Country Insight Report
Ethiopia
July 2015

Written 16 June 2015

Table of Contents

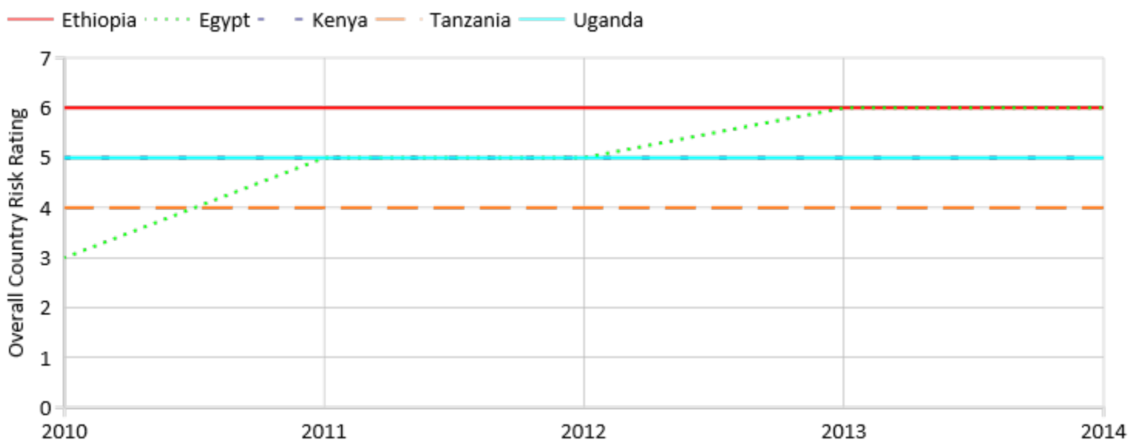
OVERALL COUNTRY RISK RATING: DB6A

Very high risk : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

R

Rating Outlook: Stable

Rating History



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

KEY HEADLINES

CREDIT ENVIRONMENT OUTLOOK

A

- FX shortages often occur and undermine the ability of local counterparts to settle invoices on time, making the build-up of arrears a common feature of doing business in Ethiopia.
- The Ethiopian birr has been subject to a steady depreciation over the past few years and this trend is expected to be maintained during 2015-16, prompted by government policy.

SUPPLY ENVIRONMENT OUTLOOK

R

- Ethiopia aims to complete 5,000km of new railway lines by 2020, which includes the planned opening of two new rail links in 2016 that connect to seaports in Djibouti.
- The international airport at Addis Ababa is being expanded and is scheduled to have an annual operating capacity of 20m passengers by 2018.

MARKET ENVIRONMENT OUTLOOK

A

- Ethiopia is expected to join the Common Market for East and Southern African (COMESA) free-trade agreement (FTA) in 2015, and could implement the tri-partite FTA covering 26 states in the East African Community, the Southern African Development Community and COMESA during the course of this year.
- The government aims to improve the business environment through extensive infrastructure development, and more efficient processes in business registration, logistics and taxation.

POLITICAL ENVIRONMENT OUTLOOK

R

- The parliamentary election in May passed peacefully, and suggests policy continuity by the ruling Ethiopian People's Revolutionary Democratic Front and little change in its leadership.
- A slow-moving privatisation programme could see public-private partnerships or the outright sale of state-owned enterprises, but key sectors will remain under state control.

KEY RECOMMENDATIONS

- Implement hedging strategies to overcome FX shortages and currency depreciation.
- Plan for reduced transit times and increased transport options in the next few years.
- Monitor discussions on regional FTAs, which could evolve rapidly.
- Look out for privatisation opportunities, but undertake extensive research before bidding.

