INVESTMENT **GUIDE**

2016/2017

ALGERIA
BOTSWANA
ETHIOPIA
GUINEA
KENYA
MADAGASCAR
MALAWI
MAURITIUS
MOROCCO
MOZAMBIQUE
NIGERIA
RWANDA
SUDAN
TANZANIA
UGANDA
ZAMBIA

MTA | ALN
MESFIN TAFESSE & ASSOCIATES
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ABOUT ALN

ALN is an alliance of independent top tier African law firms. It is the largest and only grouping of its kind in Africa, with close working relationships across its members and an established network of Best Friends across the continent. ALN's firms are committed to working together to provide extensive coverage and on-the-ground experience. The network has consistently been ranked Band 1 in the Leading Regional Law Firm Networks category, by Chambers Global.

ALN IN ETHIOPIA

ALN Member Firm: Mesfin Tafesse & Associates

Mesfin Tafesse & Associates Law Office (MTA) is the newest member of ALN, having joined the network in 2015.
MTA was established in 2007 by Mr. Mesfin Tafesse, who has over 25 years of experience in areas of public and private law. MTA has since grown and expanded its client base and areas of expertise from general corporate law to multifaceted fields and cross border deals such as merger and acquisitions, banking, finance, mining, tax and telecoms.
MTA has consistently been ranked as a leading law firm in Ethiopia by international law directories. Chambers Global 2016 ranks Mesfin Tafesse & Associates Band 1 firm in Ethiopia's General Business Law category and recognises that the firm has significant strength in energy and natural resources work, receiving particular commendation for its expertise in oil and gas and mining.

Ethiopia is one of the most attractive markets in Sub-Saharan Africa on account of its promising economic outlook, large pool of available labour and abundant natural resources.
– **BMI View, Ethiopia Operational Risk Report; July 2016**

Ethiopia has moved from the second poorest nation in the world in 2000 and, if it can keep the current pace, it's on its way towards becoming a middle income country by 2025.
– **World Bank Overview**

The [Ethiopian] economy has experienced strong and broad based growth over the past decade, averaging 10.8 percent per year in 2003/04 - 2013/14 compared to the regional average of 5.0 percent.
–**World Bank Overview**

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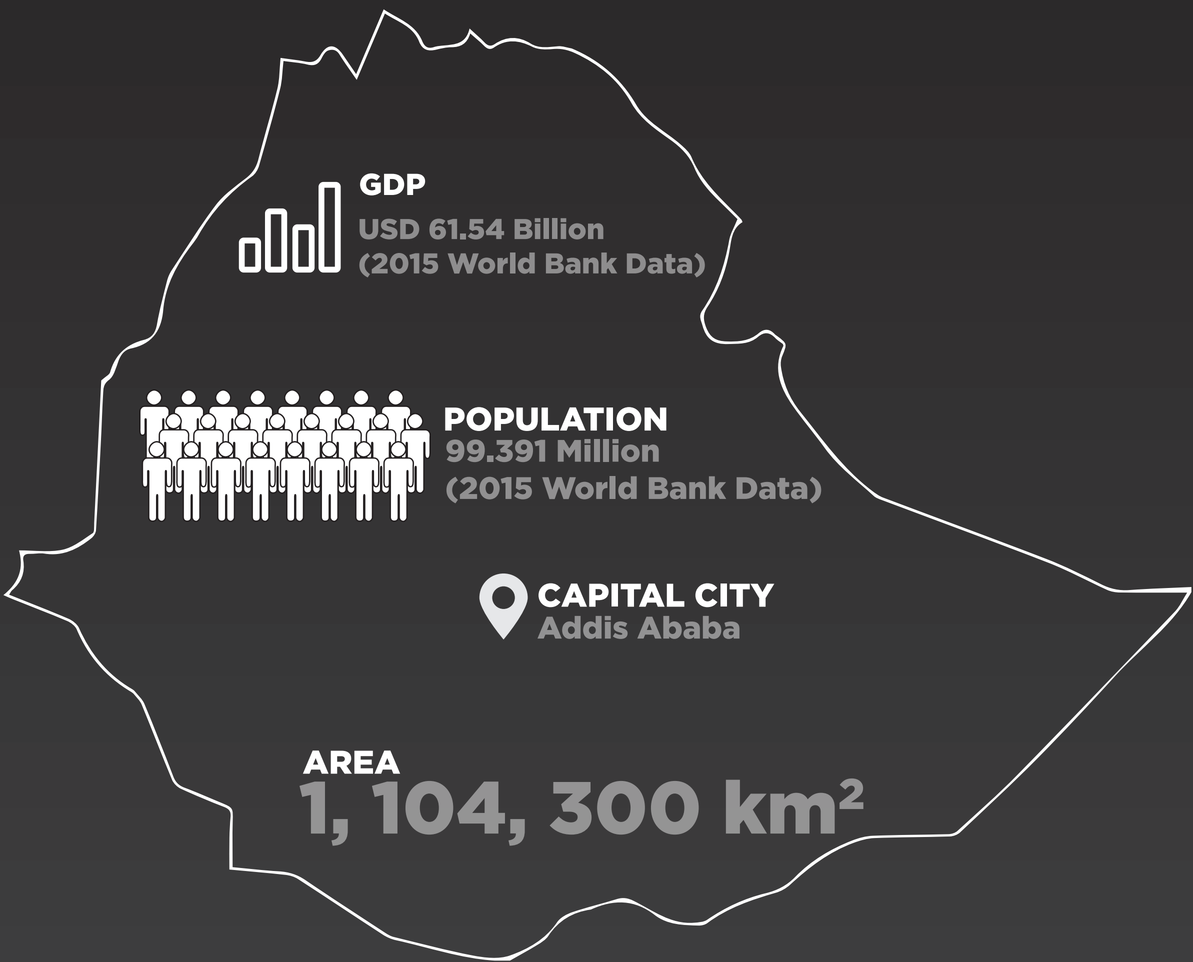
OVERVIEW



PRESIDENT
Dr. Mulatu Teshome
(Head of State)

CURRENCY
Birr (ETB)

DRIVES ON
The Right

GOVERNMENT
Federal Republic

LANGUAGE
Amharic

TOP LEVEL DOMAIN
.et

TIMEZONE
GMT + 3

CALLING CODE
+251

POLITICAL OVERVIEW

The Constitution of Ethiopia, adopted in 1995, provides for a multi- party political system. Ethiopia has a Parliamentary form of government with a Bicameral Parliament which comprises of the House of the Peoples' Representative (HPR) and the House of the Federation (HoF). The HPR is the highest authority of the Federal Government. Power of government is assumed by the political party or a coalition of political parties that constitutes a majority in the HPR. Executive power is vested on the Prime Minister, elected from among the members of the HPR, for a five year term.

The current Prime Minister is Hailemariam Desalegn. The Prime Minister appoints the Council of Ministers, which is then approved by the HPR.

