DOING BUSINESS IN ETHIOPIA

POPULATION 104.6M | CURRENCY ETHIOPIAN BIRR (ETB) | GMT+3 | OFFICIAL LANGUAGE AMHARIC

country profile	
government structure	• **Executive:** The president is the chief of state, and the prime minister is the head of government. The president is indirectly elected by both chambers of Parliament for a six-year term and is eligible for a second term. The prime minister is designated by the majority party following legislative elections. Cabinet is selected by the prime minister and approved by the House of People's Representatives. • **Legislative:** Ethiopia has a bicameral Parliament. • **Judicial:** The highest court is the Federal Supreme Court. The subordinate courts are the federal high courts and federal courts of first instance, state court systems (a mirror structure of the federal system), sharia, customary, and traditional courts. • **Next presidential elections:** October 2024.
economic data	• Nominal GDP (USD billions): 140.05 • GDP per capita (USD): 1 334.34 • Inflation rate (% change): 21.07 • Government revenue (% of GDP): 10.31 • Government gross debt (% of GDP): 37.39 **Source: IMF (August 2024 estimates)* • Ethiopia's economy has historically been based on agriculture. However, recently the service sector has grown to become the largest contributor to GDP. The service sector growth is dominated by expansion in communication and transport services, hotel and restaurant businesses, as well as wholesale and retail trading. Growth in the industrial sector is particularly due to investments in roads, railways, dams, industrial parks, and housing. • The main industries include food processing, beverages, textiles, leather, garments, chemicals, metals processing, and cement. • Ethiopia's main export partners are the United Arab Emirates, the United States, Germany, Saudi Arabia, and Somalia. The main export commodities include coffee, gold, garments, cut flowers, and vegetables. • Ethiopia's main import partners are China, the United States, India, the United Arab Emirates, and the United Kingdom. The main import commodities include wheat, refined petroleum, fertiliser, vaccines, and palm oil.
risk ratings	• S&P Global Overall Country Risk (Q3 2024): 182/211 • Corruption Perceptions Index (2023): 98/180

international treaties and memberships	
international and regional organisations and customs unions	• African Continental Free Trade Area Agreement • African Development Bank Group • African Union • Common Market for Eastern and Southern Africa ("**COMESA**") • Group of 24 • Group of 77 • Intergovernmental Authority on Development • International Monetary Fund • Nile Basin Initiative • Organisation of African, Caribbean and Pacific States ("**OACPS**") • United Nations • World Bank Group • World Customs Organization • Ethiopia receives preferential treatment under the agreements listed here: http://ptadb.wto.org/Country.aspx?code=231
bilateral investment treaties	• Ethiopia has bilateral investment treaties in force with Algeria, Austria, China, Denmark, Egypt, Finland, France, Germany, Iran, Israel, Italy, Kuwait, Libya, Malaysia, the Netherlands, Sudan, Sweden, Switzerland, Tunisia, Türkiye, the United Arab Emirates, and Yemen. • Treaties have been signed with the Belgium-Luxembourg Economic Union, Brazil, Equatorial Guinea, Morocco, Nigeria, Qatar, Russia, South Africa, Spain, and the United Kingdom, but these have not yet entered into force.
investment-related agreements / institutions	• Samoa Agreement (succeeding the Cotonou Agreement and its provisional application commencing on 1 January 2024. The Agreement will enter into force upon consent by the European Parliament and ratification by all European Union member states and at least two thirds of the OACPS members) • Multilateral Investment Guarantee Agency • World Trade Organization (Observer)
dispute resolution	• Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) • Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) (Signatory) • Permanent Court of Arbitration
intellectual property ("IP") treaties	• A comprehensive list of IP-related treaties signed by Ethiopia is available at: https://wipolex.wipo.int/en/legislation/members/profile/ET?collection=treaties • See the trade marks section below for further detail.

