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Embassy of India, Addis Ababa

ECONOMIC AND COMMERCIAL REPORT FOR OCTOBER 2007

1. GDP Growth

The Ministry of Finance and Economic Development (MOFED) stated that an export boom is likely to drive 10% annual economic growth in Ethiopia for the next few years. The Government also projects the annual economic growth to be about 10% in 2007/08. Exports have grown on an average 25% in the agriculture-dependent economy over the last four years with economic growth averaging about 7% and reached 9% in 2006. Despite its healthy economic figures, Ethiopia with 80 million people is still one of the world's poorest, ranking 170 out of 177 on the U.N. Human Development Index.

2. Inflation rate

General inflation stood at 3.6% in the third quarter of 2006/07, compared with 2.6 per cent in the preceding quarter and 1 per cent in the same period of last year as food inflation continued to creep up. In the review quarter, food inflation increased significantly to 4.4 percent from 2.8 per cent in the preceding quarter and 0.4 per cent in the third quarter of 2005/06. This increase in food inflation was mainly attributed to substantial surge observed in the prices of pulses, oils and fats, and vegetables and fruits. Cereal inflation which was the main cause for the increase in food inflation in the first quarter of 2006/07, has continued its declining trend to 1 per cent from 3.3 per cent in the preceding quarter. However, it remained higher than the 1.5 per cent decline registered in the same period last year.

3. Total Imports/Exports of Ethiopia (in US\$):

Year	Total Imports	Total Exports	Total Trade	% change over prev. year	Trade Balance
2002/03	1.8 billion	482.8 million	2.3 billion	-	-1.3 billion
2003/04	2.7 billion	600.5 million	3.3 billion	43.5%	-2.1 billion
2004/05	3.6 billion	817.7 million	4.4 billion	33.3%	-2.8 billion

2005/06	4.4 billion	1 billion	5.4 billion	22.7%	-3.4 billion
3 rd Quarter 2006-07	3.9 billion	718.1 million	4.6 billion		

**4. Total trade and its growth for ten major countries: Second Quarter 2006/07
(Value in US\$ million)**

Country	Export to Ethiopia	Import From Ethiopia	Total Trade	%share
1.Saudi Arabia	463.42	30.01	493.43	16.8%
2.China	353.74	20.40	374.14	12.8%
3.UAE	220.52	14.43	234.95	8.0%
4.Italy	168.17	27.12	195.29	6.7%
5.India	157.80	5.60	163.40	5.6%
6.Germany	94.54	55.50	150.04	5.1%
7.Japan	95.21	33.60	128.81	4.4%
8.USA	76.28	13.83	90.11	3.1%
9.Djibouti	63.39	22.69	86.88	3.0%
10.Belgium	66.47	9.98	76.45	2.6%

**5. Total Trade and its growth with India by top 10 commodities (April 2006 – March, 2007)
(Value in US\$ million)**

Items	Value	% share
1.Iron & Steel	62.3	14.8%
2.Machinery & Instruments	39.3	9.3%
3.Pharmaceuticals	29.3	7.0%
4.Food Items	27.7	6.6%
5.Mfrs. of metals	27.2	6.5%
6.Paper	17.1	4.1%
7.Plastic	14.9	3.5%
8.Rubber	11.2	2.7%
9.Yarns & Textiles	7.8	1.9%
10.Transport Items	7.6	1.8%

6. Total trade in US\$ and its growth in trade and Services (3rd Quarter 2006/07)

During the third quarter of 2006/07 the service account registered a surplus of US\$48.5 million from a deficit of US\$17 million in the previous quarter. This was mainly due to 72 percent slowdown in construction services payments which offset the decline in net service receipts from transport, government and other services. Compared to last year

same period, however, net services have witnessed a 94.6 per cent increase in receipts from travel transformation, investment income and communication services. Net receipts from transportation service showed a 69 per cent decline in contrast with the preceding quarter due to a drop in receipts (6.4 percent) and slight increase in payments.