ECONOMIC OVERVIEW

The Ethiopian Government has formulated and started the implementation of the second five year Growth and Transformation Plan (GTP), to carry forward the important strategic directions to maintaining a fast growing economy in all sectors.

Ethiopia's economy is mainly based on agriculture, which accounted, in 2015, for about 41.4 percent of the GDP, 90 percent of foreign currency earnings, and 85 percent of employment. Coffee is the most important commodity to the Ethiopian economy. It earned USD 687.20 million in the third quarter of 2015. The other important export products are: gold, oil seeds, chat, flowers, pulses, live animals, leather and leather products, meat and meat products, and fruits and vegetables. The services sector is the fastest expanding sector and also constituted close to 43 percent of the GDP in 2015. The industrial sector, which mainly comprises small and medium enterprises, accounted for about 15.6 percent of the GDP in 2015.

The Government of Ethiopia has attempted to promote private sector investment through the provision of investment incentives and also by implementing an investor-friendly taxation, trade and credit system, and by simplifying and clarifying business and administrative procedures for investors.

BILATERAL & MULTILATERAL TREATIES

Ethiopia commenced its accession to the World Trade Organization in 2003 and submitted its Memorandum of Foreign Trade Regime in 2006. Ethiopia has also entered bilateral investment and protection agreements with 30 countries: Algeria, Austria, Belgium and Luxumberg, China, Denmark, Egypt, Equatorial Guinea, Finland, France, Germany, India, Iran, Israel, Italy, Kuwait, Libya, Malaysia, Netherlands, Russia, South Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, the United Kingdom, USA and Yemen. It has ratified a Protection of Investment and Property Acquisition Agreement with Djibouti.

The country has also concluded double taxation avoidance treaties with Algeria, Check Republic, France, India, Israel, Italy, Kuwait, Romania, Russia, South Africa, Tunisia, Turkey and Yemen.

Ethiopia is a member of the World Intellectual Property Organization (WIPO), Multilateral Investment Guarantee Agency (MIGA), the African Union (AU), the Common Market for Eastern and Southern Africa (COMESA) and the United Nations (UN).

REGULATORY ENVIRONMENT

The Ethiopian Investment Commission (EIC) is the autonomous Government body which regulates investments in Ethiopia. The EIC is responsible for promoting the country's investment opportunities and conditions to foreign and domestic investors, and for issuing investment permits and business licenses. The EIC also provides services of facilitating the acquisition of land and utilities, loan and residence permit applications, and other services which are essential to engage in investment activities. The National Bank of Ethiopia (NBE) and the Ministry of Trade are also the main Governmental institutions which play an essential role in the activities of investors.

The Investment Proclamation 769/2012 (as amended), the Investment Incentives and Investment Areas reserved for Domestic Investors Council of Ministers Regulation No. 270/2012 (as amended) and the Ethiopian Investment Board and Ethiopian Investment Commission Establishment Council of Ministers Regulation No. 313/2014, are the main legal frameworks for both foreign and domestic investments in Ethiopia.

Foreign investors are required to obtain investment permits and business licenses from the EIC. However, registration certificates and business licenses for the following activities are issued by other Government institutions:

a. prospecting and mining of minerals;
b. various water works services, excluding water works construction services;
c. banking, insurance and microfinance services;
d. air transport services and other aviation services;
e. commercial activities involving the use of radioactive materials and radiation emitting equipment;
f. telecommunication services;
g. the business of generating, transmitting, distributing or selling electricity;
h. repairing and maintaining of arms and firearms and sale of explosives;
i. sea and inland water ways transportation services;
j. multimodal transport services;
k. the business of warehouse receipt system; and
l. trade in tobacco and tobacco products.

The minimum capital required of a foreign investor to invest in Ethiopia is USD 200,000 and if the foreign investor invests in partnership with a domestic investor(s), the minimum capital required is USD 150,000. Foreign investors wishing to purchase an existing private enterprise, or shares therein, are required to obtain prior approval from the Ministry of Trade. The minimum capital required of a foreign investor investing in architectural or engineering works or related technical consultancy services, technical testing and analysis or in publishing work is USD 100,000 if the investment is wholly foreign owned and USD 50,000 if the investment is made jointly with a domestic investor.

The areas with most promising potential for investment in the country today are textile and garments, leather and leather products industry, agro-processing, pharmaceutical, chemical and metal industries in the manufacturing sector, horticulture, palm tree farming, rubber tree farming, cotton plantation, coffee plantation, sugarcane farming in agriculture and power generation in the services sector, road and dam construction works and buildings in infrastructure and mining.

Investment in banking, insurance, finance, broadcasting, air transport, shipping, wholesale trade, resale trade and the export of coffee, oilseeds, hides and skins are areas reserved for domestic investors. The Investment Law provides guarantee against nationalization or expropriation of the assets of a domestic or foreign investor except when the public interest requires it, and in compliance with the law and upon payment of adequate compensation corresponding to the prevailing market value. Assets may only be seized, impounded or disposed of by court order.

There are no designated foreign trade zones or free ports in Ethiopia. Most Ethiopian trade is conducted through the port of Djibouti and, occasionally, via the Somaliland port of Berbera.

All foreigners entering the country must obtain visas either at the arrival gate, or prior to arriving in the country from an Ethiopian Embassy, Permanent Mission or Consul General. A work permit is obtained from the EIC for expatriate employees that the investor may bring into the country. A business visa is required to obtain a work permit. A residency permit is obtained from the Main Department for Immigration and Nationality Affairs.

INVESTMENT PROMOTION

INSTITUTES GOVERNING INVESTMENT PROMOTION

The EIC is the primary Government organ that serves as a nucleus for matters of investment and is given the power and duty to promote, coordinate and enhance investment activities. The Ministry of Public Enterprises issues Government tenders in areas such as infrastructure development and public sectors while the Ministry of Trade registers and licenses investors in brown field investment. The National Bank of Ethiopia controls and facilitates foreign exchanges.

INVESTMENT INCENTIVES

Investment incentives are mainly provided under the regulation for Investment Incentives and Investment Areas Reserved for Domestic Investors No. 270/2012, as amended by Council of Ministers Regulation No. 312/2014.

Ethiopia offers a comprehensive set of fiscal and non-fiscal incentives to encourage investment into priority areas. Customs duty and income tax exemptions are provided as fiscal investment incentives for specific areas of investment eligible for investment incentives, and for investments in specified less developed regions of the country.

