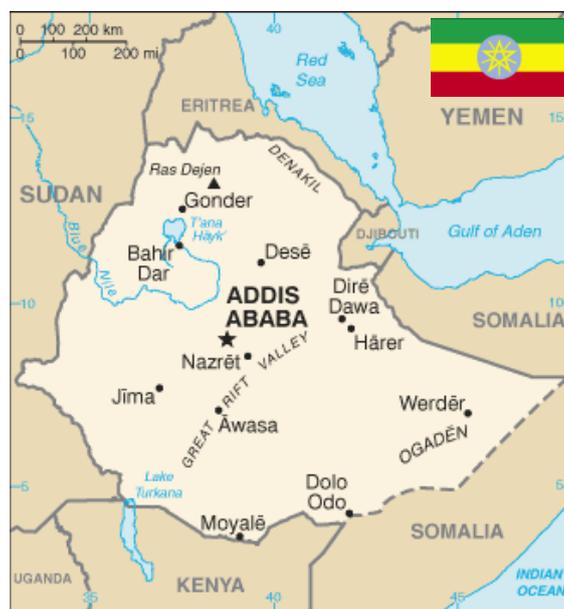




# COUNTRY PROFILE

## ETHIOPIA



<b>Full Name:</b>	<b>Federal Democratic Republic of Ethiopia</b>
<b>Area:</b>	<b>1,127,127 km<sup>2</sup></b>
<b>Capital:</b>	<b>Addis Ababa</b>
<b>Main Languages:</b>	<b>Amharic, Oromo, Tigrinya, Somali</b>
<b>Currency:</b>	<b>birr (ETB)</b>
<b>Head of State:</b>	<b>President Woldegiorgis Girma</b>
<b>Prime Minister:</b>	<b>Meles Zenawi</b>



*The Novatech 2007 Regional Investment Conference in Nairobi, Kenya is a component of the Pro€Invest programme which is a common initiative of the European Commission (EC) and institutions from the ACP states (Africa, the Caribbean and the Pacific).*

*This overview of the ICT sector has been prepared by BK Consultants on behalf of the organizers. The authors accept sole responsibility for the profile which does not necessarily reflect the views of the organizers: Pro€Invest, the Centre for the development of Enterprise (CDE), the African Union (AU) and the Common Market for Eastern and Southern Africa (COMESA).*

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## 1. BUSINESS OVERVIEW

### 1.1 Key Economic Indicators

Table 1 shows the recent trend for selected key economic indicators using the most up-to-date available information.

**Table 1: Key Economic Indicators 2002-06**

	2002	2003	2004	2005	2006
<b>Population (mn.)</b>	67.220	69.102	71.037	73.026	75.071
<b>Population Growth (%)</b>	2.8	2.8	2.8	2.8	2.8
<b>GDP (US\$ bn. at current prices)</b>	7.335	7.942	9.733	11.174	13.264
<b>GDP per capita ( US\$ at current prices)</b>	109	115	137	153	177
<b>GDP growth at constant prices (%)</b>	0.0%	(3.1%)	12.3%	8.7%	5.4%
<b>Current Account Balance (US\$ bn.)</b>	(234)	(0.178)	(0.499)	(1.013)	(1.343)
<b>Inflation Rate (%)</b>	(5.7)	14.4	11.1	4.6	4.9
<b>Exchange Rate: Annual average</b> Ethiopian birr to US\$	8.5678	8.5997	8.6356	8.68	8.69

Sources: COMTRADE, World Development Indicators, Oanda.com

### 1.2 Economic Context

In 2006, total Gross Domestic Product (GDP) amounted to almost US\$13.3 billion at current market prices. Following the war with Eritrea in the late 1990s and the famine in the early years of this decade, Ethiopia's growth in real terms has been relatively strong and broadly-based between 2004 and 2006. Its economy is dominated by agriculture and the services sector. The Government estimates that agriculture contributes some 49 percent to GDP, services about 42 percent and industry the remaining 9 percent.

The Government implemented a successful programme under the enhanced Heavily Indebted Poor Countries (HIPC) initiative that enabled the country to reach the completion point in this programme in 2004. As a result, total debt service relief under this initiative from all its creditors amounted to \$3 billion in nominal terms.

The international donor community plays a significant role in Ethiopia's development. According to the OECD statistics, it received an annual average of \$1.878 billion in net overseas development assistance in 2004 and 2005. The United States was by far the largest single bilateral donor averaging \$552 million, followed by the United Kingdom (\$111 million), Germany (\$89 million), Canada (\$62 million), Sweden (\$60 million), the Netherlands (\$58 million) and Italy (\$49 million). The World Bank, through the IDA, provided an annual average of \$403 million in these same two years followed by the EU (\$143 million) and the African Development Bank (\$102 million) among the multilateral organisations.