legal regime	
applicable legal regime	• Ethiopia's legal system is based on civil law, as well as vestiges of common law.
dispute resolution	• Dispute resolution can be achieved through compromise and arbitration as provided for by the Civil Code of Ethiopia and the Arbitration Proclamation No. 1237/2021. • The Investment Proclamation No. 1180/2020 (the "**Investment Proclamation**") specifically provides that investment disputes will be resolved through consultation or negotiation and may be resolved through arbitration. • If a dispute cannot be settled through negotiation, parties may agree to resolve their dispute according to international laws, such as the arbitral provisions of the United Nations Commission on International Trade Law (UNCITRAL), with the venue of the arbitration and the law to be applied decided by mutual consent. • The Addis Ababa Chamber of Commerce and Sectoral Associations ("**AACCSA**") has established the AACCSA Arbitration Institute as an alternative dispute settlement mechanism.
land acquisition, planning and use	• Land is public property in Ethiopia and as such it cannot be owned by private entities although they can acquire rights to use the land. • The Urban Lands Lease Holding Proclamation No. 721/2011 allows investors the right to use land on leasehold for varying periods of up to 99 years. The land cannot be mortgaged or sold.
competition	
merger control	• The Trade Competition and Consumers Protection Proclamation, No. 813/2013 (the "**Proclamation**") governs competition law and regulates merger control in Ethiopia. • The Proclamation states that a merger is deemed to have occurred (i) when two or more business organisations previously having independent existence amalgamate or when such business organisations pool the whole or part of their resources for the purpose of carrying on a certain commercial activity ("**amalgamation**"); or (ii) by direct or indirect acquisition of shares, securities, or assets of a business organisation or taking control of the management of the business of another person by a person or group of persons through purchase or any other means ("**acquisition**"). • The Proclamation sets out examples of what constitutes control for the purposes of merger regulation. • A merger becomes subject to notification if the capital, turnover or assets (whichever is higher) of the acquiring and/or the target company is ETB30-million or higher. A merger taking place between firms which are resident in Ethiopia is notifiable if (i) in the instance of an amalgamation, the combined assets or turnover (whichever is higher) of both the acquirer and target is more than ETB30-million; or (ii) in the instance of an acquisition, the target's assets, or turnover (whichever is higher) is more than ETB30-million. A merger taking place between firms which are not resident in Ethiopia, but which has an effect within Ethiopia may also be notifiable. • It is understood that there are currently no filing fees payable in Ethiopia. • Ethiopia is a pre-implementation regime and, therefore, approval must be sought from the Ministry of Trade and Regional Integration (the "**MOTRI**") prior to the implementation of a notifiable transaction. • The implementation of a merger prior to having obtained approval will attract a fine of between 5% and 10% of annual turnover. The direct or indirect participation of a person other than a business person in the offence will expose such a person to a fine of between ETB10 000 and ETB100 000. The Proclamation also provides for criminal sanctions for non-compliance therewith, including in respect of merger notification obligations. • Ethiopia is a member of a regional competition body, COMESA, which has an operation merger control regime. Merger activities in Ethiopia should be conducted with this regional competition body in mind.
prohibited practices	• The Proclamation prohibits (i) horizontal agreement(s) between, concerted practice(s) by business persons or (ii) decisions by associations of business persons, in a horizontal relationship if it has the effect of preventing or significantly lessening competition, unless a party to the agreement, concerted practice, or decision can prove that any technological, efficiency, or other pro-competitive gain resulting from it outweighs that effect. In this regard, direct or indirect fixing of selling or purchasing prices or other trading conditions, collusive tendering, and market division are per se prohibited and cannot be justified in any way. • Similarly, vertical agreements which have the effect of preventing or significantly lessening competition are prohibited, unless a party to the agreement can prove that any technological, efficiency, or other pro-competitive gain resulting from it outweighs that effect. In this regard, minimum resale price maintenance is per se prohibited. • The Proclamation prohibits various forms of unilateral conduct. • The Proclamation provides a whistle-blower policy whereby firms which voluntarily disclose the existence of a horizontal or vertical offence, and cooperate with the MOTRI in respect thereof, may obtain exemption. • The Proclamation provides for the imposition of administrative penalties between 5% and 10% of annual turnover, as well as criminal sanctions for offences set out in the Proclamation. • The Proclamation provides for the imposition of administrative penalties of 10% of annual turnover for cartel conduct and the practice of minimum resale price maintenance. • COMESA regulates prohibited practices in the COMESA Common Market. Activities in Ethiopia should be conducted with this regional competition body in mind.