(Value in US\$ million)

Particular	2005/06		2006/07			
	Qtr. III	%	Qtr. II	%	Qtr. III	%
Service Receipts	281.5	100.0	328.3	100.0	320.4	100.0
Travel	35.6	12.5	41.6	12.9	43.2	13.5
Transportation	118.4	43.7	167.1	55.0	156.4	48.8
Government	75.1	26.8	73.0	16.9	62.3	19.4
Investment income	12.5	4.4	12.6	4.3	15.2	4.8
Other services	39.8	12.5	34.0	11.0	43.3	13.5
Service Payments	255.2	100.0	343.7	100.0	271.9	100.0
Travel	21.5	9.3	21.9	8.9	22.7	8.4
Transportation	123.9	45.2	145.3	51.2	149.4	54.9
Government	2.5	2.0	6.0	0.7	2.0	0.7
Investment income	16.9	12.5	14.5	6.3	18.4	6.8
Other services	90.3	30.9	155.9	32.8	79.4	29.2
Net Services	26.3		-15.4		48.5	

7. Major Investments:

The Ethiopian Investment Agency (EIA) stated that it had licensed 173 investment projects in the Month of September, 2007, with over half of them being foreign ventures from 30 countries. Chinese investors lead by investing in 18 projects out of the total registered and followed by 17 Americans and 10 from UK. The remaining projects are joint ventures between Ethiopians and foreigners from India, Canada, Germany, Australia, France Netherlands, etc. Real-estate, manufacturing, hotel and construction sectors are among the major areas that attract most of the investors.

8. India's Investment interests:

Indian private companies are increasingly looking towards Ethiopia for investments and joint ventures. The momentum has picked up in the past five years since 2003. The government has identified India as one of the focus countries for investments in Ethiopia and for investment promotional activities. During the period 1992 till July 7, 2007, 265 Indian private companies have obtained project approvals from the Ethiopian Investment Agency, with a total approved capital of US\$464 million. Of this, 95

companies have more than US\$1 million capital, while 27 companies have more than US\$5 million capital. Currently, 43 Indian investment projects are already under operation, several are under implementation while some are at pre-implementation stage. Indian companies have invested in various sectors like agriculture, floriculture, engineering, plastics, manufacturing, cotton and textiles, water management, consultancy and ICT, education, pharmaceuticals and healthcare. Indian companies greatly prefer Oromia region for agriculture/floriculture, while Addis Ababa region is the preferred choice for manufacturing, engineering, plastics, consultancy and ICT services, water management and education sectors. In the past three years, Indian investors have focused on floriculture due to favourable climatic conditions, government support and huge export market.

9. Major Trading Agreements proposed/finalized during 2007:

There are various Commercial bilateral treaties/agreements signed between the two countries. These are between various chambers of Commerce and business organizations on the two sides.

Bilateral Investment Promotion and Protection Agreement (BIPPA)

India and Ethiopia have signed a Bilateral Investment Promotion and Protection Agreement (BIPPA) on July 5, 2007 during the visit of H.E. Mr. Pranab Mukherjee, External Affairs Minister to Ethiopia to strengthen the two countries relation in the economic and investment areas.

10. Commercial/Economic agreements under negotiations

- i) Both sides have agreed on the text of the Draft Agreement on Cooperation in the field of Science and Technology, but the modalities of signing the Agreement are to be finalized.
- ii) The second round of Double Taxation Avoidance Agreement (DTAA) negotiations with Ethiopia is scheduled to be held in Addis Ababa on 21-25 January, 2008.

11. Major Destinations of export commodities for Third Quarter 2006/07:

In the Third Quarter of 2006/07, 49% of Ethiopian exports destined to Europe while 29 per cent went to Asia. Of the total exports to Europe, three countries alone, namely, Germany (23.2 per cent), Italy (13.6 per cent) and Netherlands (12.9 per cent) accounted for 50 per cent of Ethiopia's exports to Europe. Similarly, 58 per cent of exports to Asia went to three countries, namely China (23.5%), Saudi Arabia (21.9%) and Japan (12.8%). Of the total exports to Africa, 78 per cent went to three neighboring countries, namely, Somalia, Djibouti and the Sudan.

12. Major Destinations of import commodities for Third Quarter 2006/07:

In the Third Quarter of 2006/07, 60% of Ethiopian imports originated from Asia distantly followed by Europe (29 per cent). Of the total imports from Asia, 66 per cent originated from three countries namely, China (24.7 per cent), Saudi Arabia (26.3 per cent) and Japan (14.9%). In the forefront of European countries was Italy (28 per cent) followed by Germany (14.4 per cent). Similarly 73 percent of the imports from Africa came from Egypt and South Africa. USA and Brazil alone constituted 87.5 per cent of imports from America.