### 1.3 Population and Labour Force

There were an estimated 75 million inhabitants in Ethiopia in 2006. The overall population density is approximately 67 persons per km<sup>2</sup>. A recent survey estimated the labour force, including those economically active above the age of ten, at 52 percent of the population. Over 80 percent of the employment is in agriculture.

### 1.4 General Institutional and Regulatory Framework

Since 1992, the Government has successfully implemented a series of reform programmes in order to encourage the wider participation of the private sector in the development of the national economy. Such reforms include promulgation of a liberal investment law for the promotion and encouragement of private investment, both foreign and domestic. As part of the Government's commitment to insure efficient service

delivery and create an enabling investment environment, the formerly cumbersome bureaucratic procedures have been significantly simplified.

### ***Land tenure***

In Ethiopia, all land belongs to the Government, but investors can lease both urban and rural grounds at competitive prices. Rights concerning the use of urban land range from periods of 50 to 99 years. Lease rights can be transferred together with built facilities. Under both federal law and each regional government's own laws, the land rights are transferred within 60 days after receiving an application for the allocation of land for an approved investment. Both the regional government and the Ethiopian Investment Commission facilitate the allocation of land for foreign investments. Investors in export-oriented projects are given priority to acquire land at reduced prices. However, under the current system, land cannot be used as collateral for loans.

## **1.5 General educational level**

As in many African countries, unemployment is high in Ethiopia and labour is plentiful and inexpensive. However, the labour force is relatively unskilled and on-the-job training is essential.

## **1.6 Infrastructure Services**

### **1.6.1 International air access**

#### ***Air***

The main international airport is Bole International Airport at Addis Ababa, which is located some 8km southeast of the city. The Aba Tenna D Yilma International Airport at Dire Dawa also has a few international flights, mostly from small airlines of Arab countries, including Air Djibouti.

The national airline is Ethiopian Airlines (ET), which operates between Ethiopia and most major capitals. Other airlines serving Ethiopia include British Airways, Djibouti Airlines, EgyptAir, Kenya Airways, KLM, Lufthansa, Saudia, Sudan Airways and Yemenia.

#### ***Rail***

A rail service between Djibouti and Addis Ababa is run jointly by the two governments.

#### ***Road***

The main route is via Kenya. There is an all-weather road from Moyale on the border to Addis Ababa. The following border points are also open: Dewale/Galafi (from Djibouti) and Humera/Metema (from Sudan). The road linking Nairobi and Addis Ababa forms part of the Trans-East African Highway.

### **1.6.2 Internal transport**

#### ***Air***

Ethiopian Airlines runs internal flights to over 40 towns, although services may be infrequent. Ethiopian Airlines also operates a Historic Route Service for tourists, taking in the most famous historic sites. Airports throughout Ethiopia are currently being upgraded in a step to encourage tourism.

#### ***Rail***

The only working line runs between Addis Ababa and Djibouti, via Dire Dawa and Harar.

#### ***Road***

A good network of all-weather roads services most business and tourist centres. Otherwise, 4-wheel drive vehicles are recommended. Frequent fuel shortages can make travel outside Addis Ababa difficult. Bus Services throughout the country are run by the government as well as by private companies.

## 2. ICT SECTOR

### 2.1 Overview

The first Ethiopian telephone line (Addis Abeba-Harar) dates back to 1894, but the network only started developing in 1953 with an initial loan from the World Bank followed by additional loans from the Italian and Swedish governments as well as local investment.

While the telephony business has remained rather undeveloped in Ethiopia, the internet is widely used. In regards to mobile telephony, roaming agreements exist with most international mobile phone companies, while coverage is largely confined to major urban areas, especially Addis Ababa. 15,500 Ethiopians subscribe to the Internet and there are 348 internet cafes in Addis Ababa. Some top-end hotels also offer services, however connection is not always ensured.

### 2.2 Telecommunications

The **Ethiopian Telecommunication Corporation (ETC)** holds the monopoly of the fixed telephone services and is a state owned operator under the tutorship of the Ministry of Transport and Communications. However, down stream activities such as Telephone resale and maintenance of cables as well as Internet Services are open for private participation.

ETC delivers telecom solutions via satellite communication, optic fibres, VSAT, etc.

