Ethiopia

RISK & COMPLIANCE REPORT

DATE: December 2018

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Executive Summary - Ethiopia	
Sanctions:	None
FAFT list of AML Deficient Countries	Yes
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas	Non - Compliance with FATF 40 + 9 Recommendations

Major Investment Areas:

Agriculture - products:

cereals, pulses, coffee, oilseed, cotton, sugarcane, potatoes, khat, cut flowers; hides, cattle, sheep, goats; fish

Industries:

food processing, beverages, textiles, leather, chemicals, metals processing, cement

Exports - commodities:

coffee, khat, gold, leather products, live animals, oilseeds

Exports - partners:

China 13%, Germany 10.8%, US 7.9%, Saudi Arabia 7.8%, Belgium 7.7% (2012)

Imports - commodities:

food and live animals, petroleum and petroleum products, chemicals, machinery, motor vehicles, cereals, textiles

Imports - partners:

China 13.1%, US 11%, Saudi Arabia 8.2%, India 5.5% (2012)

Investment Restrictions:

Ethiopia's dependency on imported goods, and encourage investment in the export-oriented sectors of textiles/garments, leather/leather products, cut flowers, fruits and vegetables, and agro-processing. Given the scale of public investment needed to meet GTP targets, Ethiopia will need significant inflows of foreign direct investment.

The revised Investment Code of 1996, as well as the Investment Proclamation provide incentives for development-related investments, and have gradually removed most of the sectoral restrictions on investment; Ethiopia's investment code prohibits foreign investment in banking, insurance, and financial services. The remaining state-controlled sectors include telecommunications, power transmission and distribution, and postal services with the exception of courier services. Manufacturing of weapons and ammunition can only be undertaken as joint ventures with the government.

Other areas of investment reserved for Ethiopian nationals include: broadcasting; air transport services; travel agency services, forwarding and shipping agencies; retail trade and brokerage; wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their locally-produced products); most import trade; capital goods rentals; export trade of raw coffee, chat, oilseeds, pulses, hides and skins bought from the market; live sheep, goats and cattle not raised or fattened by the investor; construction companies excluding those designated as grade 1; tanning of hides and skins up to crust level; hotels (excluding star-designated hotels); restaurants and bars (excluding international and specialized restaurants); trade auxiliary and ticket selling services; transport services; bakery products and pastries for the domestic market; grinding mills; hair salons; clothing workshops (except garment factories); building and vehicle maintenance; saw milling and timber production; custom clearance services; museums, theaters and cinema hall operations; and printing industries. However, the GOE has indicated an interest in bringing foreign private sector expertise to some of the above sectors.

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Section 1 - Background

Unique among African countries, the ancient Ethiopian monarchy maintained its freedom from colonial rule with the exception of a short-lived Italian occupation from 1936-41. In 1974, a military junta, the Derg, deposed Emperor Haile SELASSIE (who had ruled since 1930) and established a socialist state. Torn by bloody coups, uprisings, wide-scale drought, and massive refugee problems, the regime was finally toppled in 1991 by a coalition of rebel forces, the Ethiopian People's Revolutionary Democratic Front (EPRDF). A constitution was adopted in 1994, and Ethiopia's first multiparty elections were held in 1995. A border war with Eritrea late in the 1990s ended with a peace treaty in December 2000. In November 2007, the Eritrea-Ethiopia Border Commission (EEBC) issued specific coordinates as virtually demarcating the border and pronounced its work finished. Alleging that the EEBC acted beyond its mandate in issuing the coordinates, Ethiopia has not accepted them and has not withdrawn troops from previously contested areas pronounced by the EEBC as belonging to Eritrea.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Ethiopia is on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 19 October 2018

Since February 2017, when Ethiopia made a high-level political commitment to work with the FATF and ESAAMLG to strengthen its effectiveness and address any related technical deficiencies, Ethiopia has taken steps towards improving its AML/CFT regime, including by commencing risk-based supervision for DNFBPs and non-profit organisations (NPOs) and developing guidance for the identification, freezing and confiscation of assets. Ethiopia should continue to work on implementing its action plan to address its strategic deficiencies, including by establishing and implementing proliferation financing-related targeted financial sanctions.

Compliance with FATF Recommendations

The last follow-up to the Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Ethiopia was undertaken in 2018. According to that Evaluation, Ethiopia was deemed Compliant for 10 and Largely Compliant for 21 of the FATF 40 Recommendations. It was deemed Highly Effective for 0 and Substantially Effective for 0 of the Effectiveness & Technical Compliance ratings.

Conclusion from Follow-up report

Ethiopia has made sufficient progress in addressing some of the technical compliance deficiencies identified in its MER. The deficiencies outstanding under R.1 (originally rated NC) have all been substantially addressed and Ethiopia has been re-rated C. The jurisdiction has also addressed the deficiencies in respect of Recommendation 14 (initially rated PC) and the Task Force approved its re-rating to C.

Recommendation 6 has been re-rated LC on the basis of Procedures for Freezing of Terrorist

In relation to Recommendations, 19, 28 and 33 (initially rated PC), the Task Force approved re-rating them as LC. Proclamation 780/2013 has legal provisions mandating the authorities to apply counter-measures and the FIC has issued a circular giving guidance to accountable institutions on how they can access information on jurisdictions which have weak AML/CFT systems. In addition, the country has demonstrated improvements on keeping data and statistics. However, minor shortcomings remain outstanding in respect of Recommendations

6, 19, 28 and 33. Although there has been progress on R.2, R.8 and R.34 which were rated PC, it has not been sufficient enough to warrant a re-rating. Hence, these ratings will remain PC.

Money Laundering/Terrorism Financing Risks (FATF Mutual Evaluation Report)

In the absence of a completed national risk assessment, the findings on ML and TF risks faced by Ethiopia are preliminary, predominantly based on interviews and not necessarily supported by data. The main sources of illicit proceeds generating activity in Ethiopia are corruption (specifically involving administration of land, procurement, tax, telecommunications and pharmaceuticals), tax fraud/evasion, human trafficking and migrant smuggling, arms trafficking and smuggling of contraband (coffee, 'khat' and livestock outbound; foreign exchange; textiles, electronics and pharmaceuticals inbound) and the profit made from providing illicit financial services. It is not entirely clear how these proceeds are laundered.

International organizations and counterparts in Ethiopia have noted corruption as an issue in the jurisdiction. Based on 8 surveys conducted, Ethiopia has received a rating of 33 out of 100 by the Transparency International's Corruption Perception Index 2013 (based on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean) and is ranked 111 out of 177 countries. Ethiopia is ranked at 32 by the World Bank Worldwide Governance indicator, for control of corruption in 2013 (where 0 corresponds to the lowest rank and 100 corresponds to the highest rank). A report by the World Bank in 2012 on Diagnosing Corruption in Ethiopia, finds that there is an emerging pattern in sector-level corruption, with interesting variations in the levels of corruption across the sectors studied. According to the study, in Ethiopia, the risk of corruption is greater in sectors such as construction, land and mining and particularly in "new" investment sectors which include telecommunications, pharmaceuticals, etc. According to the authorities, there have been violations of public procurement rules, regulations and directives. The Business Anti-Corruption Portal2 notes that practices of corruption are increasingly in the form of private to private corruption whereby private companies yield procurement contracts to other private companies, in return for bribes. The Portal also notes that land distribution and administration has been reported as a highly vulnerable sector to corruption, involving facilitation payments and bribes being paid to keep land that is leased from the state. The Ethiopian authorities indicated that they disagree with these findings. In addition, the Ethiopian authorities provided two reports on corruption conducted by Addis Ababa University and Kilimanjaro International Corporation Limited. The latter study found that "corruption remains a problem in the country, but it is not among the topmost problems faced by the citizens. There are other, more pressing, problems that threaten their daily struggles for survival, notably inflation and unemployment. However, inflation/increasing cost of living and unemployment create an environment that is conducive to corruption. The survey also found that, while the general perception is that corruption is a serious and worsening problem, the reality is perhaps not as bad as the perception" Furthermore, the World Bank study claims that "a specific finding that seems to span a number of sectors points towards the widely held concerns that there is favouritism towards members of the ruling political party". The World Bank study also noted that prosecutorial and judicial corruption was less of a common occurrence. Most reported cases are those of petty corruption involving payment or solicitation of bribes or other considerations to alter a decision or action, specifically bribes solicited by or offered to police to ignore a criminal offence, not to make an arrest and not to bring witnesses or suspects to court. The World Bank study notes that the Government has made important strides in dis-incentivizing corruption in the justice sector.

Ethiopia is located at the very center of a highly volatile region. Ethiopia shares long porous borders with its neighbours. Eritrea lies to the north, Somalia lies to the east, and there are regional terrorist groups (Al-Shabaab) and domestic armed opposition groups (Ogaden National Liberation Front (ONLF), Oromo Liberation Front (OLF)) operating in and around Ethiopia. Eritrea provides training facilities, and material and logistical support to OLF and ONLF and Al-Shabaab controls some areas in Somalia. "Both countries in very different ways serve as platforms for foreign armed groups that represent a grave and increasingly urgent threat to peace and security in the Horn and East Africa region."3 In addition there are believed to be several other armed rebel groups active in Ethiopian territory. More recent incidents include the pre-detonation of bombs by two suspected Al–Shabaab operatives in October 2013, a terrorist attack on tourists in January 2012 and the killing of several people by ONLF at an Ethiopian Oil Field in April 2007.

US Department of State Money Laundering assessment (INCSR)

Ethiopia was deemed a 'Monitored' Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Due primarily to its underdeveloped financial system and pervasive government controls, Ethiopia is not considered to be a regional financial center. Although Ethiopia's location within the Horn of Africa makes it vulnerable to money laundering-related activities perpetrated by transnational criminal organizations, terrorists, and narcotics trafficking organizations, its limited integration in the global financial system, underdeveloped financial institutions, and strict currency controls make it highly unlikely such groups will use the financial sector to launder funds from abroad. Corruption, smuggling, tax fraud, and trafficking in narcotics, persons, arms, and animal products are the key proceeds-generating crimes. As the economy grows and becomes more open, Ethiopian law enforcement sources believe bank fraud, electronic/computer crime, and related money laundering activities could continue to rise. The financial services sector remains closed to foreign investment.