Any investor eligible for exemption of customs duty is entitled to import duty-free capital goods and construction materials necessary for the establishment of a new enterprise or the expansion or upgrading of an existing enterprise. The investor is also allowed to import spare parts, the value of which is not greater than 15 percent of the total value of the capital goods, within five years from the date of commissioning of his project.
In addition, the amended Investment Regulation states that manufacturing industries that have invested more than USD 200,000 and created permanent employment opportunities for more than 50 Ethiopian nationals will be entitled to duty free privileges for capital goods at any time. Also an investor who expands or upgrades their existing enterprise and increases in volume at least by 50 percent of its attainable production or service rendering capacity or introducing a new production or service rendering line by 100 percent of an existing enterprise, is entitled to the income tax exemption for a period specified under the Regulation.

An investor who exports 60 percent of its products or services, or supplies the same to an exporter as production of service input, will also be exempted from the payment of income tax for additional two years. The income tax exemption to be granted to an investor, who engages in an area of the manufacturing industry or information and communication technology development, without constructing his own production or service rendering building, shall be one year lesser than what is provided for in the sector.

Non-fiscal incentives are given to all investors who produce export products.

Such investors will be allowed to import machinery and equipment necessary for their investment projects through suppliers' credit. And business enterprises that may suffer losses during the income tax exemption period can carry forward such losses, following the expiry of the income tax exemption period for half of the tax exemption period.

In Ethiopia, land is public property. Individuals, companies and other organizations only have the right to possess and use the land. Land can be obtained through lease or rent. Investors leasing land for investment purposes are given priority, and the EIC has the mandate to facilitate the allocation of land for investment projects throughout the country.

In addition to the above, foreign investors who reinvest profits or dividends or export 75 percent or more of domestic output are exempt from minimum capital requirements.

In relation to the exemption of duty, any investor engaged in the manufacturing industry and who has invested at least USD 200,000 or the equivalent in ETB, at the prevailing rate of exchange and has created permanent employment opportunity for at least 50 Ethiopian nationals is entitled to import, at any time, duty free capital goods necessary for his existing enterprise. On the other hand, investors that are engaged in another area of investment, eligible for customs duty exemption with USD 200,000 investment or the equivalent in ETB at the prevailing rate of exchange, and have created permanent employment opportunity for at least 50 Ethiopian nationals, are permitted to import duty free capital goods necessary for the existing enterprise up to 5 years from the date of acquiring a business license or other appropriate license.

New laws have been put in place for the establishment of industrial parks. The Government plans to establish 10 industrial parks within five years so as to boost manufacturing industries. The industrial parks to be built are expected to facilitate the situation for the planned transition to an industry led economy. Bahir Dar, Jimma, Adama, Kombolcha and Mekele are the towns where the parks are going to be established. The industrial parks that are built so far; Bole Lemi and Kilinto, are earning USD 20 million annually. The industrial parks have been built with the aim of providing the necessary services and facilities for industries as a means to encouraging more FDI and domestic investment. The Industrial Park Development Corporation develops identical, similar or interrelated industries together or multifaceted industries, based on a planned fulfillment of infrastructure and various services such as road, electric power and water, and having special incentive schemes. The parks are designed with a broad view of achieving planned and systematic development of industries, mitigation of the impacts of environmental pollution and development of urban centers. For example the design of the Hawassa Industrial Park comprises the recycling of 78 percent of water which is in consideration of environmental pollution. The priority sectors of the industrial parks are agro-processing industries; textile and garment; leather and leather products industries; sugar and related industry; chemical industries; pharmaceutical industries and metal and engineering industries. An investor who invests within an Industrial park and exports 80 percent or above of the product from his manufacturing industry or supplies as production input to an investor who exports his products, is entitled for an additional exemption from income tax from 2 to 4 years, depending on the location of investment. The development of industry parks has been recently opened to private investors and investors who engage in the development of these parks are exempted from an income tax from 10-15 years depending on the location of investment.

TAX

PERSONAL INCOME TAX

All persons who earn an “income” as defined in the Income Tax Proclamation No. 286/2002 (as amended) are obliged to pay income tax. This includes income from business activities, from entrepreneurial activities carried on by a non-resident through a permanent establishment and license fees (including lease payments and royalties paid by a resident or a non-resident through a permanent establishment).

An individual is regarded as being resident in Ethiopia if that individual has a domicile or habitual abode in Ethiopia; is a citizen of Ethiopia; or is a consular, diplomatic or similar official of Ethiopia posted abroad.

An individual, who stays in Ethiopia for more than 183 days in a period of twelve calendar months, either continuously or intermittently, is considered to be a resident for the entire tax period or is taxed in accordance with the provisions of the Income Tax Proclamation.

An entity is regarded as resident if it has its principal office or place of effective management in Ethiopia or is registered in the trade register of the Ministry of Trade or of a trade bureau of a regional government. Corporate Income Tax is computed on taxable profits. Taxable business income of companies is taxed at the rate of 30 percent.

INCOME TAX PROCLAMATION AND TAX ADMINISTRATION PROCLAMATION

The Income Tax Proclamation No. 978/2016 and Draft Tax Administration Proclamation, referred hereinafter respectively as “FDITP” and “FDTAP”, have been circulated to stakeholders for implementation and consultation respectively.

Income Tax Schedules
While the previous version of the FDITP had merged income from rental of buildings and business profit tax in a single schedule, the current one maintains the scheduler structure of the Existing Proclamation and separates these two categories of income to be declared and assessed under different schedules.

Filing Tax Declarations
The previous version of the FDTAP provided for the possibility of the extension of time to file a tax declaration. However, no such provision has been included in the current FDTAP.

Departure Prohibition Orders
The scope of a tax payer’s assets to satisfy a tax claim has been expanded by the FDTAP as it provides that the Tax Authority may require a financial institution, in addition to blocking the account of the taxpayer, to also block access to cash, valuables, precious metals or other assets in a safe deposit. Only financial deposits were targeted in the previous draft.

The FDTAP empowers the Authority to issue a departure prohibition order when the Authority has reasonable ground to believe that a taxpayer may leave Ethiopia without paying tax that is or will become payable by the taxpayer or a company in which the taxpayer is a controlling member.

Controlling member in relation to a company has been defined in the FDTPA as a member who beneficially holds, directly or indirectly, either alone or together with a related person or persons, 50 percent or more of the voting rights attaching to membership interests in the company, 50 percent or more of the rights to dividends attaching to membership interest in the company or 50 percent or more of the rights to capital attaching to membership interest in the company.

The departure prohibition order would be effective until payment in full has been made by the tax payer or an arrangement satisfactory to make the payment has been made to ERCA. It shall however expire after ten days from the date of issuance unless a court of competent jurisdiction, on application by the Authority, extends the order for the period determined by the court. The order is to be issued by the Director General of the Tax Authority or an official specifically authorized by him.

Currently it is only the courts that can issue departure prohibition order when as investigation has commenced against a tax payer. Therefore, this would give more power to ERCA in the process of recovering tax debt from tax payers.

Temporary Closure of Business
The FDTPA authorizes the Tax Authority to close the business of a taxpayer temporarily, for a period not exceeding 14 days, after serving such person with notice who fails to maintain documents as required by the law or pay tax by due date.