GLOBAL INSIGHT

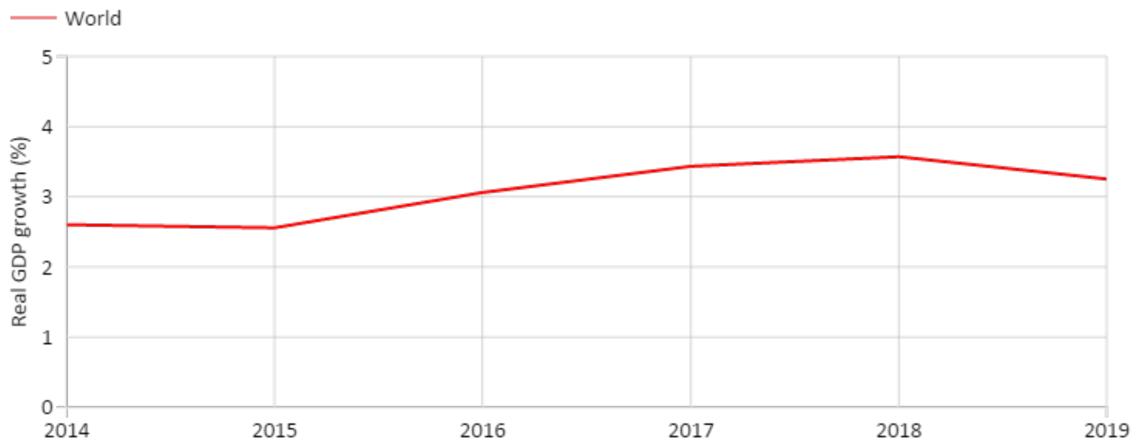
Trend: Stable

Headline Global Issues

- US core inflation has held up, and so our central forecast of a Federal Rate rise in September also holds.
- US pre-tax corporate profits fell in Q1, and US household savings rose, offsetting fuel price falls.
- A Greek exit from the euro zone no longer appears improbable, so long as a deal remains elusive.
- LCs and export insurance fell in value globally in 2014, in part due to tighter risk management.

GLOBAL OUTLOOK

Global Growth Forecast



Source : Haver Analytics/D&B

Global Outlook: Global Growth Remains Weak

In 2015, the global economy will wobble along, growing close to the 2014 rate, with a lack of decisive US data and the Greek wildcard being important factors in the short term. Uncertainty around short-term growth drivers is undermining the global outlook, with headwinds due to outweigh tailwinds over Q3-Q4. Falling corporate profits in the US, and deepening Chinese producer price deflation, along with the clear dependence of the euro zone and Japan on quantitative easing, indicate that global growth in 2015 is likely to be around the weak 2.6% level achieved in 2014. India is forecast to grow at 8.4%, the highest level since the global recession, but its new GDP methodology is unproven and its growth does not translate much into global demand.

Mixed recent data means that the debate over the timing and pace of US interest rate rises still weighs on markets. Although our core scenario is still for a September 2015 Fed rate rise, to 0.25%, a lack of decisive economic data could see this first step being put back until December.

Moreover, despite official protestations to the contrary, a Greek exit from European monetary union is looking more probable; and the US Treasury is nervous that the ECB and member states are more focused on exerting discipline on Athens than averting a financial shock. Markets are not necessarily pricing in how new waves of 'Grexit' anticipation could affect Spain, Portugal and Italy. The structure of trade finance is changing again as banks exit unprofitable business lines and prepare for Basel III, with guarantees undertaken by banks, including LCs, falling in value by 30-50% y/y in Q4 2014. Finally, the strong US dollar is adding to the volatility in the currency, capital and commodity markets.

Commodity Prices

Commodity	Jan 2015	Feb 2015	Mar 2015	Apr 2015	2014	2015	2016
Aluminium (USD/tonne)	1,815	1,818	1,774	1,819	1,867	1,748	2,003
Copper (USD/tonne)	5,831	5,729	5,940	6,042	6,862	5,986	5,979
Gold (USD/ounce)	1,251	1,227	1,179	1,199	1,254	1,110	1,048
Oil (USD/barrel)	48	58	56	59	99	63	75
Cocoa (USD/tonne)	3,178	3,177	3,163	3,128	3,358	2,878	2,827
Coffee (US cents/lb)	186	175	155	157	198	164	169

Source : External

Key Risk: No Breakthrough Back to Normality in the US or Elsewhere?