High tariffs encourage customs fraud and trade-based money laundering. Since strict foreign exchange controls limit the possession of foreign currency, most of the proceeds of contraband smuggling and other crimes are not laundered through the official banking system, composed of three public banks and sixteen private banks. Law enforcement sources indicate money and value transfer systems, particularly hawala, are widely used. The Ethiopian government attempts to monitor informal value transfer networks within the country and has closed a number of illegal hawala operations. The Financial Intelligence Center (FIC), Ethiopia's financial intelligence unit, is currently conducting an assessment of the informal money transfer system.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: NO Domestic: NO KYC covered entities: Banks, foreign exchange bureaus, financial leasing companies, customs and revenue agency, notaries, licensing organizations, auditors, accountants, real estate brokers/agents, precious metal dealers, brokers and investment advisors

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 1191: July 8, 2014 - November 13, 2015
Number of CTRs received and time frame: 1,411,166: July 8, 2014 - November 13, 2015 STR covered entities: Banks, foreign exchange bureaus, financial leasing companies, customs and revenue agency, notaries, licensing organizations, auditors, real estate agents/brokers, precious metal dealers, brokers and investment advisors

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: NO
With other governments/jurisdictions: NO

Ethiopia is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Ethiopia has taken important steps to improve its AML/CFT regime, including enacting additional AML/CFT legislation. Ethiopia is in the process of developing a directive to guide designated non-financial businesses and professions (DNFBPs) in their roles, responsibilities, and risks within the AML/CFT framework. Ethiopia continues to develop the FIC and has secured capacity-building training for both the FIC and its partner institutions. The FIC promotes a multilateral approach to AML/CFT and is overseen by a board of directors with representatives from the National Bank, Ministry of Justice, Federal Police, Federal Anti-Corruption Unit, Ministry of Finance and Economic Development, and the Prime Minister's

Office. In 2015, the FIC developed a five-year action plan to address recognized deficiencies. In addition, the national AML/CFT risk assessment is ongoing and is expected to be finalized in 2016.

The FIC is developing its analytical, investigative, and referral capacity; however, with only eight analysts and few IT personnel, the FIC lacks the technical capacity to effectively sort through and store the approximate 24,000 currency transaction reports (CTRs) it receives weekly. Suspicious transaction reports (STRs) are still currently filed in hard copy. The FIC is planning to implement digital reporting procedures for STRs in the future and is in the midst of training and validation for this protocol. The FIC has conducted workshops for banks on how to identify suspicious transactions and has engaged with federal prosecutors to improve the prosecution of money laundering cases. In 2015, the FIC conducted awareness creation and sensitization workshops on AML/CFT issues for the law enforcement community and relevant institutions in four key regional towns and will conduct the same workshops in the remaining four regions in 2016.

Foreign currency controls are vigorously enforced and all financial institutions, by law, are fully owned by Ethiopians or Ethiopian legal entities. It is illegal (with a few minimal exceptions) to send money from Ethiopia to a foreign country, and non-resident foreigners are not allowed to have accounts in Ethiopian banks. Only those with a foreign currency account (which is only granted to Ethiopian diaspora and resident foreigners) can transfer money abroad using the bank's access to the SWIFT system. Thus, the only legal cross-border flow of funds through the formal sector relevant to overall risk are the inbound money transfers - predominantly from the Ethiopian diaspora to their relatives in Ethiopia. The restrictions encourage the use of hawala and underground value transfer systems.

Although Ministry of Justice officials have received training, the Ethiopian law enforcement community, from investigators to prosecutors to judges, remains deficient in its awareness of AML/CFT issues and how to address them. The government's poor record-keeping systems and lack of centralized law enforcement records hinder the federal police's ability to identify and investigate trends in money laundering and terrorism financing. Furthermore, inadequate police training and a lack of resources limit the federal police's financial investigative abilities, and the absence of a national risk assessment undermines the ability to focus on key risk areas.

The Government of Ethiopia should implement its five-year action plan to address the noted deficiencies. Additionally, there should not be an over-reliance on the filing of STRs to generate money laundering cases. Law enforcement and customs should be trained to initiate money laundering and value transfer investigations at the street, border, and port levels. Financial intelligence can then be used to buttress those findings.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Ethiopia does not conform with regard to the following government legislation: -

International Terrorism Financing Convention - States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

Ethiopia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Ethiopia is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2012:

Ethiopia does not play a major role in the production, trafficking, or consumption of illicit narcotics or precursor chemicals associated with the drug trade. The country is, however, strategically located along major narcotics transit routes connecting Middle Eastern, Asian, and West African markets. The amount of drugs transiting Ethiopia continues to increase. Ethiopia's numerous airline connections also contribute to the increase in drugs transiting through the country. Ethiopia has witnessed an increase in illegal narcotics seizures (primarily heroin, cocaine, and cannabis) in recent years. Officials have also noted increased illegal drug consumption in Ethiopia, as well as drug exports originating from within the country. If domestic narcotics production, trafficking, and consumption continue to increase, Ethiopia risks becoming a larger player in the regional and intercontinental narcotics scene.

Cannabis is produced in rural areas throughout Ethiopia. An increasing amount of cannabis production is for export, primarily to neighboring countries, but with rising amounts trafficked abroad. Traffickers use the Ethiopian postal system and international courier services to move these drugs. Khat, a chewable leaf with a mild narcotic effect, is legal in Ethiopia and is the country's fourth-largest export, up from seventh-largest export only a few years ago. Khat is an illegal drug in the United States. Small, localized quantities of poppy are grown in the southwest of Ethiopia (around Tepi) for local consumption of poppy seeds. Upon discovery of illicit narcotic crop cultivation, police typically eradicate the fields and provide several days of training for the farmer. On the second instance, the farmer is arrested.

West African traffickers use Ethiopia as a transit point on a limited, but increasing basis. Apprehended traffickers have cited convenient flight routes and short layovers as their reasons for flying through Addis Ababa. Bole International Airport's Interdiction Unit continues to improve its ability to identify male Nigerian and Tanzanian drug mules who typically smuggle drugs through ingestion. Ethiopian authorities routinely pass information on suspected transiting drug traffickers to Nigerian authorities. At present, the Interdiction Unit is mostly dependent on tips from other countries to identify drug mules and has limited capabilities to identify suspects themselves.

Although it is not yet a major exporter of cannabis, Ethiopian cannabis exports continue to rise. Most seizures made by the Federal Police involved cannabis destined for the United Kingdom. Many of these seizures involved cannabis hidden inside typical souvenir items.

Drug abuse in Ethiopia is also increasing. Legal khat distribution networks simply add illegal marijuana and other narcotics available in Ethiopia to their shipments. Cannabis consumption is spreading outside the traditional Rastafarian demographic toward the general population. Hard drug use in Ethiopia remains limited, but DCD continues to see increases in heroin abuse.

Ethiopia is a party to the 1988 UN Drug Convention. Ethiopia is also a party to the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. The Ethiopian Federal Police maintains a dedicated police investigation unit for human trafficking and organized crime. The unit, established in 2009, also covers drug trafficking. Penalties for narcotics offenses are severe: five years in prison and a 100,000 Ethiopian birr (approximately $5,800) fines for convicted illegal drug users and dealers. The Ethiopian Federal High Court has established a separate drug court; an action the Federal Police's DCD applauds and calls a strong mechanism to deter repeat traffickers.

The Ethiopian Federal Police trains postal service employees and courier services in drug detection and makes weekly visits to post offices and courier services to monitor their performance.

The United Nations Office on Drugs and Crime (UNODC) is collaborating with the Ethiopian Government on the implementation of a multi-sector National Drug Control Master Plan for Ethiopia (2009-2013), as well as support for drug and HIV prevention and control. A major component of this joint plan is to curb drug trafficking activities at Bole International Airport and to build the investigative capacity of Ethiopian drug law enforcement.

The Federal Police DCD's ranks number fifty-five individuals targeted on drug enforcement. Approximately half of these personnel work at Bole Airport's interdiction team, which also includes one aging and increasingly ineffective drug-sniffing German Shepherd dog. The unit also continues to suffer a high turnover of senior officers. The DCD hopes for assistance in procuring and training additional sniffer dogs, as well as securing new vehicles. Lack of dedicated vehicular transport has forced officers to take intercity busses out into the countryside on recent raids, limiting their mobility and effectiveness. The DCD stated the intention of increasing public awareness of the drug problems in Ethiopia by partnering with anti-drug clubs in high schools had to be abandoned for lack of funds. The Government of Ethiopia does not encourage or facilitate illicit production or distribution of narcotic drugs and psychotropic substances, nor does it encourage or facilitate the laundering of proceeds from illegal drug transactions.

The Ethiopian law enforcement community remains aware of its budding drug problem and maintains a desire to curb the narcotics threat at an early stage. UNODC is collaborating with Ethiopia to create and implement a National Drug Control Master Plan. However, Ethiopia's counternarcotics capacity and resources remain limited.

US State Dept Trafficking in Persons Report 2016 (introduction):

Ethiopia is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Ethiopia is a source and, to a lesser extent, destination and transit country for men, women, and children subjected to forced labor and sex trafficking. Girls from Ethiopia's impoverished rural areas are exploited in domestic servitude and prostitution within the country, while boys are subjected to forced labor in traditional weaving, construction, agriculture, and street vending. Addis Ababa's central market is the site of numerous brothels, where girls as young as 8 years old are exploited in prostitution. Ethiopian girls are exploited in domestic servitude and prostitution in neighboring African countries—particularly Sudan—and the Middle East. Ethiopian boys are subjected to forced labor in Djibouti as shop assistants, errand boys, domestic workers, thieves, and street beggars. Young people from Ethiopia's vast rural areas are aggressively recruited with promises of a better life and are likely targeted because of the demand for cheap labor in the Middle East; many are subsequently subjected to forced labor. Child sex tourism is a growing problem in major tourist hubs, including Addis Ababa, Bahir Dar, Hawassa, and Bishoftu; reports identify both foreign and domestic perpetrators, with links to local hotels, brokers, and taxi drivers.