13. Major Export commodities for Third Quarter 2006/07:

During the third quarter of 2006/07, total export proceeds increased by 34.7 per cent over the previous quarter and stood at US\$297.2 million due to improvements in the volume of major export items including coffee, pulses, oil seeds, chat and flowers. Year on year basis, total export went up by 7 per cent with the significant rise in export of pulses, leather and leather products, flower and other non-traditional exports. The structure of exports during the review period revealed that coffee still continued to dominate the export sector accounting 33 per cent distantly followed by oil seeds (23 per cent) and leather and leather products (8 per cent). The share of non-coffee exports declined from 69 per cent in the previous quarter to 67 per cent in the review quarter due to the significant slowdown in the export of meat, live animals and gold.

Particulars	2005/06	2006/07		Percentage change	
	QIII	QII	QIII		
	A	B	C	C/B	C/A
Coffee	100.6	68.2	98.0	43.8	-2.6
Leather & Leather products	19.2	22.0	23.3	6.1	21.6
Pulses	10.9	15.7	19.3	22.9	77.1
Oil seeds	76.7	28.7	68.2	137.9	-11.1
Meat & Meat Products	4.0	7.9	1.8	-77.8	-56.1
Fruits & Vegetables	6.1	3.8	4.4	15.3	-27.6
Live Animals	7.7	12.7	8.3	-34.3	7.9
Chat	20.9	20.4	21.6	5.9	3.5
Gold	4.8	13.2	5.0	-61.9	4.1
Flowers	8.2	13.1	20.5	57.3	149.7
Others	18.8	15.0	26.7	77.4	41.9
Total	278.0	220.7	297.2	34.7	6.9

14. Major Import commodities for Third Quarter 2006/07:

Total imports increased by 9.7 per cent and reached US\$1392.3 million in the third quarter of 2006/07 compared with the previous quarter mainly due to the rise in all

components of imports except consumer goods. The highest growth in the quarter was registered for import of raw materials (95 per cent). Imports also surged by 28.4 per cent on annual basis as all components increased except semi-finished goods. Import of semi finished goods increased by 28.3 per cent over the preceding quarter due to the significant surge in fertilizer import. Import of fertilizer is seasonal and usually picks up in the third quarter preceding the main agricultural season. Import of capital goods also went up by 9.8 and 40.7 per cent in the preceding quarter and the corresponding period of last fiscal year largely associated with import of goods for investment.

Particulars	2005/06		2006/07				Percentage Change	
	Qtr. III	%	Qtr. II	%	Qtr. III	%		
	A		B		C		C/B	C/A
Raw Materials	23.3	2.1	30.9	2.4	60.2	4.3	95.0	158.4
Semi-finished goods	260.3	24.0	166.5	13.1	213.6	15.3	28.3	-17.9
Petroleum products	111.6	10.3	209.9	16.6	238.2	17.1	13.4	113.7
Capital goods	362.0	33.4	463.8	36.5	509.2	36.6	9.8	40.7
Consumer goods	306.2	28.2	351.5	27.7	337.9	24.3	-3.9	10.4
Miscellaneous	21.5	2.0	46.7	3.7	33.2	2.4	-28.9	54.9
Total	1,084.8	100	1,269.3	100	1392.3	100	9.7	28.4

Source: Ethiopian Customs Authority

15. **Top five items of export from India to Ethiopia and import from Ethiopia to India:**

(A) **India's Exports to Ethiopia (April 2006 – March 2007)**
(Value in US\$ million)

Item	Value	%age share
1.Iron & Steel Products	62.3	14.8%
2.Machinery & Instruments	39.3	9.3%
3.Drugs/Pharmaceuticals	29.3	7.0%
4.Food Items	27.7	6.6%
5.Manufactures of metals	27.2	6.5%

(B) **India's Import from Ethiopia (April 2006 – March 2007)**

(Value in US\$ million)

Item	Value	%age share
1.Raw hides & skins	4.6	34.3%
2.Pulses	3.2	23.9%
3.Scrap Metals	2.5	18.7%
4. Cotton Raw	1.0	7.5%
5.Leaner	0.8	6.0%

India Business Forum

The Embassy celebrated the 2nd anniversary of the India Business Forum (IBF) in Addis Ababa on 30 October, 2007 in the presence of H.E. Mr. Neway Gebreab, Economic Adviser to the Prime Minister, H.E. Mr. Tadesse Haile, State Minister of Trade and Industry, H.E. Mr. Ahmed Tussa, State Minister of Trade and Industry and Honorable Mr. Harka Haroye, Member of Parliament and Chairman of the Competition Commission.