employment	
immigration	• Expatriates working in Ethiopia must hold valid work and residence permits. • An investor may employ qualified foreigners for middle management positions, provided that it can be ascertained that Ethiopians possessing similar qualifications or experience required by the sector are not available. The investor is also responsible for replacing, within a limited period of time, such foreign workers with Ethiopians by arranging and providing the necessary training. • A work permit for employment in a certain position may be issued for up to three years, and renewed every year subject to verification, as appropriate, that the investor has ascertained the non-availability of Ethiopian workers with similar qualifications, and of the concrete measures taken by the investor to train Ethiopian replacements. • An investor may also employ foreigners for top management positions whose permits shall be renewed without being required to comply with the specified conditions in respect of other foreign workers.
local employment vs secondment	• Secondments are not regulated by law in Ethiopia and, therefore, there are no specific employment law requirements. However, in terms of Ethiopia's immigration legislation, employment by a local entity is a prerequisite to apply for a work permit.
fixed-term contracts and temporary employment services	• While fixed-term contracts are allowed in Ethiopia, they are subject to certain requirements in respect of the circumstances in which fixed-term employment is permitted (such as to fill a vacant position temporarily). • Fixed-term contracts cannot be concluded for tasks of a permanent nature. • Labour broking is allowed in Ethiopia in respect of local employers and employees and subject to the necessary permit being issued to authorise the operation of labour broking services.
payment in local currency	• Remuneration must be paid in local currency.
restraint of trade agreements	• Restraint of trade agreements are valid and enforceable in Ethiopia, subject to reasonableness.
foreign investment regime	
investment regime	• The Investment Proclamation, the Investment Regulation No. 474/2020, and the Council of Ministers Investment Incentive Regulation 517/2022 (the "**Investment Incentive Regulation**") govern foreign investment in Ethiopia. • The Ethiopian Investment Board (responsible for investment policy decisions) and the Ethiopian Investment Commission ("**EIC**") have been established to facilitate investments in Ethiopia, issue investment permits and provide administrative assistance to investors.

registration / licensing requirements	• Foreign companies must apply for investment permits and business licences with the EIC, although certification and licences for some specified activities are issued by respective government institutions.
non-industry specific registrations / licences	• The following general non-industry specific registrations/licences may also be required:
MOTRI	• A business licence is to be obtained from the MOTRI. The Ministry is also responsible for import and export release permits.
*Ministry of Revenues ("**MoR**")*	• All taxpayers must register with the MoR and obtain a taxpayer identification number. • If an enterprise's turnover exceeds the value added tax ("**VAT**") registration threshold (see 'tax' below), it should also specifically apply for VAT registration.
*Private Organization Employees Social Security Agency ("**POESSA**")*	• Private sector employers and employees are required to register with the POESSA, within 60 days from the date of establishment of the company or employment.
industry-specific licences	• Industry specific licences may be required.

incentives	• Incentives include:
	  • income tax holidays available under the Investment Incentive Regulation for companies investing in new and selected tourist destinations and specified hotels, lodges, and resorts; recruitment agencies that provide employment opportunities outside of Ethiopia to Ethiopians; manufacturing companies located in industrial parks; and companies that invest outside industrial parks that export at least 60% of their products or services or supply to exporters as production or service inputs;
	  • duty-free importation of capital goods, construction materials and spare parts for companies engaged in specified investment activities, and companies involved in manufacturing and agriculture meeting certain requirements;
	  • a duty draw-back scheme and voucher scheme for companies designated as exporters;
	  • an industrial zone scheme for industries in industrial zones or industrial parks, in terms of which raw materials can be imported duty free and stored in a warehouse until being sold; and
	  • a bonded export factory scheme in terms of which beneficiaries are allowed to produce, under the control of the Ethiopian Customs Commission, goods exclusively for export using raw materials imported free of duty, as well as a bonded export