Officials reported up to 1,500 Ethiopians departed daily as part of the legal migration process in search of better economic opportunities. Many young Ethiopians transit through Djibouti, Egypt, Somalia, Sudan, Kenya, and increasingly Yemen, seeking work in the Middle East; some are exploited in these transit countries. Reports continue to document the transportation of Ethiopians to South Africa, via Kenya and Tanzania, as well as large numbers of Ethiopians who have died in boat accidents crossing the Red Sea from Djibouti to Yemen, many of whom are attempting irregular migration and are vulnerable to trafficking in onward destinations. Many Ethiopian women working in domestic service in the Middle East endure severe abuse, including physical and sexual assault, denial of salary, sleep deprivation, passport confiscation, and confinement. Ethiopian women who migrate for work or after fleeing abusive employers in the Middle East are also vulnerable to sex trafficking. Ethiopian men and boys migrate to the Gulf States and other African nations, where some are subjected to forced labor. Previous reports suggest district-level officials accepted bribes to alter ages on identification cards, allowing children to acquire passports without parental consent and enabling minors to leave the country for work. The Ethiopian government's 2013 ban on domestic worker employment in Gulf countries remained in effect at the end of the reporting period; irregular labor migration to the Gulf has increased. Saudi Arabia remains the primary destination for irregular migrants; reportedly, over 400,000 Ethiopians reside there, including some trafficking victims.

The Government of Ethiopia does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. In 2015, the government enacted a comprehensive anti-trafficking law, which overhauls existing legislation to define and punish trafficking offenses and to enact measures to support victims of trafficking. It also passed a revised overseas employment proclamation, which, if fully implemented, would penalize illegal recruitment, improve oversight of overseas recruitment agencies, and extend greater protections to potential victims. During the reporting period, the government assisted in the identification of more than 3,000 trafficking victims and convicted 69 traffickers, an increase from 46 convicted during the previous year. The government sustained its efforts to prevent and raise awareness on trafficking and trafficking-related crimes through its community conversations project. The government did not specifically address internal trafficking, including child sex trafficking, and focused largely on transnational cases. During the year, the development of income generation plans to support victim reintegration was stymied. The government continued to rely on NGOs and international organizations to provide assistance to both internal and transnational trafficking victims; however, it did provide in-kind support for such efforts.

US State Dept Terrorism Report 2016

Overview:

The Government of Ethiopia's 2016 counterterrorism efforts focused on fighting al-Shabaab in Somalia and pursuing potential threats in Ethiopia. Ethiopia collaborated with the United States on regional security issues and participated in capacity-building trainings. The

Ethiopian Federal Police (EFP) partnered in the investigation of an al-Shabaab 2014 suicide attack in Djibouti, agreed to join a Joint Task Force on a terrorism case, and continued law enforcement cooperation with the United States. The EFP also requested an expansion of an FBI-EFP Memorandum of Understanding on information sharing on transnational crime and ISIS. In May, the Ethiopian government denounced ISIS' branch in Libya in response to a video which showed the beheading of 16 Ethiopian migrants; it was the second time in two years Ethiopian migrants in Libya were killed by the group.

Legislation, Law Enforcement, and Border Security: The Government of Ethiopia uses the Anti-Terrorism Proclamation (ATP), implemented in 2009, to prosecute activities it considers terrorism. It also continued to use the ATP to suppress criticism by detaining and prosecuting journalists, opposition figures (including members of religious groups protesting government interference in religious affairs), and other activists, releasing some, but also making new arrests during the year. For example, the Federal High Court sentenced a blogger in May to more than five years in prison using the ATP. In addition, journalists feared reporting on five groups designated by parliament as terrorist organizations in 2011 (Patriotic Ginbot-7, the Ogaden National Liberation Front (ONLF), the Oromo Liberation Front (OLF), al-Qa'ida, and al-Shabaab), citing ambiguity on whether that might be punishable under the law.

The National Intelligence and Security Service (NISS), which has broad authority for intelligence, border security, and criminal investigation, was responsible for overall counterterrorism management in coordination with the Ethiopian National Defense Forces (ENDF) and the EFP. The ENDF, EFP, and Ethiopian intelligence comprise the Ethiopian Task Force for Counterterrorism, a federal-level committee to coordinate counterterrorism efforts. The ENDF, EFP, Ethiopian intelligence, and regional special police worked together to block al-Shabaab attacks in Ethiopia. The NISS facilitated some coordination with the United States on counterterrorism cases in Ethiopia.

Border security was a persistent concern for the Government of Ethiopia, and the government worked to tighten border controls with Eritrea, Kenya, Somalia, and South Sudan. Ethiopia conducts traveler screening with the U.S.-provided Personal Identification Secure Comparison and Evaluation System (PISCES) at major ports of entry. The EFP sent officers to several sessions of the Department of State-funded Regional Rural Border Patrol Unit training by U.S. Customs and Border Protection in Manyani, Kenya.

Ethiopia was the only last point of departure airport from East Africa to the United States in 2016. Given the increased terrorism threat to the international aviation security sector, Ethiopian aviation security officials demonstrated a highly cooperative attitude and keen interest in keeping Ethiopia's aviation sector secure from terrorist threats. Ethiopian aviation security continued to improve with the installation of two Department of State-funded, state-of-the-art passenger screening devices at Addis Ababa Bole International Airport in February. Ethiopian security officials also expressed interest in additional training, which would be conducted in coordination with the U.S. government, to bolster counterterrorism security measures at Bole International Airport.

Countering the Financing of Terrorism: Ethiopia is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a Financial Action Task Force-style regional body. In August 2015, ESAAMLG adopted Ethiopia's mutual evaluation report, outlining the anti-money laundering and countering the financing of terrorism (AML/CFT) regime and deficiencies. Ethiopia's Financial Intelligence Center (FIC) issued a directive that guides the reporting requirements and compliance of designated non-financial businesses and professions with regard to AML/CFT in April 2016. Ethiopia conducted its third and final workshop on the National Risk Assessment for money laundering and terrorist finance in December 2016.

Through its AML/CFT legislation, the Government of Ethiopia criminalizes terrorist financing in accordance with international standards, even in the absence of a specific terrorist act; requires the collection of Know Your Customer data for wire transfers; monitors and regulates designated non-financial businesses and professions; and subjects non-profit organizations and religious organizations that collect, receive, grant, or transfer funds as part of their activity to appropriate oversight by the FIC. Ethiopia froze the account of one business entity (amount unknown) under suspicion of having engaged in money laundering and terrorist financing. The FIC routinely distributes the updated UN lists of individuals and entities under CT resolutions to financial institutions electronically.

While the country's AML/CFT legislation allows freezing and confiscation of terrorist assets without delay, it also authorizes the Council of Ministers to decide the conditions and time limits for the asset freeze, contradicting the principle that freezes pursuant to UN listings should be indefinite until delisting. Furthermore, weak institutional capacity and lack of technical expertise at the FIC, the Government of Ethiopia's poor recordkeeping, and lack of centralized law enforcement records, hindered the ability to identify and investigate AML/CFT activities.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	35
World Governance Indicator – Control of Corruption	40

There are high levels of corruption in Ethiopia, although less high than in comparable regional countries. Examples of corruption include facilitation payments and bribes being necessary to keep land leased from the state or in order to obtain government contracts. Ethiopian anti-corruption law is primarily contained in The Revised Federal Ethics and Anti-corruption Commission Establishment Proclamation and the Revised Anti-Corruption Law which criminalize major forms of corruption including active and passive bribery, bribing a foreign official, and money laundering. Facilitation payments are illegal, and it is forbidden for civil servants to accept gifts or hospitality that may affect their decisions. The legal anti-corruption framework is rarely enforced. **Information provided by GAN Integrity.**

US State Department

Ethiopia ratified the United Nations (UN) Anticorruption Convention in 2007. The UN Investment Guide to Ethiopia (2004) asserted that routine bureaucratic corruption is virtually nonexistent in Ethiopia. The guide added that bureaucratic delays certainly exist, but are not devices by which officials seek bribes. It is a criminal offense to give or receive bribes, and bribes are not tax deductible.

Transparency International's 2013 Corruption Perceptions Index, which measures perceived levels of public sector corruption, ranked Ethiopia as 33 (with 0 indicating "highly corrupt" and 100 indicating "very clean"). Ethiopia's rank on the corruption perception index was 111 out of 175 countries in 2013 and 113 out of 176 rated countries in 2012.

The Ministry of Justice and the Federal Ethics and Anti-Corruption Commission (FEACC) are charged with combating corruption. Since its establishment, the Commission has arrested dozens of officials on charges of corruption, including managers of the Privatization Agency, Ethiopian Telecommunications Corporation, National Bank of Ethiopia, Ethiopian Geological Survey, the state-owned Commercial Bank of Ethiopia, Ethiopian Revenue and Customs Authority and private businessmen.

Corruption and Government Transparency - Report by Global Security

Political Climate

In the May 2010 parliamentary elections, the ruling party, The People's Revolutionary Democratic Front (EPRDF) won a landslide victory, although EU observers noted that the election was tainted. Criticism of the government mounted in 2008, when new legislation was passed, giving the government mandate to restrict the influence of civil society as well as broader powers to pursue defamation cases against the media. The government's attitude in dealing with corruption largely reflects the overall system and character of governance in the country.

The government strategy is clearly top-down, dominating anti-corruption institutions, the anti-corruption debate, and the formulation of anti-corruption policy. Despite the introduction of anti-corruption initiatives in previous years, including the Federal Ethics and Anti-corruption Commission (FEACC) in 2001, corruption remains widespread at many levels of government administration in the country. According to the Bertelsmann Foundation 2012, Ethiopian society's deeply ingrained clientelism does not foster a culture of accountability and transparency. Two articles published by Ethiopian Review and the Daily Maverick in December 2011, respectively report that public assets are acquired by officials and regime supporters through means of fraud, the judiciary is corrupted through political interference and manipulation, and the Ethiopian government is allegedly spending millions of USD, acquired through the US food and anti-poverty aid program, on the basis of political favouritism. Furthermore, allegations are directed to the government for abusing USD 3 billion of development aid annually. In addition, a May 2013 article published by Ethiopian Media Forum reports that, according to Global Financial Integrity's latest findings Ethiopia has lost USD 16.5 billion in illicit financial outflows between 2001 and 2010. Nevertheless, some positive steps in the fight against corruption have been recorded. For instance, according to the US Department of State 2012, five members of the Dire Dawa City Administration Council were sentenced to one to seven years of prison for corruption. The crimes involved the manipulation of tender processes, giving away government land illegally and accepting bribes.