Appeal
Appeal to Review Committee
A tax payer dissatisfied with a decision may file a notice of objection in writing within 21 days from the date of notice of the decision. The Existing Income Tax Law provides that objection has to be made within ten days from the receipt of the tax assessment notification and does not provide for any specific format or content of a memorandum of appeal. However under the FDTAP it is provided that the tax objection is valid only where;

A. It precisely states the grounds of the taxpayer's objection to the tax decision, the amendment that the taxpayer believes are required to be made to correct the decision and the reason for making the amendment; and
B. when the tax payer has paid the tax that has not been disputed in the objection.

An appeal that is submitted to the Review Committee without fulfilling the above requirement is considered invalid. Invalid objection would only be accepted if they have been correctly filed again within 21 days from the date of service of the notice of the tax decision or within 10 days from the date of service of notice by the tax authority for correction.

The FDTAP provides that the tax payer may apply in writing to ERCA for an extension of time to file a notice of objection before the end of the objection period which is 21 days from the date of notice of the tax decision. In such a case, if the Authority finds that there is good reason to do so, it may extend the period for a maximum of 14 days.

When an objection to a tax decision has been filed by a taxpayer, the Grievance

Review Committee ("GRC") makes an independent review of the objection and makes a recommendation to ERCA. ERCA will then pass a decision based on the recommendation and the decision is referred as "Objection Decision". No time limit of any nature has been set by the Existing Proclamation. The FDTAP has now introduced the rule that if the GRC does not finalize its recommendations on the objection of the tax payer within 120 days, the objection would be presumed to be rejected. The tax payer is then required to lodge its appeal to the Tax Appeal Commission. Under the Existing Proclamation, appeal to the Tax Appeal Commission is based only on the objection decision of ERCA.

Appeal to the Tax Appeal Commission
One major change to the Existing Proclamation that has been introduced by the FDTAP is the amount of money to be deposited by the tax payer to institute an appeal against the tax assessment. The Existing Proclamation provides that an appeal is acceptable if a deposit of 50 percent of the disputed amount is made to the ERCA. The calculation of the deposit is based on the disputed amount inclusive of the administrative penalties and late payment interest imposed by ERCA.

The FDTAP has removed the penalty and late payment interest from the calculation of the deposit. In respect of the percentage to be levied on the disputed amount, it is stated that the tax payer has to pay 25 percent of the tax in dispute under tax assessment for an appeal against a deemed objection decision or 50 percent of the tax in dispute for any other tax. A deemed objection decision is the decision of ERCA which is considered to be served to a tax payer who has filed an appeal against a tax decision to the Review Committee but has not received an objection decision by ERCA within 120 days.

The FDTPA has also provided a mechanism under which an application can be made for the extension of time for filing notice of appeal for Tax Appeal Commission.

An Appeal to the Federal High Court
An appeal to the Federal High Court is to be instituted within 30 days from being served with notice of decision of the Tax Appeal Commission on question of law. The FDTPA has reduced the percentage required to be deposited by the tax payer to file the appeal. Accordingly the tax payer is required to make a deposit of 75 percent of the tax in dispute. The Existing Proclamation provides that appeal to the court may be made after the payment of 100 percent of the tax liability determined by the Tax Appeal Commission. The amount required to be deposited to file the appeal is the tax determined by the Tax Appeal Commission which does not include administrative penalties and late payment interest payable in respect of the disputed tax.

CAPITAL GAINS TAX

Capital gains tax under the law is payable on gains obtained from the transfer of buildings used for business, factory, or office purposes at 15 percent, and shares of companies at 30 percent.
Any remittance made by a foreign investor in Ethiopia from the proceeds of a sale or transfer of shares or assets upon the liquidation or winding up of an enterprise is exempted from the payment of capital gains tax.

WITHHOLDING TAX

Withholding tax is levied on imported goods at a rate of 3 percent on the sum of cost, insurance and freight and is levied at a rate of 2 percent in the case of business entities, non-governmental organizations, private non-profit institutions and Government agencies. Tax is imposed on dividends at a rate of 10 percent and 5 percent on interest and royalties.

OTHER TAXES

Turnover tax is levied at a rate of 2 percent on the supply of goods to the local market and on construction, grain, mill, tractor and combine harvesting services and at a rate of 10 percent for other services.

Value Added Tax (VAT) is levied at a rate of 15 percent on businesses whose turnover exceeds USD 22,647 (ETB 500,000) per year. All exported goods and basic services are exempted from VAT.

STAMP & TRANSFER DUTY

The following instruments are chargeable with stamp duty: memorandum and articles of association of any business organization or any other form of association (flat rate of ETB 350 upon 1st execution and ETB 100 upon any subsequent execution); memorandum and articles of associations of cooperatives (flat rate of ETB 35 upon 1st execution and ETB 10 upon any subsequent execution) award (with determinable value 1 percent of the value and with undeterminable value ETB 35), bonds (1 percent of the value), warehouse bond (1 percent of the value), contract and agreements and memoranda thereof (flat rate of ETB 5), security deeds (1 percent of the value), collective agreement (flat rate of ETB 350 upon 1st execution and ETB 100 upon any subsequent execution), contract of employment(1 percent of salary), lease including sub-lease and transfer of similar rights (0.5 percent of the value), notarial acts (flat rate of ETB 5), power of attorney (flat rate of ETB 35) and documents of title to property (2 percent of the value).

In the course of selling of property, the seller has to obtain tax clearance on the property from the Ethiopian Revenue and Customs Authority as to the payment of all taxes including capital gains tax.

TRANSFER PRICING & THIN CAPITALISATION

There are no regulations regarding transfer pricing or thin capitalization in Ethiopia.

DOUBLE TAX TREATY WITH MAURITIUS

Ethiopia does not currently have a double tax treaty with Mauritius.

PRINCIPAL TAXES CURRENTLY IN FORCE

No.	Type of Tax	Rate
1	Corporate income tax	30%
2	Custom Duties	0% - 35%
3	Dividend Tax	10%
4	Excise Tax	10% - 100%
5	Export Tax	Nil
6	Income tax from employment	0% - 35%
7	Royalty tax	5%
8	Turn Over Tax	2% and 10%
9	Value Added Tax	2%
10	Withholding tax	15% for building held for business, factory, office
11	Capital Gains Tax	30% percent for the transfer of shares of companies

DOING BUSINESS

ACCOUNTING PRINCIPLES

A Proclamation to Provide for Financial Reporting, Proclamation No. 847/2014 has been issued in December 2014 to establish transparent and uniform financial reporting system in Ethiopia. This law requires reporting entities to submit their financial reports to the Accounting and Auditing Board of Ethiopia in accordance with the standards and schedules to be issued by the Board. They are also required to ensure that their financial statements are audited as per International Standard for Auditing approved by the Board or in the case reporting entities constituted or incorporated outside of Ethiopia, pursuant to auditing standards applicable in the country where those reporting entities are incorporated or constituted, so long as it is substantially the same with the Ethiopian law. Furthermore, the law imposes an obligation on directors of reporting entities to make sure that the aforementioned obligations of the entities are fulfilled.