On the occasion a special publication was launched, India a Partner of Choice, which had the findings of the regional conclave held for Indian companies in Ethiopia and the India Africa conclave in New Delhi last year. The booklet had lessons for doing business with Ethiopia for Indian companies.

Speaking on the occasion, the Economic Advisor to the Prime Minister said that Indian investors had provided a new dimension of cooperation between India and Ethiopia and had added vigor to the relation ship. He thanked the Embassy for its initiative to establish the forum to bring Indian and Ethiopian businessmen together.

Recalling his presence in the inauguration 2 years ago H.E Mr. Tadesse Haile, State Minister of Trade and Industry said that this initiative had been an unqualified success and contributed immensely to provide support to Indian entrepreneurs and highlight the opportunities and advantages in Ethiopia.

On the occasion several Indian businessmen and investors in various sectors like bio-fuel, transport, mining, cement and steel were introduced to the Ethiopian business community. A delegation from Council of Leather Exports and members of Ethiopian Leather Industries Association was also present.

CLE Delegation visit to Ethiopia

Council of Leather Exports (CLE) delegation visited Addis Ababa from 28-30 October, 2007. The delegation comprised of five companies manufacturing leather goods and was led by Dr. K. Elangovan, Executive Director (CLE). The delegation met with H.E. Mr. Girma Birru, Minister of Trade and Industry and H.E. Mr. Tadesse Haile, State

Minister of Trade and industry. They also visited various tanneries and had one-to-one Buyer-Seller meet with the Ethiopian leather businessmen. A Presentation was made to the Indian delegation on the Ethiopian strategy for growth and investment incentives available to the investors by the State Ministry of Trade and Industry in collaboration with UNIDO. The visit created a new dimension for nurturing the growth of India-Ethiopia leather trade and paved way for establishing business collaborations, joint ventures and technology transfer between leather sectors of the two countries.

A Capacity Building Initiative with Designers

Embassy of India organized a series of workshop for Ethiopian designers with the aim of encouraging design/crafts and enhancing the fashion and lifestyle industry in Ethiopia. The Initiative was launched on August 30, 2007 and the workshops began on October 15, 2007 and concluded on 3rd November, 2007 with 50 participants who were divided into two categories: Fashion Women's and Lifestyle Products, which was further divided into two subcategories of Lifestyle Homes & Lifestyle Personal Accessories.

The Initiative brought 3 experts from Pearl Fashion Academy, New Delhi and along with Dr. Neeti Sethi Bose, the Project Coordinator, a series of three intensive hands-on workshop were conducted where the participants went through exercise to learn pattern making and construction, necessity of designing, design basics, exploration of materials, the creative process, finishing and styles, understanding trends and markets, finding and translating inspirations into products and facilitated working with groups. The workshop also invited experts and people from the industry in India and Ethiopia, to interact with participants, share experiences and present new ideas.

The workshops were very successful and proceeded in providing participants with basic understanding of design and designing for the contemporary market; it also encouraged designers to look at design, materials, markets and consumers from a different perspectives and has initiated a creative energy that is waiting to take shape into new garments and products they will henceforth design.

ECONOMIC INTELLIGENCE REPORT FOR THE MONTH OF OCTOBER, 2007

I) INVESTMENT:

During the third quarter of 2006/07, the Ethiopian Investment Agency and Regional Investment offices have approved 1,326 investment projects with a total investment capital of US\$2.2 billion. The number of approved investment projects increased 16.7 per cent vis-à-vis the preceding quarter while the associated capital decreased by 25.1 per cent. Year-on year basis, the approved number of investment projects declined by 2.3 per cent while their registered capital increased by 63.1 per cent. Ownership wise, all investment projects approved were private. Of the total, 76.6 per cent of the investment projects which accounted for 58.8 per cent of the capital were domestically

owned while foreign investment projects constituted the balance. No public investment project was registered during the review period. All in all, since 1992, 23177 investment projects having US\$37 billion capital were approved. Of these, 17 per cent have gone operational. Looking by sector, real estate, renting and business activities accounted for about 35.2 per cent of the total number of approved investment projects, followed by manufacturing, agriculture and hotel and restaurants.