- In 2005 there were 600.000 subscribers, 318.000 of whom were located in Addis Abeba, i.e. a tele-density of 0,8%;
- Approximately 60,000 are waiting for their fixed phone line to be created;

**A major increase in the mobile telephony sector since it started up in 1999.** The network was set up by the Swedish manufacturer Ericsson.

- Approximately 410.000 subscribers in June 2005; and more than 100 thousands are waiting for a mobile subscription.
- The mobile tele-density is 0.3%

There are currently 2 companies that offer GSM mobile telephone solutions via satellite connection:

- **Irridium**, an American company that has operated in Ethiopia since 2004;
- **Thuray**, a company founded in Abu Dhabi that signed agreements with ETC in 2005 in order to offer mobile telephone services in Ethiopia;

### 2.3 Internet

Internet Services started in 1999, with a capacity of 5000 clients and 256Kbps via an earth station. In 2000 it was upgraded to 1 MB, and in 2001 to 2 MB while extended to eight Points per Presence (POP) in regional cities. In 2004, the server capacity had been raised to 10 MB upwards and 4 MB downward connections. The same year, broadband was introduced to the Ethiopia market via a fibre optic ring in Addis Ababa. This thus introduced DSL and FWA in Addis Ababa. LDWA also exist in some regional cities. At that time the infrastructure thus included 292 VSAT stations, 97 microwave routes, 74 VHF and 45 UHF, 8 HF and 237 DRMAS.

Neighbouring Djibouti will be the landing point for both the SEAMEWE II and III cables plus the EASSy cable, and since Ethiopia is connected to Djibouti via a fibre optic backhaul running from Addis Ababa to Djibouti this will enable faster connection.

- An estimated 70.600 Internet Users;
- Today, Ethiopia counts approximately 15,500 subscribers and **ETC** has installed a 50MB band;
- The number of personal subscriptions is still very low even compared to African standards;

- Even though the rural areas are becoming more connected, the majority of the lines are still in Addis Abeba;
- Around 27% of the subscriptions belong to governmental agencies, while approximately 9% are used by NGO's and another 27% by business organisations;
- 348 internet cafes (where of the majority in Addis Ababa), with ca. 14 users per day, hence assumedly 4,788 Internet Users via cafes every day;
- The Higher Education (Universities, Colleges, Institutes) provide free access to the 76,000 students enrolled in these institutions;

The majority of the equipment is delivered by Ericsson (Sweden), Nec (Japan), Telrad (Israel) Siemens (Germany), Alcatel (France) and ZTE (China).

## **2.4 Regulatory Framework and sector regulation**

**The Ethiopian Telecommunication Agency (ETA)** was established in 1996, and is the regulatory organ in charge of promoting the development of telecommunications services. The ETA is equally mandated to regulate the operations of the ETC. It is a government agency under the Ministry of Infrastructure development

## **2.5 Opportunities**

In terms of Internet prospects, demand is constantly increasing.

Ethiopia's ICT sector is additionally poised to benefit from a programme of upgrading expansion and new construction of airports, road and communications networks, electricity generation as well as water supply which is currently underway in various parts of the country. These projects are being financed by both internal and external sources, including the World Bank. One might add that the Ethiopian government is encouraging close co-operation between the public and private sectors and that we are gradually moving towards a more liberalised investment climate in Ethiopia.

## 3. INVESTMENT ENVIRONMENT

### 3.1 Investment Framework

#### 3.1.1 Government policy

A foreign investor is allowed to invest in almost every sector, except for those reserved for Government, Ethiopian nationals and other domestic investors. These sectors include ‘hotels other than those star-designated, motels, pensions, tea rooms, coffee shops, bars, night clubs and restaurants excluding international and specialised restaurants’ as well as travel agency, trade auxiliary and ticket selling services, and air transport services using aircraft with a seating capacity of up to 20 passengers. A foreign investor, who intends to invest on his/her own, is required to invest not less than \$100,000 in cash and/or in kind as an initial investment capital per project.

#### 3.1.2 Investment agencies

The Ethiopian Investment Agency (EIA) is the principal government organ responsible for promoting, coordinating and facilitating foreign investment in Ethiopia. EIA is accountable to the Board of Investment (BOI). Regional Investment Offices (RIOs) have also been established to promote and handle local investments in their respective regions. There is a strong linkage between EIA and RIOs with respect to technical assistance, the exchange of information and provision of investment facilities. The EIA serves as a one-stop shop for all foreign investment in Ethiopia. It

- provides the necessary information required by investors;
- receives investment applications;
- approves and issues investment permits to foreign investors;
- provides registration services to newly incorporated business organizations;
- issues trade and operating licences to approved foreign investments;
- provides advisory and aftercare services to investors;
- approves expatriate posts and issues work permits to foreign employees;
- facilitates the acquisition of land by foreign investors in accordance with the relevant laws of the Federal and Regional Governments; and
- renders other pre-and post investment approval services.