The 1960 Commercial Code of Ethiopia also holds company directors responsible for keeping accounts and books, preparing financial statements and ensuring that audits are conducted.

INDUSTRIAL RELATIONS

All eight of the International Labour Organization's conventions have been ratified by Ethiopia and most of the Core Labour Standards have been enacted into law. The Labour Proclamation No. 377/2003 regulates the employer-employee relationship in private undertakings and sets minimum work standards. This legislation provides for the formation of contract of employment, conditions of work, termination of contract of employment, occupational safety and working environment, labour unions, dispute settlements, etc. The labour law only applies to non-managerial employees. Managerial employees who are vested with the power to formulate and execute management works, and hire, transfer, suspend, or take disciplinary measures against other employees, are governed by the appropriate section of the Civil Code of Ethiopia.

Employers may not hire persons under 14 years of age and are subject to certain restrictions in respect of the hiring of persons aged 14 to 18, although these restrictions are not often enforced. The maximum number of working hours per week is 48.

There is no national minimum wage in Ethiopia, although some Government institutions and public enterprises set their own minimum wages. The definition of "wages" in the Labour Proclamation does not include allowances, bonuses or overtime pay.

Under new legislation promulgated in June 2011, the pension coverage system is expanded to cover employees in the private sector. Contributions to funds are made on the basis of 7 percent of the employee's salary and 11 percent contribution from the employer.

EXCHANGE CONTROL

Pursuant to Proclamation for the Establishment of the National Bank of Ethiopia (Proc. No.59/2008), the conditions, limitations and circumstances under which any person may possess and utilize foreign currency or instruments of payments in foreign exchange, and also the terms and conditions for transfer of foreign exchange to and from Ethiopia, is determined by the National Bank of Ethiopia (NBE). According to this Proclamation, it is illegal and criminally punishable, in addition to confiscation of the property with which the offense is committed, for any person to engage in any transaction of foreign exchange except with banks or authorized dealers or with the special permission of the NBE.

Under Directive No.FXD/07/1998, and a series of amendments which followed, the functions of the NBE on foreign exchanges has been transferred to commercial banks which are licensed to operate in Ethiopia. In accordance with this Directive, foreign exchange bureaus established at the commercial banks are allowed to engage in the buying and selling of foreign currencies, operate in spot transactions with immediate delivery of currencies bought or sold, sell and/or buy cash notes and travellers cheques at displayed exchange rates before any subsequent change.

The NBE fixes the daily buying price of currencies and communicates it to commercial banks on daily basis whereas the daily selling price is determined by commercial banks which should not be less than the daily buying price fixed by the National Bank for that particular date, although it can exceed that amount to a tolerable range.

The Investment Proclamation No.769/2012 provides for investment (regulatory) incentives for foreign investors, in respect of their approved investment, by way of remittance of funds.

Foreign investors are entitled to remit profits, dividends, principal and interest on foreign loans, and technology transfer-related fees. Foreign investors may also freely remit proceeds from the sale or liquidation of an enterprise, compensation paid to an investor, or from the sale or transfer of shares or partial ownership of a business to a domestic investor. Expatriate employees may also remit their salaries in accordance with the foreign exchange regulations.

Repatriation of company profits may be delayed due to low reserves of hard currency held by the NBE. Businesses must apply for foreign exchange for imports in a minimum of six to nine months in advance of their intended importing needs.

IMPORTS AND EXPORTS

The import and export of prohibited and restricted goods is controlled by the Ethiopian Customs Authority. Banned imports include goods which are socially or morally harmful such as habit forming drugs, military weapons, explosives, fireworks, poisons, toxic substances and pornographic materials. Plants, plant products and seeds can only be imported with prior consent of the Ministry of Agriculture or such other nominated Government agency.

The Quality and Standards Authority of Ethiopia is the first quality and standards accreditation and certification authority in the country. All medicines and medical supplies must be registered, prior to use and distribution, with the Food, Medicine and Health Care Administration and Control Authority.

Imports and exports are subject to taxes and duties under the Harmonized Commodity Description and Coding System. They are also subject to the preferential tariff rate where goods are imported from the preferred country and the rates in force on the day the declaration of goods is presented to, and accepted by the customs office.

High import tariffs are applied to protect certain local industries such as the leather and textile industries. Ad valorem tariffs range from 0 percent to 35 percent. The Ethiopian Government has introduced 10 percent surtax on certain imported goods, with the proceeds being attributed to the distribution of subsidized wheat in urban areas.

Ethiopia is a member of COMESA and goods imported from COMESA countries are afforded a 10 percent tariff preference. Importers must obtain import permits and letters of credit for the total amount imported. Tax certification is required for repatriation of dividends or investment income. Regulations govern the repayment of loans and foreign partner credits. There are also rules governing import permit issuance by commercial banks and a clearance certificate from the National Bank of Ethiopia is required to obtain an import permit.

CORRUPTION

It is a crime to give or receive bribes in Ethiopia. The country ratified the United Nations Anti-Corruption Convention in 2007. The Ministry of Justice and the Federal Ethics and Anti-Corruption Commission are the bodies responsible for combating corruption. The Proclamation on Prevention and Suppression of Money Laundering and the Financing of Terrorism, through which a national financial intelligence has been established, became effective in December 2009.

Furthermore, following frequent complaints from investors about the lack of transparency in the procurement system, the Ethiopian Government has established a public procurement and property administration agency which is intended to be an autonomous Government organ, with its own judicial branch, accountable to the Ministry of Finance and Economic Development.

COMPETITION

The Ethiopian Government has enacted the Trade Competition and Consumers Protection Proclamation No. 813/2013, (TCCPP) which established the Trade Competition and Consumer Protection Authority (TCCPA). The Proclamation aims to promote competitive practices in the local market and eliminate or prevent anti-competitive and unfair trade practices. Amongst other things, the Proclamation regulates anti-competitive practices such as price-fixing; collusive tendering; market and consumer segregation; refusals to deal, sell or render services; practices intended to eliminate competitors; and practices regarded as abuse of dominance. Under the TCCPP, a merger is deemed to have occurred (a) when two or more business organizations previously having independent existence, amalgamate or when such business organizations pool the whole or part of their resources for the purpose of carrying on a certain commercial activity or (b) by directly or indirectly acquiring shares, securities or assets of a business organization or taking control of the management of the business of another person by a person or group of persons, through purchase or other means.