II) POWER SECTOR

The total electric power generation during the third quarter of 2006/07 was 836 million kwh, which was 2.3 and 14.8 per cent higher than the preceding quarter and the third quarter of 2005/06 respectively. Of the total electric power generated in the third quarter, hydropower accounted for 98.6 per cent and thermal power for the remaining 1.4 per cent. Looking at electric power generation by system category, 99 per cent of electricity generation was from the interconnected system and the remaining 1 per cent from the self contained system. By 2010, when the power generation projects such as Tekeze (300mw), Gilgel-Gibe (420mw), Amertenesh (97mw), Beles (420mw), Wind power (50mw), and Yayo (100 mw) are completed, the country's power generation capacity is expected to reach 2218 mw per hour. The number of electrified cities and towns is also planned to reach 6000.

MAJOR TENDER NOTICES ANNOUNCED IN SEPTEMBER 2007 IN POWER SECTOR

1. The Ethiopian Electric Power Corporation (EPPCO) has allocated a budget in various currencies towards the cost of the Universal Electricity Access Program for increasing people access to electricity in rural towns and villages. The Ethiopian Electric Power Corporation now invites sealed bids for the following contracts:-

Lot 1: Supply of Distribution Transformers, Switchgears and Tools

Lot 2: Supply of Overhead Line Accessories and Pole Top Hardware

Tender document costs US\$55/- and the last date for submission is November 29, 2007. All bids must be accompanied by a bid security not less than 2% of the bid amount.

III) TELECOMMUNICATIONS

The Ethiopian Telecommunications Corporation (ETC) announced its plans to expand various telecom services across the country at a cost of US\$2 billion birr this Ethiopian fiscal year (2007/08). The Corporation would execute various projects to expand mobile and fixed line telephone services, broadband, internet, broadband multimedia and rural telephone services in the country. The expansion of School-Net project service channels as well as increasing the number of Woreda-Net Service stations are some of the activities to be executed in the budget year. The installation of 1.2 million regular telephone lines would also be carried out. The Corporation has also plans to install three million mobile telephone service lines and to provide internet service to 50,000 new subscribers.

IV) AGRICULTURE

The Ministry of Agriculture and Rural Development stated that Ethiopia has doubled tea production to more than 6,500 tones in the last five years, meeting growing local demand and exporting to Europe and Middle East. The government has identified 500,000 hectares of land where soil, humidity and rainfall are ideal for tea growing. In July, 2007 it leased 10,000 hectares in the West part of the Country to Kanan Devan Hills Plantation of Kerala (India). Another Indian firm, Lucky Exporters was also in talks with the government to set up a 5,000 hectare plantation. Ethiopia has earned US\$ 1 million in 2006/07 from exports to the Middle East and Europe and now Ethiopia wants to boost tea production to diversify exports away from its major cash crop, coffee.

(Source: Embassy of India, Addis Ababa)

Investment Policy

Ethiopia's economic Development strategy embraces a wide range of reforms with inducements to both domestic & foreign investment. The private sector is encouraged to invest in almost all areas of the economy. A foreign investor can invest on his own jointly with domestic investor(s).

Wholly Foreign Owned Investments

Under the Investment Proclamation No. 280/2002 (as amended), a foreign investor who intends to invest on his own, except in consultancy services & publishing, is required to invest not less than US \$100,000 in cash & or in kind as an initial investments capital per project. The minimum capital required to a foreign investor investing in consultancy services or publishing is US\$ 50,000, which may be in cash & or in kind. A foreign investor pre investing his profits or Dividends, or exporting at list 75% of his outputs, however, is not required to allocate a minimum capital. A foreign investor is allow invest in all areas of investments excepts those reserves for governments, Ethiopian nationals & other Domestic investors.

Guarantees to Investors

Ethiopia provides the following guarantees to foreign investors:

(a) Repatriation of Capital & Profits:

capital repatriation & remittance of dividends & interest is guaranteed to foreign investors under the Investments Proclamation. Any foreign Investments, to make the following remittances out of Ethiopia in convertible at the prevailing exchange rate on the date of remittance:

- Profit & dividends accruing form an investment;
- Principal & 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 of an enterprise to a domestic investor;
- Compensation paid to a foreign investor; Expatriates employed in an enterprises may remit, in convertible foreign currency, salaries & other payments accruing from the or exchange regulations or directives of the country.

(b) Guarantee against Expropriation:

The Constitution of the Federal Democratic Republic of Ethiopia Protects Private property. The Investment Proclamation also provides for investment guarantee against measures of expropriation or nationalization that may only occur for public interest & in compliance with the requirement of the law. Where such expropriations are made, the Government guarantees to provide adequate compensation corresponding to the prevailing market value of property & such payment shall be effected promptly.