According to Transparency International's Global Corruption Barometer 2010/2011, 59% of the surveyed households perceived the government's fight against corruption as 'effective', while 41% perceived the level of corruption to have decreased over the past three years. In fact, the government has tried to curb corruption through the imposition of asset disclosure rules for government officials, as reported by the Bertelsmann Foundation 2012. Nevertheless, the report also notes that anti-corruption policies have not been successful; the integrity mechanisms put in place such as the FEACC and the annual audit of government finances are insufficient to curb corruption due to political influence. Furthermore, tolerance of corruption has to some extent become an instrument of the top leadership to ensure political loyalty. According to a June 2013 article by CBC News, protests broke out in front of a hotel in Addis Ababa where the Ethiopian Consul General was holding a presentation about a dam development project. The article notes that protesters feared corruption would be involved in the project as they a lack of transparency has plagued public spending. According to Freedom House 2011, Ethiopians paid the highest bribes, on average, for transactions involving driver's licences, property registration, and judicial and tax records.

Business and Corruption

Since the early 2000s, the federal government has continuously aimed at implementing an economic reform programme designed to stabilise the financial position of the country, promote private sector participation in the economy and attract foreign direct investment (FDI). The Ethiopian economy has grown at rates around 9-10% in recent years, mainly due to strong growth in the agriculture and service sectors as well as sustained inflows of official development assistance and FDI. This rapid growth of the Ethiopian economy has increased the size and importance of the private sector, but Transparency International's Global Corruption Report 2009 reports that it has also led to enhanced opportunities and incentives for corruption to occur.

Corruption has traditionally been perceived by foreign companies to be a major impediment to their operations in Ethiopia. For example, according to the World Bank & IFC Enterprise Surveys 2011, there are indications that corruption is a problem in Ethiopia, given that approximately 4% of the companies surveyed expect to pay facilitation payments to 'get things done', while 7.1% identify corruption as a major constraint. Freedom House 2011 reports that the state's active intervention in the economy affords low-level officials the discretion of soliciting bribes, while offering high-level officials the opportunity of self-enrichment by colluding with economic interests to evade regulations or commit fraud. This problem is also referred to in a December 2011 article by the Ethiopian Review which notes that some enterprises owned by officials enjoy bank loans of USD millions without sufficient collateral. Moreover, some businessmen allegedly make huge payments in the form of kickbacks and bribes to participate in procurement and contracting, and that import/export businesses complain about corrupt customs officials. Corruption is increasingly taking the form of private-to-private corruption whereby private companies yield procurement contracts to other private companies in return for bribes or other undue favours.

The constraints of corruption are also reflected in business executives' assessments of the business climate in Ethiopia. For example, the World Economic Forum Global Competitiveness report 2012-2013 reveals that corruption is the second most problematic factor after access to financing, to doing business in Ethiopia. Nevertheless, on a more positive note, the Enterprise Surveys 2011 reports that the average number of companies expecting to pay facilitation payments and identifying corruption as a major constraint is much higher in other Sub-Saharan countries than in Ethiopia. Furthermore, Global Integrity 2010 notes that it is forbidden for civil servants in Ethiopia to accept gift or hospitalities that may affect their decisions. Still, however, companies are generally advised to consult with experienced attorneys, to develop, implement, and strengthen integrity systems, and to carry out extensive due diligence before committing funds or when already doing business in the country.

Regulatory Environment

According to the US Department of State 2013, Ethiopia's regulatory system is generally considered to be non-discriminatory, although there have been instances in which burdensome regulatory requirements have acted as obstacles to doing business in the country. Similarly, in the World Economic Forum Global Competitiveness Report 2012-2013, foreign companies rank difficult access to financing as the top constraints for doing business in Ethiopia. Other major constraints include inflation, inefficient government bureaucracy, as well as tax rates and tax regulations. According to the US Department of State 2013, however, the Government of Ethiopia has eliminated most of its discriminatory tax, credit and foreign trade treatment of the private sector as well as simplified administrative procedures and established guidelines regulating business activities. The persistence of corruption in Ethiopia can partly be explained in terms of a lack of coherent rules and regulations, extensive red tape and poorly trained public officials. According to the Bertelsmann Foundation 2012, high levels of corruption are present in the ruling party and its business affiliates who benefit from a lack of a regulatory framework to safeguard against the emergence of monopoly or oligopoly power. The report further notes that private traders and business people who are not affiliated with the ruling party often face harassment, which impedes market competition. State ownership and bureaucratic management still govern many sectors of the economy and the financial, construction, beverage, and transport sectors in particular, are subject to strong political pressures.

Although official and unofficial barriers, such as corruption, still deter foreign investment and certain sectors remain off-limits to foreign participation (e.g. banking), the country has taken several steps to liberalise its foreign investment laws to streamline the regulatory environment and registration process to obtain business licences. Furthermore, the government established the Ethiopian Investment Agency (EIA) provides investment information and a one-stop shop. The US Department of State 2013 and a July 2012 article by All Africa note that a new investment proclamation was approved aiming to give one-stop-shop services for the manufacturing sector, restructuring the Ethiopian Investment Agency (EIA) and establishing industrial development zones. The new proclamation requires the Agency process, on behalf of investors, major services that normally required going through different executive organs. Other investment and trade related information is provided by the Ethiopian Chamber of Commerce and Sectoral Association, which is an autonomous private sector organisation. According to the World Bank & IFC Doing Business 2013, the process of starting a company in Ethiopia takes an average of 15 days and 9 procedures, taking considerably less time than the regional average of 37 days and 8 procedures. Registration of property, building a warehouse and enforcing contracts can also be done faster and cheaper than in comparable Sub-Saharan countries.

The legal system is based on common law, but consistent enforcement is an issue. The rule of law consequently remains limited, due to the lack of checks and balances between state powers and a traditional interference of the executive branch in judicial matters. Moreover, according to the US Department of State 2013, judges often lack understanding of commercial matters and case scheduling suffers from extended delays. This constitutes a major impediment for settling commercial disputes and results in a weak understanding and enforcement of property and contractual rights. Both the Ethiopian Arbitration and Conciliation Centre and the Addis Ababa Chamber of Commerce provide commercial dispute services. International arbitration is also possible for foreign companies, but there is no guarantee that a decision made by an international arbitration body will be fully accepted and implemented by Ethiopian authorities, as reported by the US Department of State 2013. Ethiopia is not a member of the International Centre for the Settlement of Investment Disputes (ICSID) or of the New York Convention of 1958. Access the Lexadin World Law Guide for a collection of laws in Ethiopia.

Section 3 - Economy

Ethiopia has grown at a rate between 8% and 11% annually for more than a decade and the country is the fifth-fastest growing economy among the 188 IMF member countries. This growth has been driven by sustained progress in the agricultural and service sectors. Ethiopia has the lowest level of income-inequality in Africa and one of the lowest in the world, with a Gini coefficient comparable to that of the Scandinavian countries. Yet despite progress toward eliminating extreme poverty, Ethiopia remains one of the poorest countries in the world, due both to rapid population growth and a low starting base. Changes in rainfall associated with world-wide weather patterns resulted in the worst drought in thirty years in 2015/2016, creating food insecurity for millions of Ethiopians.

Almost 80% of Ethiopia's population is still employed in the agricultural sector, but services have surpassed agriculture as the principal source of GDP. Under Ethiopia's constitution, the state owns all land and provides long-term leases to tenants. Since 2005, the Ethiopian government has introduced a system to register traditional land use rights and provide certificates documenting these rights. Initial surveys show that land-use certificates have significantly increased the willingness of farmers to invest in improvements on their land, from terracing to irrigation. However, title rights in urban areas, particularly Addis Ababa, are poorly regulated, and subject to corruption.

Ethiopia's export earnings are led by the services sector - primarily Ethiopian airlines - followed by several commodities. While coffee remains the largest foreign exchange earner, Ethiopia is diversifying exports and commodities such as gold, sesame, khat, livestock and horticulture products are becoming increasingly important. Manufacturing represents less than 8% of total exports. The banking, insurance, telecommunications, and micro-credit industries are restricted to domestic investors, but Ethiopia has attracted significant foreign investment in textiles, leather, commercial agriculture, and light manufacturing.

Ethiopia remains a one-party state with a planned economy. In the fall of 2015, the government finalized and published the current 2016-2020 five year plan, known as the Growth and Transformation Plan (GTP II). GTP II emphasizes developing manufactures in sectors where Ethiopia has a comparative advantage in exporting, including textiles and garments, leather goods, and processed agricultural products. New infrastructure projects are to include power production and distribution, roads, rails, airports and industrial parks. To support industrialization, Ethiopia plans to increase power generation by 8,320 MW, up from an installed capacity of 2,000 MW, by building three more major dams and expanding to other sources of renewable energy. Construction is underway on an electric railway network that will connect Ethiopia to all its neighbours, with a link to the Port of Djibouti already finished and partially functioning. A tripling of capacity at the international airport in Addis Ababa to 25 million passengers will be completed in 2017, while construction of a completely new airport is being planned by 2025. Meanwhile, the domestic airport network has expanded to nineteen airports in a country where mountains and deserts make developing and maintaining a road network challenging. Despite difficult topography, more than a hundred thousand kilometres of roads have been built, connecting previously isolated regions.