A recent pre-merger notification requirement has been put in place. Based on the new practice, pre-merger notification is only required to be given to the Authority if it fulfills one of two scenarios: (a) in case of amalgamation: if the combined

assets or turnover (which ever combination is higher) of both the acquiring and the target company is more than USD 1, 358, 807 (ETB 30 million), or (b) In case of acquisition: if the target company assets or turnover (whichever is higher) is more than USD 1, 358, 807 (ETB 30 million). In calculating the threshold, the Authority will use as a reference point the company's audited financial statement of the preceding year. Therefore, mergers (as defined) must be notified to the TCCPA prior to their implementation, disclosing the details of the proposed merger. The TCCPA will then investigate the possible adverse effect of the proposed merger on trade competition, during which time it may request additional documentation/ information and seek comments (through a notice in a newspaper) from any business person who is likely to be adversely affected by the merger. During the review period, the merger cannot take effect. Failure to give notice of a merger may expose any business person who participates in the merger to a fine of 5 percent up to 10 percent of his/her annual turnover. However, no filing fee is payable to the TCCPA for notifying a merger.

CONSUMER PROTECTION

Under the TCCPP, consumers have the right to be provided with accurate information on the quality and type of goods or services being provided and to claim damages in relation to such transactions. As per this legislation, commercial advertisements about goods and services announced by any means may not be false or misleading in any manner. It is prohibited for any business to fail to sell goods and services as advertised or in the quantity consumers demand unless the advertisement discloses a limitation of quantity. In addition, the Ministry of Trade may ban the distribution of goods and services that do not fulfill the standards of health and safety. The Ministry may, when it deems necessary, submit to the Council of Ministers its study on basic goods and services that shall be subject to price regulation and upon approval, announce their list and prices by a public notice. The Authority is accountable to the Ministry of Trade.

Adjudication of disputes will be in line with the Civil and Criminal Codes.

LEGAL FORMS OF INCORPORATION

The Commercial Code of Ethiopia recognizes the following 6 forms of business organizations, the basis of which is a partnership agreement: Ordinary partnership, General partnership, Limited partnership, Joint venture, Share Company (SC) and Private Limited Company (PLC). The Code further classifies business organizations into commercial and non-commercial. SCs and PLCs are always commercial business organizations whatever their objectives are.

A private limited company must have at least two members and may have a maximum of 50 members. The minimum capital required for a private limited company is USD 679 (ETB 15 000), and the liability of the company is limited to its assets.

A share company (public company) must have at least five founders. The minimum capital required for a share company is USD 2,265 (ETB 50,000). The Commercial Code and the Investment Law govern the incorporation of these business entities. The said minimum capital of USD 679 (ETB 15 000) and USD 2,265 (ETB 50,000) apply to local investors as provided in the Commercial Code while foreign investors are required to meet the minimum capital as stipulated in the Investment Law which is currently USD 200,000 if the investment is wholly foreign owned and USD 150,000 if the investment is made by a foreign investor jointly with a local investor.

Foreign investment can also be registered in the form of a branch office or a subsidiary. Branches or subsidiaries, as forms of business, are not defined in the Commercial Code. Nor are they defined in the Commercial Registration and Business Licensing Proclamation No.686/2010.

The Commercial Code provides for firms incorporated abroad and having branches or subsidiaries in Ethiopia. Their similarities lie in the fact that both have legal personalities through registration, they are accountable to their parent companies and the resolution of the parent company is required for their opening and establishment. In terms of constitution, however, a branch cannot have a different name from the parent, cannot transfer its assets or establish a new company without the resolution of the parent company and cannot be converted into a different form of business organization. On the other hand, a subsidiary for all practical purposes is like any new company having the form of either a private limited company or a share company. Though the parent company has a controlling interest in a subsidiary, there is/are always other shareholder/s that may or may not be affiliated to the parent company usually to fulfill the required legal minimum number of members.

Business can also be carried out by an individual trader/investor. The law recognizes it as sole business and is required to enter into commercial registration. The Commercial Code does not recognize a one-person company. The distinctive feature of sole proprietorship is that the liability of the sole proprietor is unlimited, management and ownership is not separated. Doing business in such form is not that much practiced by foreign investors.

INTELLECTUAL PROPERTY

In 1998, Ethiopia acceded to the Convention establishing the World Intellectual Property Organization (WIPO). The Ethiopian Constitution (1995) provides the foundation for intellectual property rights. The Government also recognizes the protection of intellectual property rights as a key factor in economic growth.

As a result, there is in place:

1. The Inventions, Minor Inventions and Industrial Designs, Proclamation No. 123, 1995 and regulation No.12/1997;
2. Copyright and Neighboring Rights Protection Proclamation No. 410/2004 (as amended) and Registration of Works Entitling Copyright and Neighboring Rights Council of Ministers Regulation No. 305/2014; and
3. Trademark Registration and Protection Proclamation No. 501/2006 and Regulation No.273/2012, which regulates acquisition, registration and protection of trademarks in Ethiopia.

These Proclamations are in accordance with the spirit of the Berne Convention for the Protection of Literary and Artistic Works, the Agreement on Trade-Related Aspects of Intellectual Property Rights and the WIPO Treaty.

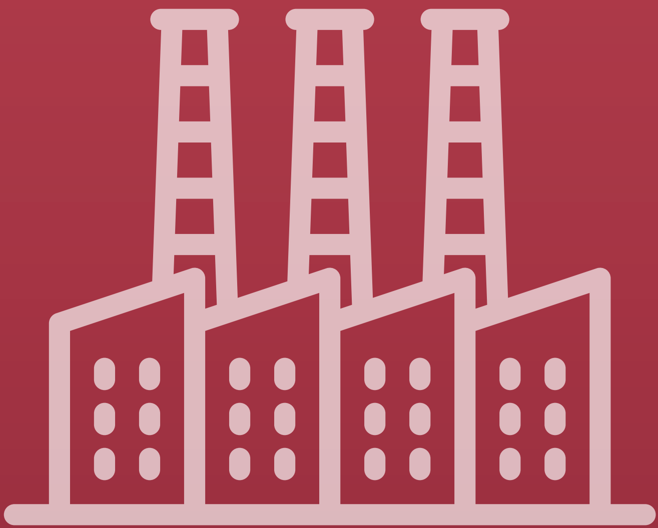
The Ethiopian Intellectual Property Rights Office, established in 2003, is responsible for the administration of patents, trademarks, copyrights, and other intellectual property policy and legal issues.

Patents are protected for 10 to 15 years, with an additional five years if there is proof that it is properly utilized. Industrial designs are protected for five years, with two possible five year extensions. Copyrights are protected throughout the lifetime of the author and 50 years after his or her death; 50 years for the producers of sound recordings and performers; and 20 years for broadcasting entities. Trademarks are protected after the publication of a cautionary notice.