The familiar dynamics of a Keynesian full-capacity cycle remain elusive. In the Keynesian business cycle, when output reaches the limits of the stock of capital and labour, inflation ensues. However, the upturn of a business cycle can end even in the absence of inflation; if the boom was only powerful enough to spur producer price inflation, it can end before it brings broad-based consumer price inflation. The return of broad-based inflation sufficient to force the string of rate rises the consensus expects is accordingly not guaranteed.

Many fret over the looming impacts of higher interest rates on the global financial system given the extent to which financial market stability has come to depend on minimal benchmark bond yields. But given central banks' strong caution to date and evident bias in smoothing financial markets, it seems unlikely that rates will rise faster than the world can bear. However, the more disconcerting outcome will be if there is no decisive switch back to the familiar world of non-zero interest rates.

Household savers and key parts of the financial system, pension funds and insurance companies have put up with the 'financial repression' of low rates for years, but if they continue, privileging debtors and holders of risk assets, the wilting 'new normal' could become more contentious and divisive for OECD policy-makers, business and voters.

Recommendations

- Expect the trade finance market to undergo further structural change as banks meet Basel III expectations and exit unprofitable business lines.
- Do not rely on sales patterns of 2010-14 to guide expectations of market potential, especially in large emerging markets with high corporate leverage.
- Maintain underwriting standards and limit medium-term exposure, even if your sector has exhibited historically low volatility in recent quarters.
- Factor in continuing US dollar strength to your receivables management and assessment of customer cashflow.
- Tailor your credit sales ceilings by sector and company size, as local credit conditions fluctuate and remain highly differentiated.
- Do not expect financial markets to price risks efficiently and smoothly - 'crash' phases for markets will unwind faster than the 'bubble'.

REGIONAL INSIGHT

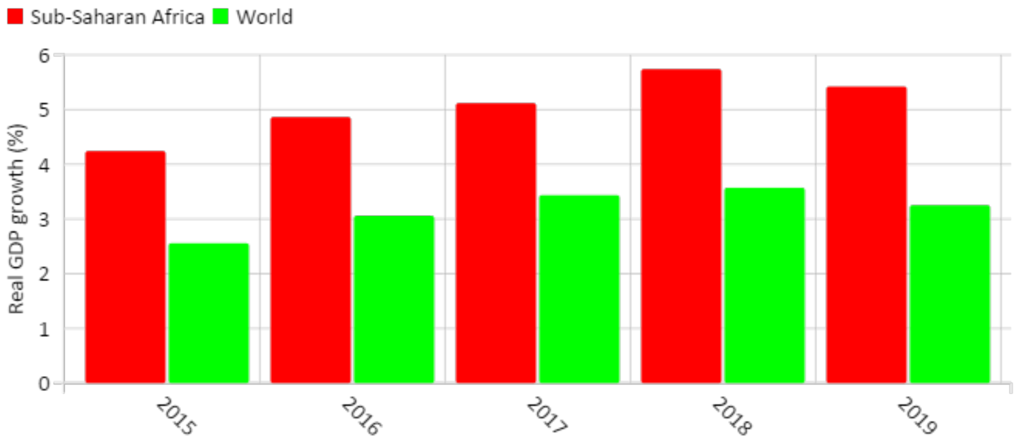
Trend: Deteriorating

Headline Regional Issues.

- Recent headwinds have prompted us to downgrade our outlook trend for sub-Saharan Africa. Growth in 2015 is now forecast at 4.3%, falling short of 2014's 4.6%.
- Lack of support from commodity prices will widen fiscal deficits and hamper public sector spending on necessities such as infrastructure and healthcare.
- Frontier economy currencies remain exposed to the threat of volatility in the wake of the US Federal Reserve's withdrawal of extraordinary monetary support.
- Sustained currency weakness could pass through to domestic prices and undo some of the improvement in inflation rates.