(c) Other Guarantees:

Ethiopia is a member of the World Bank-affiliated Multilateral Investment Guarantee Agency (MIGA), which issue guarantees against non-commercial risks to enterprises that invest in signatory countries. Ethiopia has concluded & is currently concluding bilateral investment promotion & promotion agreements & double taxation treaties with a number of developed & developing countries, & it is ready to conclude such treaties with any country at any time. Ethiopia is a member of the World Intellectual Property Organization (WIPO) & also signed the World Bank treaty, “the International Convention on Settlement of Investment Disputes between States & Nationals of other states (ICSID)”.

Labour

Ethiopia has abundant, hard working, inexpensive, disciplined & easily trainable workforce. The minimum wage in government institution is Birr 200 (about US\$23) a month. Wages & salaries in the private sector, however, are determined by the market. Wages for unskilled labour vary from region to region to Birr 10(about US\$1) a day. In any case, the cost of labour is very low by any standards. It is even lower than the African average.

Universities, engineering colleges & technical & vocational training schools annually produce training personnel in business management, economic, accounting, law, engineering, & technical disciplines in fairly large numbers.

The salaries of fresh university graduates normally range from Birr 700(about US\$83) to 895(about US\$106) per months, depending on the level of education. Generally, the salary paid to skilled labour is determined by the contract entered into by the employer & the employees. The new labour law of Ethiopia, prepared in conformity with recognized international labour, norms & standards, provides adequate provisions to begin & terminate employment with safeguards that do not allow infringing on the rights of investors.

An investor that wants to recruit expatriate employees for top managements positions of any enterprise has the right to do so if he/it obtains a prior consent from the Ethiopian Investment commission. Furthermore, the investor can employ duly qualified expatriate experts required for the business provided that the investor arranges a training program for the replacement of such expatriate personnel by Ethiopians.

Major Investment Incentives

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

(a) Customs Duty Exemption

- One hundred percent exemption from the payment of import custom duties & other taxes levied on import is granted to an investor to import all investment capital goods, such as plant machinery & equipment, construction material, as well as spare parts worth up to 15 percent of the value imported investments capital goods.
- Investment capital goods imported without the payment of imports may be transferred to another investor enjoying similar privileges.
- Some investment areas such as hotels (other than star designated), wholesale, retail & imports may be transferred to another trade, maintenance service, etc. are not eligible for exemption from customs duty.

(b) Profit Tax Exemption

There are profit tax exemption conditions for certain number of years based on the region of the investment as indicated in the below:

Profit Tax Exemption

Sr. No.	Conditions for Profit Tax Exemption Eligibility	Profit Tax Exemption Years	Profit Tax exemption Years, for investments made in Relatively under Developed Regions
1.	An investor engaged in a new manufacturing, agro-industrial activity & agriculture is eligible for profit tax exemption		
	a) If the exports at least 50% of his Products; or	5	6
	b) If the supplies at least 75% of his products, to an investor, as an input for the production of export products;	5	6

	<p>c) If the exports less than 50% of his products; or</p> <p>d) If the project is evaluated under a special circumstances by the Bol*;</p> <p>e) If the production is for the local Market;</p> <p>f) If the production mentioned above in (c) is considered by the BOI to be special one,</p>	<p>2</p> <p>not longer than 7</p> <p>2</p> <p>5</p>	<p>3</p> <p>Not longer than 8</p> <p>3</p> <p>6</p>
2.	<p>If the expansion are upgrading of the above projects</p> <ul style="list-style-type: none"> Increases the existing production by 25% in value & 50% of the Production is to be exported 	<p>2</p>	<p>3</p>

Moreover, the Council of Ministers may also award profit a tax holiday for grater than seven years for investors fulfilling the conditions mentioned under 1(a) & 1(b) in the table. The period of exemption from profit tax begins from the date of the commencement of production or provision of services, as the case may be.

(c) Loss Carried Forward

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.

(d) Loan

There is a special loan system through the development Bank Of Ethiopia for investors engaged in manufacturing related & export sectors. The government also provides loans that will be paid in a period of 10-15 years depending on the nature of the project & also a three-year grace period before they pay back their loans. Moreover, the interest rate is no more than 7.5% & the project rate is used as collateral. This is for the establishment of new investment projects. For existing investment projects an export credit quarantine scheme has been established under the national bank of Ethiopia (NBE) to provide loans for running business. Under this system investors would get loans equivalent to what they have exported a year before their request for the loan. The NBE provided. Private banks also provide similar support to investors.