	manufacturing warehouse scheme and bonded input supplies warehouse scheme.
exchange control regulation	• Ethiopia applies strict exchange control rules in terms of the Proclamation for the Establishment of the National Bank of Ethiopia ("**NBE**"). Significant amendments to the foreign exchange regime have been introduced the NBE Foreign Exchange Directive No. FXD/01/2024 on 29 July 2024. Under the Directive: • banks and authorised foreign exchange dealers are permitted to buy and sell foreign currencies at freely negotiated rates; • holders of foreign currency accounts for foreign entities are entitled to retain 100% of foreign exchange; • exporters of goods and services holding foreign exchange retention accounts are required to surrender 50% of foreign currency earnings to commercial banks at a freely negotiated rate; • the requirements of allocation of foreign exchange based on a priority list of imports have been removed. Customers can now request their commercial banks to allocate foreign currency for imports on demand, provided that they meet relevant import requirements; • external loans must be approved by the NBE, but the interest rate ceilings on such loans have been repealed; and • "on demand" repatriation of capital, including dividends and proceeds from the sale of business, is allowed.
types of entities available for foreign investment	• One person company; • public company (share company); • private limited liability company (PLC); • registered branch of a foreign company; • co-operative society; • project office; and • commercial representative.
private limited liability company	
minimum number of shareholders	• A minimum of two shareholders is required and the maximum allowed is 50. • There is generally no requirement for local shareholding, but it may be required in specified industries.
minimum share capital	• In terms of the Commercial Code, the minimum share capital required for a company with exclusively domestic shareholders is ETB15 000. • However, in terms of the Investment Proclamation, the general minimum capital requirement for foreign investors is USD200 000. This is reduced to USD150 000 for investments in a joint venture with local investors. If the investment is in architectural or engineering works or related consultancy services, the minimum capital required is USD100 000 if investing alone and USD50 000 if in a joint venture with local investors.

directors	• The appointment of directors is not mandatory. However, if bylaws provide for it, a private company must have three to seven directors. • There is no general requirement to have any resident directors.
company secretary	• A private limited company is not required to appoint a company secretary.
auditor	• A private limited company consisting of 10 or more members or having total assets exceeding ETB10-million must appoint an auditor.
registered address	• The use of the office of the company's accountants, lawyers, or a third party as a registered address is not permitted.
shelf companies	• Shelf companies are not available in Ethiopia.
registration process	• Foreign companies are registered with the EIC, and it takes approximately three to four weeks to complete registration once all the required documents have been submitted.
tax	
tax system	• Ethiopia has a residence-based tax system in terms of which residents are subject to tax on their world-wide income, whereas non-residents are subject to tax only on their Ethiopian sourced income.
corporate residence	• A company is resident in Ethiopia if it is incorporated or formed in Ethiopia or its place of effective management is in Ethiopia.
corporate tax rate	• Resident companies and permanent establishments of foreign companies are subject to corporate income tax at the rate of 30%. • Mining and petroleum companies are subject to corporate income tax at the rate of 25%.
capital gains tax ("CGT")	• Capital gains arising from the disposal of business assets, including shares and bonds but excluding immovable property, are subject to corporate income tax at the relevant standard rate. • Gains from the disposal of immovable property are subject to CGT at the rate of 15%.

withholding tax (“WHT”) rates

	WHT rate	
payment to	**residents**	**non-residents***
branch profits	N/A	10%
dividends	10%	10%
interest	5% (interest on saving deposits) 10% (other interest)	5% (interest on saving deposits) 10% (other interest)
royalties	5%	5%
management, consulting, and technical service fees	2% (on services of at least ETB3 000)	15%

**The withholding tax rate may be reduced in terms of a relevant double tax agreement.*

double tax agreements (“DTAs”)	• DTAs are in force with China, Cyprus, Czechia, Egypt, France, India, Ireland, Israel, Italy, Republic of Korea, Kuwait, Luxembourg, Morocco, the Netherlands, Poland, Portugal, Romania, Saudi Arabia, Seychelles, Singapore, Slovak Republic, South Africa, Switzerland, Tunisia, Türkiye, the United Arab Emirates, and the United Kingdom.
losses	• Losses may be carried forward for a period of five years. However, a company that has incurred losses for two tax years, each of which has been carried forward, is not allowed to carry forward any further losses in the future.

transfer pricing	• In terms of Ethiopia’s transfer pricing rules, transactions between related persons must be entered into on an arm’s length basis. The MoR has the power to distribute, apportion, or allocate income, gains, deductions, losses, or tax credits between parties to a transaction that is not an arm’s length transaction in order to reflect the amounts that would have been realised in an arm’s length transaction.
	• A company is related to another person if the relationship between the two persons is such that one person may reasonably be expected to act in accordance with the directions, requests, suggestions, or wishes of the other person, or both persons may reasonably be expected to act in accordance with the directions, requests, suggestions, or wishes of a third person. The following are *inter alia* presumed related persons:
	  • a corporate body and a member of the corporate body, when the member, either alone or together with a related person or persons, controls, either directly or through one or more interposed bodies, 25% or more of the rights to vote, dividends, or capital in the corporate body; and
	  • two corporate bodies if a person, either alone or together with a related person or persons, controls, either directly or through one or more interposed bodies, 25% or more of the rights to vote, dividends, or capital in both corporate bodies.