Agriculture - products:

cereals, coffee, oilseed, cotton, sugarcane, vegetables, khat, cut flowers; hides, cattle, sheep, goats; fish

Industries:

food processing, beverages, textiles, leather, garments, chemicals, metals processing, cement

Exports - commodities:

coffee (27%, by value), oilseeds (17%), edible vegetables including khat (17%), gold (13%), flowers (7%), live animals (7%), raw leather products (3%), meat products (3%)

Exports - partners:

Switzerland 14.3%, China 11.7%, US 9.5%, Netherlands 8.8%, Saudi Arabia 5.9%, Germany 5.7% (2015)

Imports - commodities:

machinery and aircraft (14%, by value), metal and metal products, (14%), electrical materials, (13%), petroleum products (12%), motor vehicles, (10%), chemicals and fertilizers (4%)

Imports - partners:

China 20.4%, US 9.2%, Saudi Arabia 6.5%, India 4.5% (2015)

Banking

The Ethiopian Government allowed the establishment of private banks and insurance companies in 1994, but continues to prohibit foreign ownership in this sector. The Ethiopian banking sector is currently comprised of a central bank (National Bank of Ethiopia or NBE), three government-owned banks, twelve private banks, and twelve insurance companies. In 2011, six more private banks are under formation but not yet issued licenses.

The state-owned Commercial Bank of Ethiopia (CBE) dominates the market in terms of assets, deposits, bank branches, and total banking workforce. CBE operates 331 branches, holding $4.4 billion in assets. The two government-owned specialized banks are the Development Bank of Ethiopia (DBE) and the Construction and Business Bank (CBB). DBE extends short, medium and long-term loans for viable development projects, including industrial and agricultural projects. DBE also provides other banking services such as checking and saving accounts to its clients. The CBB provides long-term loans for construction, acquisition or maintenance of dwellings, community facilities and real estate development. In addition, it offers all other commercial banking services to business.

The NBE aims to foster monetary stability and a sound financial system, maintaining credit and exchange conditions conducive to the balanced growth of the economy. The NBE may engage with banks and other financial institutions in the discount, rediscount, purchase, or sale of duly signed and endorsed bills of exchange, promissory notes, acceptances, and other credit instruments with maturities of not more than 180 days from the date of their discount, rediscount, or acquisition by the bank. The bank may buy, sell, and hold foreign currency notes and coins and such documents and instruments, including telegraphic transfers, as are customarily employed in international payments or transfers of funds.

In efforts to combat inflation, the Ethiopian Government capped the lending limits of banks beginning in late 2008. This measure has restricted the private sector's access to finance.

Stock Exchange

Ethiopia does not have a securities market, although the government is drafting private share trading legislation to better regulate the private share market.

Section 4 - Investment Climate

Executive Summary

Ethiopia has one of the fastest growing economies in the world. The IMF estimates Ethiopia will have an average GDP growth rate of 7.4% from 2017 to 2020, although a drought caused by el-Nino could slow growth next year. After Nigeria, Ethiopia is the second most populous country in sub-Saharan Africa with a population of roughly 95 million.

The government of Ethiopia follows integrated 5-year plans to guide its state-led industrial development. The second of these Growth and Transformation Plans (GTP II), covering 2016–2020, is now being implemented. GTP II sets a target of an average growth of 11% in the next five years with the objective of middle income status by 2025. To realize these goals, the government continues to pursue consistent and prudent macroeconomic policies and to invest heavily in large-scale social, infrastructural and energy projects. Included in the GTP II are incentives for international investors, such as facilitation of repatriation of investment and profit, ease in hiring expatriate personnel, temporary income tax exemptions for investments in selected sectors, duty-free imports of capital goods, components and raw materials for exporting industries and manufacturers in priority sectors.

However, while public sector infrastructure projects can provide significant investment opportunities, the government limits the capital available to the private sector by requiring banks to deposit 28% of their loan portfolio in government bonds, reducing the overall volume available as credit. In addition, access to foreign exchange is controlled by the National Bank of Ethiopia, and companies can experience delays of more than six months in obtaining the forex needed for imports. The World Bank estimates that public infrastructure spending was approximately 19% of Ethiopia's total GDP since fiscal year 2011-2012.

Key sectors targeted by the government in GTP II include renewable energy, construction, healthcare, tourism, textile and apparel, leather products, telecommunication infrastructure and value-added services, and aviation support services and products. Competitive labor, a strategic location on the African continent, an excellent national airline, competitive energy costs and the budding consumer markets are key elements attracting foreign direct investment (FDI).

The government of Ethiopia does not provide protection from currency risks, and while rapid devaluations have been rare in the recent past, with the last significant devaluation episode occurring in September 2010, the government performed a series of controlled step-downs, which caused a 97% depreciation of the birr against the U.S. dollar in the past seven years. Challenges include foreign exchange shortages and limited access to finance, long lead-times for importing goods and for dispatching exports due to logistic bottlenecks and high land-transportation costs, and bureaucratic delays. Ethiopia is not a signatory of major Intellectual Property Rights treaties. Banking, insurance and accounting/assurance services, retail, telecommunications and transportation are closed to foreign investments.

All land in Ethiopia belongs to "the people" and is administered by the government. Private ownership does not exist, but "land-use rights" have been registered in most populated areas. The government retains the right to expropriate land for the "common good," which it defines to include expropriation for commercial farms, industrial zones and infrastructure development. While the government claims to allocate only sparsely settled or "empty" land to investors, some people have been resettled. In particular, traditional grazing land has often been expropriated, leading to resentment, protests and, in some cases, conflict.

Successful investors in Ethiopia counsel a thorough due diligence check on land title, including the attitude of local communities to the investor's proposed use of the land, and a full understanding of the requirements put forward by the Ethiopian government at the federal and local levels.

The government of Ethiopia has expressed interest in accession to the World Trade Organization, and maintains its goal of attaining middle income country status by 2025. In 2015, Ethiopia became a full member of the Common Market for Eastern and Southern Africa (COMESA) and ratified the Free Trade Area (FTA) in 2014, heading towards full FTA in five phases, which gradually liberalize various industries depending on readiness to meet trade competition expected from similar industries of member states. Full FTA accession is expected by 2021. In addition, the COMESA - Eastern Africa Community (EAC) - Southern Africa Development Community (SADC) tripartite FTA was launched in June, 2015. Ethiopia is actively pursuing improving its investment climate by adopting more efficient processes to reduce bureaucracy in the areas of registration, logistics, and taxation. Key energy generation and distribution projects, as well as transportation infrastructure projects that were scheduled for completion by the end of 2015 are still ongoing.

Table 1

Measure	**Year**	**Index or Rank**	**Website Address**
TI Corruption Perceptions index	2015	103 of 168	transparency.org/cpi2015/results
World Bank's Doing Business Report "Ease of Doing Business"	2016	146th of 189	doingbusiness.org/rankings
Global Innovation Index	2015	127th of 141	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M, stock positions)	March 2016	65.2	Data from Ethiopian Investment Commission
World Bank GNI per capita	2014	$550	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity that provides development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of $4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here. Details on each of the MCC's indicators and a guide to reading the scorecards are available here.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Ethiopia's second five-year Growth and Transformation Plan (GTP II) covers the years 2016 to 2020 and was approved by the Ethiopian Parliament in December 2015. GTP II's overarching goals are to transform Ethiopia's subsistence agriculture-based economy to a manufacturing-led economy and achieve middle income status by 2025. To achieve these goals, the government has focused on improving the quantity and quality of infrastructure, encouraging intensive investment in industrial parks, and ensuring macro-economic stability with a sustained GDP growth of at least 11% and on enhancing productivity in agriculture and manufacturing.

Given the scale of public investment required to support GTP II targets, coupled with the negative domestic savings rate, Ethiopia requires significant inflows of foreign financial resources. Tax incentives for investment in the high priority sectors of heavy and light manufacturing, agribusiness, textiles, sugar, chemicals and pharmaceutical and mineral and metal processing underscore the government's focus on and openness to FDI, while Ethiopia's success in winning a higher credit rating from international rating agencies has given it access to commercial foreign loans.

In May 2015, Moody's reaffirmed Ethiopia's credit worthiness a 'B+', while S&P and Fitch maintained last year's rating of a 'B.' The rating agencies underscored Ethiopia's stable outlook and positive prospects for continued economic growth in the short and medium term. Key drivers of their ratings were the large investments in infrastructure and power generation and their likely effect in improving trade conditions.

Risks, according to the rating agencies, stem from external shocks, such as an economic slowdown of major export partners, constraints in financing Ethiopia's investment projects, and a protracted slump in commodity export prices, as well as weakness in the private sector as a result of its limited access to domestic credit.

In December 2014, Ethiopia issued its first Euro-bond, raising $1 billion at a rate of 6.625%. The 10-year bond was oversubscribed, indicating continued market interest in high – growth sub-Saharan African markets, but did cause the country to exceed the non-concessional borrowing threshold set by the World Bank, which could limit Ethiopia's access to additional concessional lending. According to the Ministry of Finance and Economic Cooperation, the bond proceeds are being used to finance industrial parks, the sugar industry, and power transmission infrastructure.

Other Investment Policy Reviews

Over the past three years, the Ethiopian Investment Commission (EIC) has undertaken an independent review of its investor services in an effort to streamline the investment process. The EIC is in the process of developing a more efficient one-stop-shop to provide up to 29 licensing and registration services to foreign direct investors. According to EIC information, the Commission has already implemented at least 28 services pertaining to licensing and registration, customs duty free importation approval for capital goods of manufacturing investment projects. Additionally, in an effort to improve investor facilitation services, the EIC has recently appointed three Deputy Commissioners each responsible for three divisions of the EIC:

- Investment Operations;
- Industrial Parks Regulation;
- Policy Research and Improvement.

Laws/Regulations on Foreign Direct Investment

The government of Ethiopia is revising its 1960 commercial code to facilitate investment and ease of operations. Areas of focus include clarifying regulations for potential investors, standardizing accounting practices to more accurately assess tax and other operating liabilities, increasing protection for shareholders and provisions for bankruptcy filings and modernized trade and registration processes. The draft revised code is under discussion. The government has drafted a policy document to support the review of the commercial code and circulated it within the wider private sector community and stakeholders, reflecting the need for in-depth review and expert advisory input to finalize the legislation.

The revised Investment Code of 1996 and the Investment Proclamation provide incentives for development-related Investments and have gradually removed most of the sectorial restrictions on investment. However, the Investment Code prohibits foreign investment in some sectors -- please refer to the 'Limits on Foreign Control' section.