(e) Government Business consultations

- i. Government & business community consultations have to identify problems in each sector & to seek remedial solutions. The consultation, Sectoral associations & individual investors.
- ii. A system has also government & investors jointly plan activities & regularly follows up their implementation. Such forums chaired by the Prime Minister & pertinent officials have enabled the focus on priorities 7 tackling of major problems.
- iii. There are also detailed support packages for investors engaged in priority investment areas.

Market Access**(a) Domestic market**

with a population of 72.4 million, & also with a steady growth of GDP, Ethiopia provides a stable & growing domestic market, which is one of the largest in Africa.

(b) Regional Market

Ethiopia is a member of the Common Market for eastern & southern Africa (COMESA) embracing 20 countries in Eastern & Southern Africa with a population of approximately 380 million. Exports 7 imports with member countries enjoy preferential tariff rates.

(c) Everything but Arms of the European Union (EBA)

Ethiopia is a beneficiary of everything but Arms Ethiopian export products, except arms, can enter the Ethiopian Union market free of duty & without quota restriction.

(d) African Growth & Opportunity Act (AGOA) & the Generalised system of Preference (GSP)

Under the African Growth & Opportunity Act (AGOA) program, Ethiopia is entitled to duty-free & quota-free US market access. Ethiopia has already been eligible for duty & quota free treatment for its wide range of manufactured products in many countries including the US, Canada, Japan, Australia & most European Union countries under the Generalized System of Preference (GSP) program. Under AGOA, however, essentially all export products of Ethiopia are eligible for duty-free 7 quota-free US market access.

Taxation**Principal Taxes Currently in Effect**

No.	Type of tax	Rate
1.	Corporate Income tax	30%
2.	Turn Over Tax	2% & 10%
3.	Excise Tax	10% up to 100%
4.	Customs Duties	0% up to 35%
5.	Income Tax from Employment	0% up to 35%

6.	Withholding Tax	2%
7.	Value Added Tax	15%
8.	Export Tax	Nil
9.	Royalty Tax	5%
10.	Dividend tax	10%

Investment in Ethiopia

Why Ethiopia?

- Investor friendly policies (Industry, Agriculture, Infrastructure, social etc. policies)
- Stable political & economic environment with virtually no crime disorder
- Potentially one of the Africa with about 77 million consumers
- Exceptional Climate- due to location on highlands, half the country experiences average annual temperature below 20c.
- With vibrate & growing economy (for the last four years 2002-03-04-05-06 with average GDP growth of 10%).

Major Areas of Investment

Agriculture

Coffee & Tea

Coffee is Ethiopia's gift to the world. The country is Africans leading producer of Coffee Arabica. Coffee remains the single most important cash crop. The share of coffee to total export continued to decline from 39.3 % in 2000I01 to 34.2 % in the review fiscal year signifying some diversification moves in the export sector. The potential for private production processing of coffee is significant.

Tea is another potential crop production, processing & export commodity. The favourable agro-climate conditions in the country offer excellent opportunities for production & processing of tea for both export & domestic consumption.

Cotton

Ethiopia is believed to be one of the origins of cotton & its cultivation is deep-rooted in the history of the country's agriculture. Cotton is one of the major cash crops in Ethiopia & is extensively grown in the lowlands under large-scale irrigation schemes/. It is also grown on small- scale farms under rain-fed agriculture. Cotton is basically a crop of warmer climates & also requires dark often-cracking soil which is available in Ethiopia. Where a good yield is obtainable from areas varying in altitude from sea level to about 100m.

Horticulture

With its variety of altitude & microclimates, a long growing season & accessible irrigation sources, most fruits & vegetables such as citrus, banana, mango, papaya,

avocado, guava, grapes, pineapple, passion fruit, apples, potatoes, cabbages, cauliflower, pepper, onion, asparagus, watermelon, sweet melon, carrots, green beans & cut flowers grow well in Ethiopia. The Ethiopian government encourages companies' with experience in agro-processing to invest in this sector.

Floriculture

Ethiopia has a wide range in altitude from 148 meters below sea level in Dallol Depression to 4,620 meters above at the summit of Ras Dashen. The optimum altitude for cut flower crop production is between 1,500 & 2,300 meters above sea level. Large areas of the country lie within this range of altitude.

Humid weather favours the outbreak of disease & cause higher losses. The best range of temperature to grow cut flowers lies between 10°C & 30°C. Since the country constitutes large areas within this climatic range, there is tremendous potential to develop different varieties of cut flower farms.