#### 3.1.3 Double taxation agreements

The Government has recently been introducing a series of measures to reform the tax system with a view to encouraging investment and foreign trade. On the whole, the reform process is to reduce the rates but broaden the base. Ethiopia has already concluded tax treaties with a number of countries and is also ready to conclude similar treaties with other countries for the purpose of avoiding double taxation.

#### 3.1.4 Investment guarantees

Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA) which protects investors against non-commercial risks. Ethiopia has also signed the World Bank treaty, the *International Convention on Settlement of Investment Disputes between States and Nationals of other States (ICSID)*. The Constitution also protects private property, while the Investment Code provides additional guarantees against measures of arbitrary expropriation and nationalisation.

### 3.2 Investment Incentives

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are granted to both domestic and foreign investors engaged in areas eligible for investment incentives:

- full exemption from the payment of import customs duties and other taxes levied on imports for importation of all investment capital goods, as well as spare parts, provided that the goods are not produced locally in comparable quantity, quality and price. Hotels (other than non-star designated hotels) are eligible for such exemptions from customs duty;
- full exemption from the payment of any export tax and other taxes levied on exports of Ethiopian products and services;
- any income derived from an approved investment is exempted from the payment of income tax for periods up to seven years, depending upon the area of investment, the volume of export, and the location in which the investment is undertaken. The Council of Ministers may also award profit tax holiday for periods greater than seven years; and
- business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

### **3.3 Access to Finance**

The National Bank of Ethiopia (NBE) is the country's central bank. It is responsible for regulating the money supply, loan and deposit interest rates, and keeping inflation under control.

#### **3.3.1 Commercial banks**

The Commercial Bank of Ethiopia (CBE) is the largest bank in Ethiopia, accounting for somewhere between 70 to 90 percent of the commercial banking market. The bank has branches in all the main cities and towns. Other banks include the Awash International Bank; Bank of Abyssinia; Construction and Business Bank; Dashen Bank; Wegagen Bank; UNITED Bank; NIB International Bank; LION International Bank; ACCESS Bank (currently under formation) and the Cooperative banks.

The main development bank is the Development Bank of Ethiopia (DBE) which used to be called the Agricultural and Industrial Development Bank.

#### **3.3.2 International Financial Institutions**

Ethiopia, as a signatory to the agreement between African, Caribbean and Pacific nations (ACP) and the European Union, known as the Cotonou Agreement, has access to the facilities of the European Investment Bank (EIB).

As a member of the World Bank, the facilities of the International Finance Corporation (IFC) are also applicable for projects in Ethiopia. Other potential financial sources in regards to development projects include the African Development Bank (AfDB), and the New Partnership for Africa's Development (NEPAD).

#### **3.3.3 Transfer of Capital and Profits**

Capital repatriation and remittance of dividends and interest is guaranteed to foreign investors under the Investment Proclamation. Any foreign investor has the right, in respect of an approved investment, to make the following remittances out of Ethiopia in convertible currency at the prevailing exchange rate on the date of remittance:

- profits and dividends accruing from an investment;
- principal and interest payments on external loans;
- payments related to technology transfer or management agreements;
- proceeds from sale or liquidation of an enterprise;
- proceeds from the sale or transfer of shares or of partial ownership of an enterprise to a domestic investor; and
- compensation paid to a foreign investor;

Expatriates employed in an enterprise may remit, in convertible foreign currency, salaries and other payments accruing from their employment in accordance with the foreign exchange regulations or directives of the country.

### **3.4 Residential and Work Visas**

Visas are required for all foreign visitors to Ethiopia, with the exception of nationals of Kenya and the Sudan. Visa applications may be obtained at Ethiopia's diplomatic missions overseas. However, nationals of 33 countries (including most EU and OECD member countries) are allowed to receive their tourist visas on arrival in Ethiopia.

The Department for Immigration and Nationality Affairs issues a residence permit to a foreign investor, upon submission of an Investment Permit issued in his/her name. A foreign investor, who is a share holder of a company or branch company, and an expatriate staff member who has a work permit, is also entitled to a residence permit. The EIA can facilitate the issuance of such work permits to foreign employees.

## 4. LIST OF KEY CONTACTS

**The Ethiopian Parliament**Email; [national.parliament@ethionet.et](mailto:national.parliament@ethionet.et)Website: <http://www.ethiopar.net/>**Ethiopian Ministry of Infrastructure**

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