DISPUTE SETTLEMENT

Ethiopia has signed but not ratified the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States. In terms of the Investment Law, disputes concerning foreign investment may be settled by mutually agreeable means, failing which the dispute may be referred to a court or international arbitration in terms of a bilateral or multilateral agreement to which Ethiopia and the investor’s state are parties. However, enforcement of foreign judgments and awards is practically difficult due to the requirement of reciprocity in the law.

INDUSTRY SECTORS



AGRICULTURE

The agricultural sector constitutes approximately 40 percent of GDP and approximately 85 percent of total employment. Approximately 80 percent of the labour force is involved in subsistence agriculture as farmers or herders. Consecutive seasons of failed rains, however, mean the country still faces food insecurity. Ethiopia's main crops are coffee, pulses, oilseeds, cereals, sugarcane, potatoes and vegetables. Horticulture and floriculture are popular areas for foreign direct investment. Ethiopia is Africa's second largest maize producer and its livestock population is believed to be the largest in Africa.

Since 2009, the Ethiopian Government has been focusing on encouraging investment in large-scale commercial farms. The Ministry of Agriculture has been given the responsibility of providing technical support for private investors investing in agriculture. The support ranges from providing land above 5000 ha, provision of information, technical support, and facilitation for other public services.

BANKING & FINANCIAL SERVICES

The provision of Banking and Financial services is an area of business reserved for domestic investors only and the business can only be undertaken by establishing a share company. Currently, there are 16 private and 3 Government-owned banks, 16 private and 1 Government owned insurance companies, and 35 microfinance institutions.

The National Bank of Ethiopia (NBE) is the country's Central Bank, and regulates all foreign currency transactions. It is the regulatory organ in the sector and licenses and supervises financial institutions more rigorously.

The local currency, 'Birr' or 'ETB', is not freely convertible. There are 1,5,10, 50 and 100 birr notes and a 1 birr coin. There are also a 1, 5, 10, 25, 50 cents coins. Since 2004, the NBE has permitted non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and maintain foreign currency accounts of up to USD 50 000.

There is no stock market in Ethiopia. The Ethiopia Commodity Exchange was initiated in 2008 with the intention of increasing transparency in commodity pricing, encouraging commercialization of agriculture and alleviating food shortages. It offers trading on commodities such as coffee, sesame seeds, corn and wheat.

The Government offers 28-day, three-month and six-month treasury bills, but the interest rate thereon is prevented from exceeding the bank deposit rate. The yields on these bills are low and the market is fairly unattractive to the private sector with 95 percent of the bills being held by the Commercial Bank of Ethiopia.

ENERGY

Approximately 90 percent of Ethiopia's electricity is produced through hydropower. Apart from the use of water and wood in electricity production, The Ministry of Water, Irrigation and Energy is seeking investment in the energy sector in order to promote the development of energy in the country. The Ministry is particularly interested in renewable energy sources and a draft feed-in tariff Bill, establishing rates and conditions for private entities to supply power to the national grid, is being finalized. A number of high profile energy projects are also expected to be completed as Ethiopia is currently exporting electricity to Sudan, Kenya and Djibouti. Ethiopia is also in the process of signing a deal with Tanzania for the purchase of 400MW of electric power.

The Potential of Ethiopia's renewable and non-renewable energy resource is large, with the economically feasible hydropower potential estimated at 45,000 MW. It also has large potential for geothermal energy generation. The private sector can participate in electricity generation from any source and without any capacity limit. Transmission and supply of electrical energy through the national grid is, however, exclusively reserved to the Government. Private investors, both foreign and domestic, are however, allowed to operate an off-grid transmission and distribution of electric power.

Petroleum requirements are met through imported refined products. Oil exploration has been ongoing since September 1945 when the Emperor Haile Selassie granted a 50 year concession to SOCONY-Vacuum. There are natural gas reserves of four trillion cubic feet in the South-Eastern lowlands of the country. Currently, there are oil and gas exploration activities in the Gambella Region in the country's South-West, adjacent to the border of Southern Sudan.

MANUFACTURING

The Growth and Transformation Plan (GTP) seeks to transform the economy toward an industrialized economy and to increase per capita income of its citizens by 2025. To this effect the Government has adopted policy focused on the development of the manufacturing sector through the use of industrial parks to attract FDI and to support SMEs. To bundle efforts and facilitate this transformation, the Government puts special focus on the production of textile and garments, leather products, cement industry, metal and engineering, chemical, pharmaceutical, and agro-processing as priority areas for investment.

The manufacturing sector constitutes approximately 15.3 percent of GDP and employs 5 percent of the labour force. As mentioned above, investors in the manufacturing and agro-industrial sectors are granted tax exemptions according to the extent which they export their products. The manufacturing sector is mostly concentrated in Addis Ababa and surrounds, with the focus being on food processing and beverages, textiles, leather, chemicals, metal processing and cement.

MINING

Ethiopia's mining sector is regulated by Mining Operations Proclamation No. 678/2010 (as amended), Mining Operations Regulation No. 182/1994 (as amended), Mining Income Tax Proclamation No. 53/1993 (as amended) and Transaction of Precious Minerals Proclamation No. 651/2009.
These legislations provides that private investors are permitted to perform all kinds of mining operations, including exploration, mining, processing and export. Investors may acquire a one year exclusive prospecting license and a three year exclusive exploration license with renewals of two years each and further extension periods depending on circumstances prevailing at the time the exploration activities are being undertaken. Investors may acquire a 20 year exclusive mining license with unlimited renewal periods of ten years each. The right to sell minerals in Ethiopia and abroad is guaranteed. Minerals not originally specified may be added to the license if discovered and there is an exemption from customs duties and taxes on the importation of equipment, machinery, vehicles and spare parts necessary for mining operations.

The institutions involved in the sector are the Ministry of Mines, Petroleum and Natural Gas, State Mining bureaus/Offices and the Council of Ministers. The Ministry of Mines is responsible for the processing of license application, regulation of the mining operations and the promotion of investment opportunities in the sector. According to this Ministry, Ethiopia has a substantial deposit of gold, tantalum, platinum, nickel, potash and soda ash. Among construction and industrial minerals are marble, granite, limestone, clay, gypsum, gemstone, iron ore, coal, copper, silica, diatomite, etc. Geothermal energy resources also exist in good quantity. With regard to fossil energy resources, there are significant opportunities for oil and natural gas exploration and development in the major sedimentary basins.

The state mining bureaus are responsible for providing mining licenses for artisanal mining, special small scale mining, construction minerals to domestic investors (reconnaissance, exploration, and retention licenses and, for small and large scale mining, mining licenses), industrial minerals to domestic investors (reconnaissance, exploration, and retention licenses, and, for a small scale mining, mining licenses.

The council of Ministers is responsible for approving the mining licenses to be issues by the Ministry of Mines, Petroleum and Natural Gas and issuing regulations relating to mining in its legislative activity.