limitations on interest deductibility	• In terms of Ethiopia’s thin capitalisation rules the maximum accepted debt-to-equity ratio is 2:1. • However, the company may be allowed to deduct the interest notwithstanding the fact that its average-debt-to-average-equity ratio exceeds 2:1 if the amount of the average debt of the company does not exceed an arm’s length debt amount.
employee taxes	The income tax rates applicable to resident individuals are:

annual chargeable income (ETB)	tax rate
0 – 7 200	0%
7 201 – 19 800	10%
19 801 - 38 400	15%
38 401 - 63 000	20%
63 001 – 93 600	25%
93 601 – 130 800	30%
over 130 800	35%

social security contributions	• Both private sector employers and employees must make social security contributions to the Private Organizations Employees’ Pension Fund which is administered by POESSA. • The employer contribution rate is 11% of the employee’s basic salary, whereas the employee contribution rate is 7% per month.
payroll tax	• There is no payroll tax in Ethiopia.
stamp duty	• Stamp duty is levied under the Stamp Duty Proclamation, 1998 on a variety of instruments at the time of issuance or transfer of a specified instrument. • Stamp duty at a rate of 1% is payable on the value of bonds and security deeds transferred. • Stamp duty on the transfer of movable and immovable property is levied at 2% of the value of the property.
value added tax (“VAT”)	
taxable supplies	• VAT is levied on the supply of goods or services in Ethiopia and on the importation of goods or services.
VAT rate	• 15%

registration threshold	• Any person who carries on business in Ethiopia and has an annual taxable turnover or expected annual taxable turnover exceeding ETB2-million must register for VAT purposes. • Businesses whose turnover exceeds ETB1-million may apply for voluntary registration.
reverse VAT on imported services	• Resident companies are required to account for output VAT in respect of imported services rendered by non-resident companies. • Such VAT can be claimed as an input credit if the resident company is registered for VAT and uses the services for purposes of making taxable supplies.
trade marks	
international conventions, treaties, and arrangements	• Marrakesh VIP Treaty • Nairobi Treaty • World Intellectual Property Organization Convention
first-to-file jurisdiction	• The first person or entity that applies for a trade mark will obtain registration and may prevent others from using it. However, a trade mark may not be registered if it is identical or confusingly similar to a trade mark that is well-known or established by use in Ethiopia for identical or similar goods.
classification	• The International Classification of Goods and Services (Nice Classification) applies. • A multi-class trade mark filing system is followed.

categories of trade marks	• Provision is made for:
	  • ordinary trade marks (goods and service marks); and
	  • collective marks.
	• No provision is made for certification and defensive marks.

filing requirements	• Power of attorney, to be legalised up to Ethiopian Consul; • certified copy of corresponding home or foreign registration, with verified English translation, signed and stamped by the translator; or • certified copy of the proprietor's business licence (if available) detailing the goods and/or services to be covered by the application, with verified English translation, signed and stamped by the translator. If the proprietor's country does not have a business licensing system, then a certified copy of the Certificate of Incorporation may be used instead, provided it lists the business activities as being closely related to the goods and/or services to be protected in Ethiopia; and • priority document (if applicable), with verified English translation, signed and stamped by the translator.
procedure	• Applications are examined as to formal and substantive requirements.
oppositions and non-use cancellations	• Opposition may be lodged within 60 days following the date of advertisement of the trade mark application. Extension of this period is possible. • A registered trade mark may be cancelled on action by an interested party if it has not been used for a continuous period of three years after the date of registration.
duration and renewal	• A trade mark registration is effective for an initial period of seven years and, thereafter, renewable for further periods of seven years. • Renewal notices must be published during renewal of trade marks.

ENS is a full-service law firm with significant experience and specialist expertise that spans all commercial areas of law, tax, forensics, and IP across Africa. For more information or assistance please contact:

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