Cut flowers require well- drained sandy loam soil with a Ph range of 5.5-7.00. Most of the soils in the country, which satisfy this requirement are fertile, well drained & suitable for fresh cut flower production.

Commercial floriculture is relatively a new industry in Ethiopia. It has emerged as a non traditional agricultural expo sub-sector in recent years. The country exported 10 tons of cut flowers to the international market in 2001-2002. As a number of local & foreign investors are joining this lucrative business, it is believed that the volume of export will increase considerably in the years to come.

Livestock

Ethiopia produces about 2.4 million hides, 8.3 million sheepskins & 7 million goatskins annually from its livestock resources. Ethiopian hides & skins are highly regarded for their natural qualities of clarity, flexibility, strength, thickness & compact texture. To mention the specific, the cattle hides are equally known for their fine grain pattern & good fibre structure & are preferred internationally for making shoe upper. In the same way, Ethiopian highland sheep skins estimated to comprise about 70% of the total sheep skin production of the country, have an international reputation for their unique natural substance of fitness, thickness, flexibility, strength & compactness of texture. They are suitable for the production of high quality dress- gloves, sports gloves and garments and are greatly demanded in the world market. Likewise, Ethiopian goatskins are classified as Bati – genuine, the international name for high quality goatskins a term coined after the type of goatskins supplied from the Ethiopian province of Bati. They are well recognized in the international market for making high quality suede for fashion products.

Currently, there are 20 operational tanneries, employing about 6,000 workers. Within the manufacturing sector the leather industry come as the leading export earner accounting for, on the average, up to 67 percent of the total manufactured exports. There have also been new values added to the export of hides and skins in the past three years. Previously the hides and skins being exporting underwent only a first phase processing. Now fully processed leather that can directly be used to produce shoes & other leather products are being exported. Those the amount is still insignificant, shoes

are now being exported. Though the amount is till insignificant, shoes are now being exported. With improved quantity & quality, Ethiopia has a better opportunity to become competitive in the export of shoes.

Manufacturing

Tannery, Leather Goods & Articles As mentioned above under Livestock

Food & Beverages: of most types

Textiles: Investing in the textile & garment manufacturing sub-sector is a rewarding business in Ethiopia. The investment climate has created a fertile ground where entrepreneurs can win the business. The investment-friendly environments with its incentive package, the availability of resources, abundant labour, the prevalence of peace & stability have been the magnets for peace & stability have been the magnets for a good number of the investments in the country. Activities include: spinning, weaving & finishing of textile fabric & production of garments. In the last couple of years, Ethiopia has for the first time entered the global market with the export of garments.

Glass & Ceramics: This includes tableware & sanitary ware, sheet glass & manufacturing of containers.

Chemicals & Chemical Products: Manufacturer of basic chemicals based on local raw materials, including PVC granules from ethyl alcohol, formal-dehyde from methanol, manufacture of caustic soda & chlorine-based chemicals, carbon black; activated carbon; precipitated calcium carbonate & ball-point ink.

Drugs & Pharmaceuticals: Manufacturing of pharmaceuticals, medical, chemical & botanical products in the form of tablets, capsules, syrups & injectables.

Paper: Paper Products

Building Materials: Manufacturing of cement, lime, gypsum, marble, granite, limestone, ceramics, roofing, tiles, corrugated sheets, tubes, fittings.

Metallurgy & structural Products:

Manufacturing of structural metal products, reservoirs & steam generators.

Mining

Ethiopia offers excellent opportunities for mineral processing & development. Geological studies have identified a favourable geological environment hosting a wide variety of mineral resources. According to the Ministry of mines, Ethiopians green stone belts offer one of the finest areas for gold mineralization anywhere in the world, and more than 500 metric tons of gold deposits have already been identified by government exploration efforts. Additional gold reserves are expected to be identified in at least seven regions of the country. In addition to gold, Ethiopia is blessed with large deposits

of precious and metallic minerals such as tantalum, iron ore, and platinum, and industrial and construction minerals such as caolin, diatomite, field spar, quartz, silica sand, potash, phosphate, soda ash, salt, rock salt, limestone, marble and granite. Energy minerals including coal, oil shale, natural gas and hot spring have also been identified in various parts of the country.

With regards to fossil energy resources, there are no significant opportunities for extracting oil and natural gas in the four major sedimentary basins, namely the Ogaden, the Gamballa, the Blue Nile and the Southern Rift Valley. It is also believed that Ethiopia is blessed with large deposits of other minerals, which have yet to be discovered.

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