TELECOMMUNICATIONS

Investors may only enter into the telecommunication services industry in Ethiopia in the form of a joint venture with the State. Ethio-Telecom (ETC) is the state-owned company which has a monopoly in this sector. The telephone system in Ethiopia has been described as "inadequate" and the combined fixed and mobile-cellular teledensity is comparatively low. ETC has previously estimated that the average rural Ethiopian inhabitant has to walk 30 kilometres to reach a telephone. There are approximately 1.6 million internet users (estimate of 2014), with 179 internet hosts in 2012. There is one public television broadcast station, one public radio broadcaster, a few commercial radio stations and approximately a dozen community radio stations.

TOURISM

Tourism constitutes approximately 4.1 percent of Ethiopia's GDP, and utilizes 3.1 percent of the labour force. Tourism is said to be a good area for potential investors due to the moderate dry climate, historical and religious sites and ecological beauty. The area of ecotourism, in particular, has great potential for growth. Potential foreign investors can take full advantage of these opportunities through direct investments or joint ventures with Ethiopians. In this area, only grade 1 tour operation service is allowed for foreign investors.

Opportunities also exist in the construction of star-designated hotels and resort hotels all over the country.

KEY DEVELOPMENTS

ENERGY & INFRASTRUCTURE

Ethiopia's Gilgel Gibe III starts power production, Renaissance Dam on track

Ethiopia's Gilgel Gibe III hydroelectric power project began power generation in October 2015. The dam, which has power production capacity of 1,870 MW, is the highest Roller Compacted Concrete (RCC) dam in Africa at a height of 243 metres.

According to the country's Cabinet Affairs Minister, it is expected to increase Ethiopia's power generation capacity by 234 percent. The power will provide an important contribution to Ethiopia's socio-economic development, by feeding the country's grid as well as facilitating the country's power-export program and assisting regional integration with neighbouring countries through interconnected power links.

A bigger power project, the 6,000 MW Grand Renaissance Dam, is also being developed along the Nile. Despite conflicting interests among, Ethiopia, Sudan and Egypt, the three countries with stakes on this dam, an agreement confirming two firms that have been approved to carry out technical studies on its potential impact of on the flow of the Nile was signed by the three in December 2015.

FINANCIAL SERVICES

Standard Bank Group opens its first office in Ethiopia.

The office, which was opened in Addis Ababa, is meant to be an entry point for clients seeking to invest in the country and is administered by Standard Bank's head office in South Africa.

The bank has established a presence across four of the key markets in the East African region, namely Kenya, South Sudan, Tanzania, Uganda, and now Ethiopia. It is the largest Bank in Africa by assets and has a presence in 20 countries. The bank plans to open more than one office in Ethiopia, but this is largely dependent on the regulatory environment in Ethiopia, where foreign lenders are not allowed to own banks. The country has a tight grip on its financial sector, dominated by state-owned Commercial Bank of Ethiopia. Other banking institutions with representative offices in Addis Ababa include the European Investment Bank, Germany's Commerzbank, pan-African lender Ecobank , Export-Import Bank of India, National Bank of Egypt and Bank of Africa.

NATURAL RESOURCES

NOC buys Oil Libya in Djibouti

Ethiopia's petroleum marketing company, National Oil Ethiopia (NOC), in 2015 bought Oil Libya Djibouti Ltd. The company plans to branch out to East African countries including Djibouti, Kenya, South Sudan and Uganda, as part of its efforts to become a regional petroleum company in East Africa. NOC has been trying to open a branch office in Djibouti for the last two years. Oil Libya Djibouti has six petroleum stations, an aviation depot and office building. It has a 50 percent market share in Libya and the aviation fuel wing covers 70 percent of the demand. NOC, which was established in 2004, has a capital of USD 58 million, 150 gas stations, employs about 10,000 people and claims 40 percent market share of the Ethiopian petroleum distribution market (as at 2015). It has aviation fuel depots at Addis Ababa's Bole International Airport and Assosa, Jimma and Gambella airports. It is also building aviation fuel depots in Kombolcha and Semera towns in addition to scaling up its LPG business.

OTHER DEVELOPMENTS

Ethiopia's state-run Ethio Telecom launched a fourth generation (4G) mobile service in the capital Addis Ababa in March 2015. The 4G service was initially launched to cater for 400,000 subscribers and is part of a USD 1.6 billion deal signed two years ago with Chinese firms Huawei and ZTE to expand mobile infrastructure throughout Ethiopia. 4G service offers much faster speeds than 3G, allowing users to browse the internet more easily and run complex applications.

The Ethiopian People's Revolutionary Democratic Front (EPRDF) won Ethiopia's May 2015 national elections, retaining its position as the country's ruling party. Ethiopia is a federal parliamentary republic, where the party or coalition that wins the most seats in the 547 seat parliament forms the government. Prime Minister Hailemariam Desalegn has been leading the country since the death of Meles Zenawi, who is responsible for building the ruling coalition into a powerful political organization. The ruling party and its allies won with 442 seats, in an election that saw an 85 percent turnout of the 36 million registered voters in a country of more than 90 million people.

In 2015 economic analysts declared Ethiopia the fastest growing nation in Africa and probably the world. The country which was seen as having the lowest human development in the 1990's, is now surpassing the rest of Africa in meeting the continent's Millennium Development Goals. Economic analysts have predicted it to be the fastest-growing country in the world over the next three years. The Bill & Melinda Gates Foundation released a report compiled by the Overseas Development Institute, titled: "One foot on the ground, one foot in the air" tracking Ethiopia's development. According to the report, Ethiopia's agricultural sector has reduced poverty by seven percent between 2005 and 2011. The country's development has been rooted in agriculture, which has benefited from Government support for among other things, best practices, scientific innovation and improved road networks.

Fitch Ratings affirmed Ethiopia's long term foreign and local issuer default ratings (IDR) at class "B", with a stable outlook in April 2016. The country's stable outlook reflects Fitch's assessment that upside and downside risks to the ratings are currently balanced. The main factors that could individually or collectively lead to a more positive rating action are: stronger external indicators reflected in higher exports, stronger FDI and international reserves, further structural improvement, improvement in the macro-policy environment, supporting moderate inflation and a transition to broader based growth. On the other hand, rising external vulnerability illustrated by declining international reserves, further widening of the current account deficit and public debt, could lead to negative rating action.

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ALN Head Office
5th floor, The Oval, Corner of RingRd. Parklands and Jalaram Roads, Westlands
P.O. Box 200 - 00606, Sarit Centre, Nairobi, Kenya
T: +254 706 040 000 | +254 774 040 000
E: alnhq@africalegalnetwork.com

Mesfin Tafesse & Associates
Tensae Building, 2nd Floor, Office No.001, Bole Road Cape Verdi Avenue, Addis Ababa
P.O. Box 8867, Addis Ababa, Ethiopia
T: +251 11 667 2271, +251 11 667 2341 | F: +251 11 470 3184
E: mtafesse@mt-ethiopialawoffice.com