaries or invest directly in trade activities.

- **The General Partnership (GP)** requires at least two partners. Each partner in the GP is jointly and severally liable with the partnership for the obligations of the partnership, and any agreement to the contrary cannot be raised against third parties.
- **Limited Partnership (LP)** comprises general partners who are in full liable jointly and severally with the partnership for the obligations of the partnership and limited partners who are liable to the obligations of the partnership only to the extent of their pledged contributions.
- **A Limited Liability Partnership (LLP)** is a business organization formed by two or more persons to render professional services and services complementary thereto and whose liability is limited to the extent of their contributions.
- **A Share Company** is a company whose capital is fixed in advance and divided up into shares and whose liabilities are met only by the assets of the company.
- **A Private Limited Company (PLC)** is the business organization foreign investors commonly prefer (due to its management flexibility and easier set-up). A PLC requires a minimum of two and a maximum of fifty members,
- **A One Person Private Limited Company (OPPLC)** is incorporated by the unilateral declaration of a single person. An OPPLC has legal personality which is separate and distinct from its member, and its member shall not be personally liable for debts due by the company in so far as he/she has fully made his/her contribution.

The minimum capital required from a foreign investor is USD \$200,000 where the investment is made by a foreign investor alone and USD \$150,000 where the foreign investor jointly invests with domestic investors. Notwithstanding this, the minimum capital required from a foreign investor investing in architectural or engineering works or related technical consultancy services, technical testing, and analysis or in publishing works is USD \$100,000, and where such investment is made jointly with a domestic investor USD \$50,000.

## Employment Affairs

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Expats are required to have a work permit before engaging in any type of work in Ethiopia, and the work permit is issued for a specific type of work. Authorities are required to consider the unavailability of the local work force having the required skill and experience for the position before issuing the work permit, except if the expat is employed in certain top management positions.

Despite the requirement for the establishment of a Wage Board which shall study and determine the minimum wage under the Labour Proclamation, Ethiopia has not set national minimum wage. Regarding pension, employers are required to withhold 7 % pension contribution from the salary of their Ethiopian national employees, add their 11% contribution on it, and then pay the sum monthly to the Pension Fund. In Ethiopia, the retirement age of an employee of a private organization is 60.

A contract of employment can only be terminated under the conditions laid down by law, collective agreement, or the agreement of the parties. The Labour Proclamation provides the grounds for termination of employment contracts with notice and without notice.

The Labor Proclamation recognizes different types of leaves including annual leave (16 working days for the first year of service and one additional day for each additional year of service), maternity leave (pre-natal, 30 consecutive days and post-natal, 90 consecutive days), paternity leave (3 days), and sick leave (for the first month with full pay, for the next two months with 50% pay, and for the next 3 months without pay).

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