The 2012 amendment to Ethiopia's Investment Proclamation introduced provisions for the establishment of industrial development zones, both state-run and private, with favorable investment, tax, and infrastructure incentives. The amendment raised the minimum capital requirement to $200,000 per project for wholly-owned foreign investments and $150,000 for joint investments with domestic investors (or $100,000/$50,000 respectively in the areas of engineering, architectural, accounting and auditing services, business and management consultancy services and publishing). A foreign investor reinvesting profits or dividends may not be required to allocate minimum capital.

Business Registration

The 2015 World Bank report Doing Business in Ethiopia summarizes the business incorporation and registration process in eleven steps, estimating 19 days of average time required to complete the process. Typically companies need to register with the EIC, the Ethiopian Revenue and Custom Authority, the Commercial Register, the Documents Authentication and Registration Office and the Ministry of Trade. Online business registration is not available in Ethiopia but it is a long-term plan of the Ministry of Trade to migrate the paper-based registration process to a digital system. The EIC has the mandate to promote and facilitate investments in Ethiopia and its services are available to all foreign investors, independent from the company size.

The Ministry of Trade is working to revise the Commercial Registration and Business Licensing Proclamation in order to simplify and streamline business registration and licensing. The full Doing Business report is available here.

Industrial Strategy

Under GTP II, key priority industries are the textile and garment industry, leather and leather products, sugar and sugar-related products, cement, metal and engineering, chemical, pharmaceutical and agro-processing. Investments in those areas are accompanied by additional tax and duty incentives as established in proclamation 769/2012.

A 2014 amendment to the Investment Proclamation provides flexibility for the EIC to decide appeals submitted by foreign and domestic investors. The EIC Investment Board is empowered to authorize the granting of new or additional incentives other than those outlined under the regulations and authorize foreign investment in areas otherwise exclusively reserved for domestic investors, if the exception is in the national interest. The EIC's website, outlines the government's focus sectors, details, registration processes, and provides regulatory details for investors.

In alignment with GTP II goals to develop medium- and large-scale industries, the government established the Ethiopian Industrial Parks Development Corporation (EIPDC) under the Ministry of Industry in 2012 to oversee construction and regulation of the parks. The proclamation requires the establishment of a branch of the Environment Protection Office in each park.

As of March 2016, Bole Lemi-I is the only operational industrial park developed by the government. Hawassa Industrial Park is under construction and Bole Lemi-II and Qilinto Industrial Park are at the design and evaluation stage, which the government performs with financial and technical support from the World Bank. Two additional industrial parks, the Eastern Industrial Park and George Shoe Factory, are under development by Chinese and Taiwanese private businesses. The GTP II contains plans to develop industrial zones in Dire Dawa, Bahir Dar, Mekele, Jimma, Debreberhan and Kombolcha.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign firms can supply goods and services to Ethiopian firms in closed sectors.

Both foreign and domestic private entities have the right to establish, acquire, own and dispose of most forms of business enterprises. There is no right of private ownership of land. All land is owned by the state and can be leased for up to 99 years. Small scale rural landholders have an indefinite period of use rights, but cannot lease out whole holdings for a longer period of time, except in Amhara Region. In November 2011, the government enacted a controversial urban land lease proclamation that allows the government to determine the value of land in transfers of leasehold rights, in an attempt to curb speculation by investors.

Ethiopia's Investment Code prohibits foreign investment in banking, insurance, and financial services. Telecommunications, power transmission and distribution, and postal services with the exception of courier services, are closed to both the foreign and domestic private sector. Manufacture of weapons and ammunition can only be undertaken only as joint ventures with the government.

Other areas of investment reserved for Ethiopian nationals include: broadcasting; air transport services (below 50 seats capacity); travel agency services, forwarding and shipping agencies; retail trade and brokerage; wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their locally-produced products);

most import trade; export trade of raw coffee, khat, oilseeds, pulses; live sheep, goats, and cattle not raised or fattened by the investor; construction companies excluding those designated as grade 1; tanning of hides and skins up to crust level; hotels (excluding star-designated hotels); restaurants and bars (excluding international and specialized restaurants); trade auxiliary and ticket selling services; transport services; bakery products and pastries for the domestic market; grinding mills; hair salons; clothing workshops (except garment factories); building and vehicle maintenance; saw milling and timber production; custom clearance services; museums, theaters and cinema hall operations; and printing industries. However, the government of Ethiopia has indicated an interest in opening some of the restricted sectors to foreign private sector expertise. Foreigners of Ethiopian origin can obtain a resident card from the Ministry of Foreign Affairs that allows them to invest in many sectors closed to other foreigners. Foreign firms cannot partner in a joint venture in these sectors but can supply goods and services to Ethiopian firms in the closed sectors.

Privatization Program

The government continues to privatize some government-owned entities, which were largely nationalized by the Derg military regime in the 1970s. The current government's position is that property seized lawfully by the Derg (by court order or government proclamation published in the official gazette) remains the property of the state. Nearly all tenders issued by the Ethiopian government's Ministry of Public Enterprises are open to foreign participation. In some instances, the government prefers to engage in joint ventures with private companies rather than sell an entire entity. The government has sold 370 public enterprises since 1995. Most of these enterprises were small companies in the trade and service sectors. The Ministry privatized two enterprises in 2015 and planned to sell 10 enterprises in 2016. The Ministry still controls 26 public enterprises.

Screening of FDI

A foreign investor intending to buy an existing private enterprise or buy shares in an existing enterprise needs to obtain prior approval from the EIC.

While foreign investors have complained about different interpretations of the regulations governing investment registration policy (particularly relating to accounting for in-kind investments) from the EIC, they generally do not face undue screening of FDI, unfavorable tax treatment, denial of licenses, discriminatory import or export policies, or inequitable tariff and non-tariff barriers.

The EIC is establishing a one-stop shop service that could cut the time and cost of acquiring investment and business licenses. However, bureaucratic hurdles continue to affect project implementation and some U.S. investors report that the EIC still lacks capacity to meet its own stringent deadlines. A business license can be obtained in one day if all requirements are met, though in practice this is uncommon.

Competition Law

There are no restrictions for foreign companies or foreign-owned subsidiaries in the areas open to foreign investments. The EIC reviews investment transactions for compliance with FDI requirements and restrictions as outlined by the Investment Proclamation and its amendments. However, companies have complained that state-owned enterprises receive favorable treatment in the government tender process. As the public sector is heavily involved in economic development, this translates into a sizeable portion of the open tenders on the market.

Ethiopia's Trade Practice and Consumers Protection Authority (TPCPA), under the Ministry of Trade, is tasked with promoting a competitive business environment by regulating anti-competitive, unethical, and unfair trade practices to enhance economic efficiency and social welfare. The Commission's powers include: investigating complaints by aggrieved parties; compelling witnesses to appear and testify at hearings; and searching the premises of accused parties. The Federal Trade Competition and Consumer Protection Appellate Tribunal, under TPCPA, saw dozens of consumer protection and unfair trade cases in the last three years. In addition the Authority provided market information on some goods to the public using print and electronic media.

2. Conversion and Transfer Policies

Foreign Exchange

All foreign currency transactions must be approved by Ethiopia's central bank, the National Bank of Ethiopia (NBE). Ethiopia's national currency (birr) is not freely convertible. A 2004 NBE directive allows non-resident Ethiopians and non-resident foreign nationals of Ethiopian origin to establish and operate foreign currency accounts up to $50,000.

Remittance Policies

Ethiopia's Investment Proclamation allows all registered foreign investors, whether or not they receive incentives, to remit profits and dividends, principal and interest on foreign loans, and fees related to technology transfer. Foreign investors may remit proceeds from the sale or liquidation of assets, from the transfer of shares or of partial ownership of an enterprise, and funds required for debt service or other international payments. The right of expatriate employees to remit their salaries is granted by NBE foreign exchange regulations.

Forex reserves were heavily depleted during 2012 and remain at low levels. By the end of FY15, gross reserves were $3.2 billion, covering approximately 2 months of imports. According to the IMF, heavy government infrastructure investment has fueled the need for forex. In addition, the forex reserve decrease is exacerbated by weaker-than-expected exports of coffee and weak commodity prices, such as gold and oil seeds in the international market. This trend had begun to reverse itself by mid-2014 and continues in 2016. Businesses usually expect delays of foreign exchange supply of six weeks to three months. Slow-downs in manufacturing due to foreign exchange shortages are common. Delays of repatriation for high dollar sales amounts of up to 2 years have been reported. Local sourcing of inputs and partnering with export-oriented partners are strategies employed by the private sector to address the foreign exchange shortage, but Forex access remains a problem that can impact investments in terms of growth potential, maintenance and spare parts replacement, and raw material availability in the case of textile and construction industries.

According to data from the National Bank of Ethiopia, the birr depreciated approximately 97% against the U.S. dollar between January 2009 and January 2016, through a series of controlled step-downs, including a 20% devaluation in September 2010. As of March 2015, the official exchange rate was approximately 21.25 birr per dollar. The illegal parallel market exchange rate for the same period was approximately 24.20 per dollar, a premium of 14% over the official rate.

Ethiopia’s Financial Intelligence Unit monitors suspicious currency transfers, including large transactions exceeding 200,000 birr (roughly equivalent to U.S. reporting requirements for currency transfers exceeding $10,000).

3. Expropriation and Compensation

Per the 1996 Investment Proclamation and subsequent amendments, assets of a domestic investor or a foreign investor, enterprise or expansion cannot be nationalized wholly or partly, except when required by public interest and in compliance with the law and with payment of adequate compensation. Such assets may not be seized, impounded, or disposed of except under a court order.

The Derg military regime nationalized many properties in the 1970s. The current government's position is that property seized lawfully by the Derg (by court order or government proclamation published in the official gazette) remains the property of the state. In most cases, property seized by oral order or other informal means is gradually being returned to lawful owners or their heirs through a lengthy bureaucratic process. Claimants are required to pay for improvements made by the government during the time of its control over the property. Ethiopia's Privatization and Public Enterprises Supervising Agency (PPESA) stopped accepting requests from owners for return of these formerly expropriated properties in July 2008.

3. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

According to the Investment Proclamation, disputes that involve a foreign investor or the state may be settled by means agreeable to both parties. A dispute that cannot be settled amicably may be submitted to a competent Ethiopian court or to international arbitration within the framework of bilateral or multilateral agreements to which the government and the investor's state of origin are contracting parties.

Bankruptcy

The Ethiopian Commercial Code (Book V) outlines bankruptcy provisions and proceedings and confirms that the Ethiopian court system has jurisdiction over bankruptcy filings and proceedings subject to international conventions. The primary purpose of the law is to protect creditors, equity shareholders and other contractors. Bankruptcy is not criminalized. In practice, there is limited application of the bankruptcy procedures due to lack of knowledge of the procedures by the private sector.

The 2015 World Bank Ease of Doing Business index sub-category 'Resolving Insolvency' outlines some average expectations for insolvency proceedings in Ethiopia.

Investment Disputes

Ethiopia is a complex market and has presented some challenges to U.S. investors related to land, government procurement and taxation.

International Arbitration

While disputes can be resolved in international arbitration at the agreement of both parties, enforcement is contingent on the Ethiopian court system.

Both foreign and domestic investors involved in disputes have expressed lack of confidence in the judiciary to objectively assess and resolve investment disputes. Ethiopia's judicial system is overburdened, poorly-staffed and inexperienced in commercial matters, although efforts are underway to strengthen its capacity. While property and contractual rights are recognized and there are commercial and bankruptcy laws, judges often lack understanding of commercial matters and case scheduling suffers from extended delays. The Addis Ababa Chamber of Commerce has an Arbitration Center to assist with the arbitration process. There is no guarantee that the award of an international arbitral tribunal will be fully accepted and implemented by Ethiopian authorities.

ICSID Convention and New York Convention

Since 1965, Ethiopia has been a member state to the International Centre for Settlement of Disputes (ICSID Convention), but has not ratified the convention on The Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution – Local Courts

Due to an overloaded court system, dispute resolution can last for several years. According to the World Bank's Ease of Doing Business report, the average for enforcing contracts is 530 days.

4. Performance Requirements and Investment Incentives

WTO/TRIMS

Ethiopia is an observer of the World Trade Organization (WTO) and is in the process of developing its services offer and revising its goods offer. Ethiopia's trade policies are inconsistent with Trade Related Investment Measures requirements.

Ethiopian and foreign investors have asserted that informal priority for foreign exchange has been given to export-oriented businesses and/or those that provide a higher Ethiopian input content.

Investment Incentives

The 2003 amendment to the Investment Proclamation outlines incentives for investors. New investors in manufacturing, agro-processing, or production of certain agricultural products, who export at least 50% of their products or supply at least 75% of their product to an exporter as production inputs, are exempt from income tax for five years. An investor who exports less than 50% or supplies product only to the domestic market is income tax exempt for two years.

Investors who expand or upgrade existing enterprises and export at least 50% of their output or increase production by 25% are eligible for income tax exemption for two years. An investor who invests in the developing regions of Gambella, Benishangul Gumuz, South Omo, Afar or Somali will be eligible for an additional one-year income tax exemption. An investor who exports hides and skins after processing only up to crust level will not be entitled to the income tax incentive.

Research and Development

The Ethiopian government encourages technology and knowledge transfer to develop the Ethiopian workforce via corporate-financed corporate social responsibility programs and/or training programs incorporated into investment proposals.

Performance Requirements

Ethiopia does not formally impose performance requirements on foreign investors. However, investors in Ethiopia routinely encounter business visa delays and onerous paperwork.

Data Storage

There are no forced localization or data storage requirements for private investors. Local content in terms of hiring, products and services is encouraged but not required. However, in the case of joint ventures with SOE's, investors have reported requirements of up to 30% domestic content in goods and/or technology.

5. Protection of Property Rights

Real Property

All land in Ethiopia belongs to "the people" and is administered by the government. Private ownership does not exist, but "land-use rights" have been registered in most populated areas. The government retains the right to expropriate land for the "common good," which it defines to include expropriation for commercial farm, industrial zones and infrastructure development. While the government claims to allocate only sparsely settled or "empty" land to investors, some people have been resettled. In particular, traditional grazing land has often been expropriated, leading to resentment, protests and, in some cases, conflict.

Experienced investors counsel prospective investors to do a thorough due diligence check on issues regarding land provided for their facilities, and to fully understand the requirements put forward by the Ethiopian government at the federal and local levels. They also encourage potential investors to make sure that their needs are communicated well to the host government. It is important for investors to understand who had land-use rights preceding them, and to fully research the attitude of local communities to an investor's use of that land, particularly in regional states such as Oromia, where conflict between international investors and local communities has occurred.

Land leasehold regulations vary in form and practice by region. As land is a public property, the law does not allow mortgages.

Intellectual Property Rights

The Ethiopian Intellectual Property Office (EIPO) oversees IPR issues. Ethiopia has not signed a number of major international intellectual property rights (IPR) treaties, such as: the Paris Convention for the Protection of Industrial Property; the World Intellectual Property Organization (WIPO) copyright treaty; the Berne Convention for Literary and Artistic Works; the Madrid System for the International Registration of Marks; and the Patent Cooperation Treaty. The government expressed its intention to accede to the Berne Convention and Madrid Protocol by 2015, but no action was taken. The Ethiopian Intellectual Property Rights Office (EIPO) has been tasked primarily to protect Ethiopian copyrighted materials and pirated software. Generally, EIPO has weak capacity in terms of manpower and none in terms of law enforcement. A number of businesses, mainly in the service and tourism industries, particularly in the hospitality sector operate in Ethiopia freely using well-known trademarked names or symbols without permission. The government does not publicly track counterfeit goods seizures, and no estimates are available.

Resources for Rights Holders

EIPO contact and office information is available at http://www.eipo.gov.et/

For additional information about treaty obligations and points of contact at IP offices, please see WIPO's country profiles.

Embassy POC: Economic Officer, Helena Schrader, SchraderHP@state.gov

6. Transparency of the Regulatory System

Ethiopia's regulatory system is generally considered fair, though there are instances in which burdensome regulatory or licensing requirements have prevented the local sale of U.S. exports, particularly health-related products. Investment decisions can involve multiple government ministries lengthening the registration and investment process.

In 2011, the central bank issued a directive for all banks and insurance companies to adhere to International Financial Reporting Standards (IFRS).

Foreign investors have complained about the abrupt cancellation of some government tenders, a perception of favoritism toward vendors who provide concessional financing, and a general lack of transparency in the procurement system. In September 2009, the government established the Public Procurement and Property Administration Agency. This agency is an autonomous government organ, has its own judicial arm, and is accountable to the Ministry of Finance and Economic Development. Ethiopia participates in the Global Procurement Initiative, which aims to provide capacity for improving the government procurement system.

Ethiopia is a member of UNCTAD's international network of transparent investment procedures. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time and legal bases justifying the procedures.

7. Efficient Capital Markets and Portfolio Investment

Access to finance impedes domestic private investment. While credit is available to investors on market terms, a 100% collateral requirement limits the ability to take advantage of business opportunities. An April 2011 measure forcing non-government banks to invest the equivalent of 27% of each loan in National Bank of Ethiopia (NBE) bonds has contributed to liquidity shortages that further reduced the ability of banks to lend to the private sector.

Ethiopia does not have a securities market, and sales/purchases of debt are heavily regulated. The government is drafting legislation to regulate the over-the-counter market for private share companies. Moody's rated Ethiopia's credit worthiness a 'B+', while S&P and Fitch gave it a 'B'.

The government offers a limited number of 28-day, 3-month, and 6-month Treasury bills, but prohibits the interest rate from exceeding the bank deposit rate. The government began to offer a one-year Treasury bill in November 2011. Yields are below 2%. This market remains unattractive to the private sector and over 95% of the T-bills are held by the state-owned Commercial Bank of Ethiopia and public enterprises.

The Ethiopia Commodity Exchange (ECX), launched in 2008, trades commodities such as coffee, sesame seeds, maize, wheat, mung beans, haricot beans. The government launched ECX to increase transparency in commodity pricing, alleviate food shortages, and encourage the commercialization of agriculture. However, critics allege that ECX policies and pricing structures are inefficient compared to direct sales at prevailing international rates.

Money and Banking System, Hostile Takeovers

Ethiopia has nineteen banks--three state-owned, and sixteen privately-owned. In September 2011, the NBE raised the minimum paid-up capital required to establish a new bank from birr 75 million to 500 million, which effectively stopped the entry of most new banks. Foreign banks are not permitted to provide financial services in Ethiopia, but since April 2007 Ethiopia allows some foreign banks to open liaison offices in Addis, in order to facilitate credit to companies from their countries of origins. Chinese, German, Kenyan, Turkish, South African banks have already started the process to open liaison offices in Ethiopia, but the market remains completely closed to foreign retail banks.

Based on the most recently available data, the state-owned Commercial Bank of Ethiopia mobilizes about two-thirds of total bank deposits and half of total bank loans. The NBE controls the bank minimum deposit rate, which now stands at 5%, while loan interest rates are allowed to float. Real interest rates have been negative in recent years mainly due to high inflation.

There are no restrictions on foreign ownership of local bank accounts.

8. Competition from State-Owned Enterprises

State-owned enterprises and ruling party-owned entities dominate major sectors of the economy. There is a state monopoly or state dominance in telecommunications, power, banking, insurance, air transport, shipping, and sugar. Ruling-party-affiliated endowment companies have a strong presence in the ground transport, fertilizer, and textile sectors. State-owned enterprises have considerable advantages over private firms, including access to credit and customs clearance. Ethiopian business owners and foreign investors complain of the lack of a level playing field when it comes to state-owned and party-owned businesses. While there are no conclusive reports of credit preference for these entities, there are indications that they receive incentives such as priority foreign exchange allocation, preferences in government tenders, and marketing assistance. Ethiopia publishes aggregate financial data of state-owned enterprises, but detailed information is not included in the national budget, and few state-owned enterprises outside of Ethiopian Airlines release detailed financial statements.