REGIONAL OUTLOOK

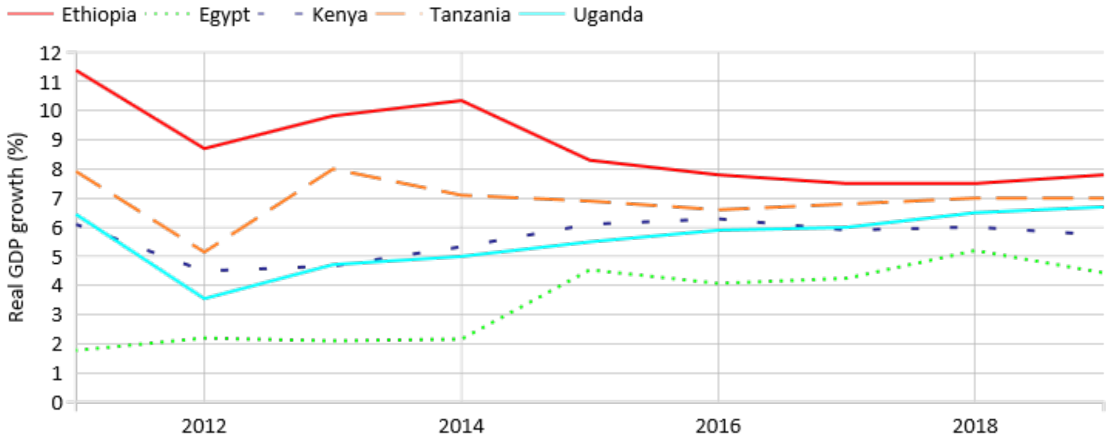
Regional Growth Forecast



Source : Haver Analytics/D&B

Growth in sub-Saharan Africa will still be healthy, and faster than most other regions on the world. However, data available in the fast few months of the year suggest that the region started 2015 on a weaker note, primarily due to the bust in the commodity price cycle and the general lack of discipline that left a majority of countries exposed to such a shock. The ongoing slump in global commodity prices has had a mixed impact on the region. On the one hand, countries like Mauritius that do not depend on resource exports will benefit from the increased savings that consumers are enjoying, thanks to lower energy prices. On the other hand, countries like Nigeria and Angola that are over-dependent on oil exports have seen growth slow sharply and will struggle in the near term. As their currencies depreciate in global markets and FX reserves drop due to lower export earnings, many member countries face major downside risk to their fiscal positions and are reducing spending on much-needed public infrastructure projects. If this persists, long-run growth prospects could be hurt. FX volatility is also expected to magnify around the time the US Federal Reserve starts raising rates, another downside risk.

Outlook for Key Regional Countries



Source : Haver Analytics/D&B

The outlook varies significantly from country to country. New data confirm that the slowdown in Nigeria that we had been forecasting is starting to materialise. The economy started 2015 on a significantly weaker note; real GDP grew only 3.96% y/y in Q1 2015, a marked slowdown compared with the pace of 5.94% set in Q4 2014 and the 6.21% seen in Q1 2014. As expected, the pivotal oil sector subtracted from growth in the first three months of the year. Growth in 2015 is forecast to slow sharply to around 5% from the 6.2% pace set in 2014. Economic conditions and growth in South Africa remain subdued, impeded by a host of factors; real GDP growth is expected to barely cross the 2% mark in 2015. With improvements in activity expected to recover only slowly, insecurity/civil disorder risk has suddenly spiked in South Africa. In late April, a wave of anti-immigrant xenophobic attacks swept the country and affected major cities like Johannesburg and Durban. South Africa's failure to generate adequate electricity, and the persistent power cuts and load-shedding that has plagued the country since the beginning of the year, are also affecting businesses, production, and even consumers.

The slump in global oil prices since mid-2014 will undermine Angola's export earnings and FX reserves in 2015, pushing the current account into deficit and widening the fiscal deficit. The kwanza will remain under downwards pressure, and is expected to lose further value against the US dollar during 2015. Angola's real GDP growth is estimated at a sluggish 3.6% in 2015, as lower global oil prices undermine oil sector investment and public spending plans. Non-oil sector growth will remain reasonably strong, but will not be immune to the effects of lower oil prices, raising payment delay and default risk. The near-term growth outlook for the Kenya economy remains fairly robust, with real GDP growth forecast to accelerate to near 6% in 2015 despite some headwinds. FX risk has increased in recent weeks and the shilling has lost ground against the US dollar. The National Treasury is currently evaluating the external conditions facing the economy to decide whether to draw down from the precautionary USD688m standby facility approved by the IMF last February.