The Public-Private Dialogue Forum (PPDF), a consultative forum between the private sector and the government, has held seven workshops focusing on issues such as company registration, business licensing, legal structures, access to finance, procurement, manufacturing, protecting property rights, and empowering women in business. The private sector was represented by the Ethiopian Chamber of Commerce and Sectorial Associations (ECCSA) and the government by the Ministry of Trade (MOT). Additionally, Prime Minister Hailemariam Desalegn, with the full Council of Ministers, meets with representatives of the private sector annually to discuss their commercial concerns.

OECD Guidelines on Corporate Governance of SOEs

Ethiopia is not a member to the Organization for Economic Cooperation and Development (OECD) and does not adhere to the guidelines on corporate governance of SOEs. Corporate governance of state-owned enterprises is structured and monitored by a board of directors composed of senior government officials and politically-affiliated individuals, but there is a general lack of transparency in the structure of SOEs.

Sovereign Wealth Funds

Ethiopia has no sovereign wealth funds.

9. Responsible Business Conduct

Some larger international companies have introduced corporate social responsibility (CSR) programs; however, most Ethiopian companies do not practice CSR. There are efforts to develop CSR programs by the Ministry of Industry in collaboration with the World Bank, U.S. Agency for International Development, and others.

CSR programs supporting workforce capacity-building and services, community-building and infrastructure investment programs by foreign corporation can serve to further align company objectives with the government of Ethiopia's overall GTP II development goals.

The host government does encourage CSR programs for both local and foreign direct investors but does not maintain specific guidelines for these programs, which are inconsistently applied and not controlled or monitored. In early 2015, the Ethiopian Chamber of Commerce & Sectorial Associations published a 'Model Code of Ethics for Ethiopian Businesses' that was endorsed by Ethiopia's President Mulatu Teshomme as the model for the business community.

10. Political Violence

Ethiopia has been relatively stable and secure for investors. Occasional attacks by armed groups in the Somali region of Ethiopia have disrupted travel in the region, and in the past armed groups have warned investors against exploring for oil or natural gas resources in this area. Some elements of the government-designated terrorist group, the Ogaden National Liberation Front (ONLF), continue to operate in parts of the Somali Region and there are reports of sporadic clashes with security forces.

Ahead of the May 2015 election, the opposition across the country alleged widespread intimidation of its supporters by the ruling party. Political violence against opposition groups on election-day and in the aftermath of the vote resulted in the deaths of six opposition party members, observers and one candidate. There were election related protests in Oromia, Amhara and the Southern Nations and Nationalities regions that resulted in deaths.

Following student demonstrations in the Oromia region in 2014, the government has retained tight control on university campuses out of concern for the possibility of repeated unrest.

Recent violent and widespread protests in Oromia between mid-November 2015 to date has disrupted businesses and schools in towns throughout Oromia and security forces were deployed to quell the unrest.

In February 2016, Human Rights Watch claimed the death toll is over 200, and the government has not provided credible figures. However, the Ethiopian Human Rights Council estimated the loss of life, including security officials, to be 102 deaths in 18 woredas from November 2015 to February, 2016.

In January, the government of Ethiopia stated it was halting implementation of the economic integration of the City of Addis Ababa with the surrounding special zones of Oromia—a trigger for the protests—until the government carries out further consultation with Oromo communities. The Department of State has issued two statements, voicing deep concern over the continuing violence and lack of dialogue between the government and protesters.

Ethnic conflict—often sparked by resource competition or land disputes—occurs at times and occasionally becomes violent.

In January and February of this year, deadly violence between the Nuer and the Anuak ethnic groups in Gambella region took place, resulting in the loss of lives, revenge killings, destruction of property and general insecurity in the region. In April, Murle tribesmen, reportedly from neighboring South Sudan, killed more than 100 Nuer in Gambella region.

Five European tourists were killed and two were kidnapped in January 2012 by the Afar Revolutionary Democratic Unit Front (ARDUF), an armed opposition group backed by Eritrea. In retaliation, the Ethiopian military made incursions into Eritrea in March 2012 targeting the ARDUF and the Eritrean military. An attack on a farm operated by Saudi Star Development in the Gambella region in April 2013 left five people dead, and was blamed on disgruntled citizens. The Ethiopian government regards these incidents as terrorist attacks.

In February 2012, the Ethiopian government announced that it had arrested al-Qaida operatives with links to Kenya, Sudan, the Philippines, Saudi Arabia, and South Africa in the Bale area of Oromia Region in December 2011. In October 2013, in Addis Ababa, two suspected al-Shabbab operatives died in an explosion described as a failed terrorist attack and were thought to have been targeting a crowded sports event occurring near the explosion.

11. Corruption

Transparency International's 2015 Corruption Perceptions Index, which measures perceived levels of public sector corruption, ranked Ethiopia as 33 (with 0 indicating highly corrupt and 100 indicating very clean). Ethiopia's rank on the corruption perception index was 103 out of 168 in 2015 compared to 110 out of 175 countries in 2014.

The Federal Ethics and Anti-Corruption Commission (FEACC) is charged with combating corruption and is accountable to the Office of the Prime Minister. The Commission is mandated to provide ethics training and education, prevent corruption and detect, investigate and prosecute corruption crimes on its own. It is solely charged with the task of combatting corruption. It cooperates with other organs like the Ministry of Justice on issues of common interest but the primary task of combating corruption rests with the commission. Since its establishment, the Commission has arrested dozens of officials on charges of corruption, including managers of the Privatization Agency, Ethiopian Telecommunications Corporation, National Bank of Ethiopia, Ethiopian Geological Survey, the state-owned Commercial Bank of Ethiopia, Ethiopian Revenue and Customs Authority, and private businessmen. The government of Ethiopia established a committee to address corrupt practices and on occasion halted contracts and projects due to corruption allegations.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

In 2003, Ethiopia signed the UN Anticorruption Convention which was later ratified in November 2007. It is a criminal offense to give or receive bribes, and bribes are not tax deductible.

Ethiopia is not party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Ethiopia is a signatory to the African Union Convention on Preventing and Combating Corruption. Ethiopia is also member of the East African Association of anti-Corruption Authorities.

12. Bilateral Investment Agreements

Ethiopia has bilateral investment and protection agreements with Algeria, Austria, China, Denmark, Egypt, Germany, Finland, France, Iran, Israel, Italy, Kuwait, Libya, Malaysia, the Netherlands, Russia, Sudan, Sweden, Switzerland, Tunisia, Turkey and Yemen. Other bilateral investment agreements have been signed but are not in force with Belgium/Luxemburg, Equatorial Guinea, India, Nigeria, South Africa, Spain, United Kingdom. Ethiopia signed a protection of investment and property acquisition agreement with Djibouti. A Treaty of Amity and Economic Relations, which entered into force in 1953, governs economic and consular relations with the United States.

Bilateral Taxation Treaties

There is no double taxation treaty between the United States and Ethiopia. Ethiopia has such taxation treaties with fourteen countries, including Italy, Kuwait, Romania, Russia, Tunisia, Yemen, Israel, South Africa, Sudan and the United Kingdom.

13. Foreign Trade Zones/Free Ports/Trade Facilitation

There are no areas designated as foreign trade zones and/or free ports in Ethiopia. Trade through Assab has been prohibited since the 1998-2000 Ethiopian-Eritrean war. Ethiopia conducts almost all of its trade through the port of Djibouti with some trade via the Somaliland port of Berbera and Sudan's Port Sudan. Unregulated exports of coffee, live animals, khat, fruit and vegetables, and imports of cigarettes, alcohol, textiles, electronics and other consumer goods continues, despite Ethiopia's efforts to clamp down on small-scale trade of contraband.

14. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M)	2014/15	61,539	2014	55,610	www.worldbank.org/en/country/ethiopia
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M, stock positions)	March 2016	65.2	2015	N/A	Ethiopian Investment Commission
Host country's FDI in the United States ($M, stock positions)	2014/15	0	2014	0	http://bea.gov/international/factsheet/ factsheet.cfm?Area=411
Total inbound stock of FDI as % host GDP	March 2016	13.1%	2014	13.9%	http://unctad.org/sections/dite_dir/ docs/wir2015/wir15_fs_et_en.pdf

*Source: Ethiopian Investment Commission (EIC). The EIC previously reported FDI in projects under implementation/development as well as in operation. EIC's reporting methodology includes only the FDI projects in operation. This can create data discrepancy between Ethiopian and international sources.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars*, Millions)*					
Inward Direct Investment (under operation)			**Outward Direct Investment**		
Total Inward	4,508.7	100%	Total Outward	NA	100%
China**	754.6	16.7%	NA	NA	NA
Saudi Arabia**	730.4	16.2%	NA	NA	NA
Turkey**	381.6	8.5%	NA	NA	NA
India**	288.5	6.4%	NA	NA	NA
France**	97.6	2.6%	NA	NA	NA

Source: Ethiopian Investment Commission, March 2016

* Exchange rate of 20.10 Birr per $1 (the average for 2014/15) is used to convert Domestic Currency into $.

** Data reflects EIC information on investments originated from individual countries. Joint venture and partnerships where the origin is recorded from two or more countries are included in the total but not under the specific country data.

Table 4: Sources of Portfolio Investment

Data regarding the equity/debt breakdown of portfolio investment assets is not available for Ethiopia via the IMF's Coordinated Portfolio Investment Survey (CPIS) and is not available for external publication by the government of Ethiopia.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Civil law system

International organization participation:

ACP, AfDB, AU, COMESA, FAO, G-24, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRCS, IGAD, ILO, IMF, IMO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, NAM, OPCW, PCA, UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNISFA, UNMIL, UNOCI, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

Section 6 - Tax

Exchange control

Ethiopia"s central bank administers a strict foreign currency control regime and the local currency (Birr) is not freely convertible. While larger firms, state-owned enterprises, and enterprises owned by the ruling party do not typically face major problems obtaining foreign exchange, less well connected importers, particularly smaller, new–to-market firms, face delays in arranging trade-related payments.

Treaty and non-treaty withholding tax rates

Ethiopia also has double taxation treaties with fourteen countries, including Italy, Kuwait, Romania, Russia, Tunisia, Yemen, Israel, South Africa, Sudan and the UK.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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