Recommendations

- Companies in mining should be aware that they are at high risk of being targeted by militias.
- Investors should beware of forced contract renewals as governments attempt to maximise returns and resource nationalism increases.
- We recommend stricter trade terms for local counterparties.
- Monitor FX liquidity in countries with balance of payments difficulties and weak currencies.
- Companies are advised to take out adequate security and political risk insurance cover.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT OUTLOOK

A

Current Issues

- The government's industrial policy is creating opportunities in light manufacturing, which leverage abundant, low-cost labour to supply national, regional and international markets.
- Ethiopia's large infrastructure investment programme and a construction boom in Addis Ababa offer opportunities for building-sector suppliers and contractors.

Risks and Opportunities

- FX shortages often occur and undermine the ability of local counterparts to settle invoices on time, making the buildup of arrears a common feature of doing business in Ethiopia.
- The Ethiopian birr has been subject to a steady depreciation over the past few years and this trend is expected to be maintained during 2015-16, prompted by government policy.

Trade Terms

Description	
Minimum Terms	CLC
Recommended Terms	CiA
Usual Terms	90-120 days

Source : D&B

Transfer Situation

Type	Delay
FX/Bank Delays	1-3 months
Local Delays	1-2 months

Source : D&B

Recommendations

- Anticipate growing demand for competitively priced consumer goods and services.
- Consider Ethiopia as a low-cost production base for light manufacturing activity.
- Implement hedging strategies to overcome FX shortages and currency depreciation.

SUPPLY ENVIRONMENT OUTLOOK

R

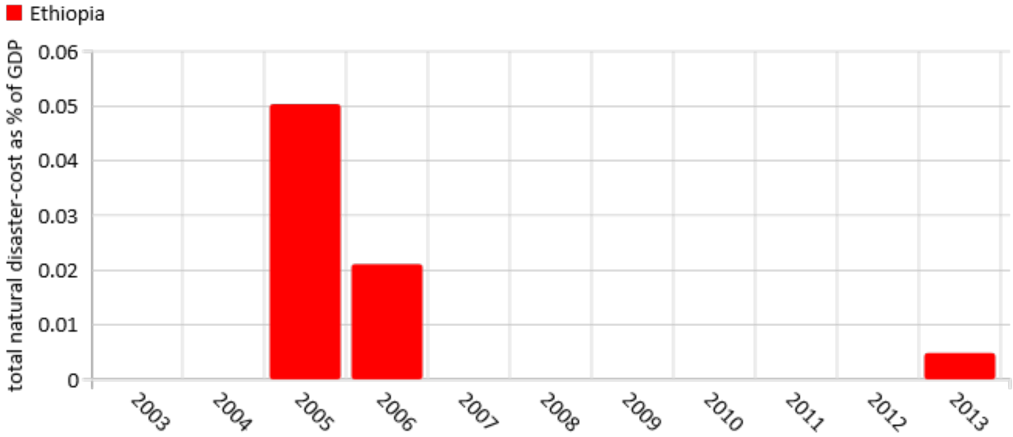
Current Issues

- Ethiopia aims to complete 5,000km of new railway lines by 2020, which include the planned opening of two new rail links in 2016 that connect to seaports in Djibouti.
- The international airport at Addis Ababa is being expanded and is scheduled to have an annual operating capacity of 20m passengers by 2018.

Risks and Opportunities

- Supply disruptions are common due to continued transport infrastructure weakness, regular power outages, and bureaucratic and procedural delays affecting logistics.
- Road, rail and airport expansion are essential parts of the second five-year Growth and Transformation Plan (GTP, 2015-2020), which could greatly reduce transit times and lower transport costs.

Natural Disaster Impact as a Percentage of GDP



Source : Emergency Events Database (EM-DAT)

Recommendations

- Allow time for bureaucratic and procedural delays in domestic and cross-border logistics.
- Anticipate a high risk of power shortages and ensure back-up energy supplies are in place.
- Plan for reduced transit times and increased transport options in the next few years.

MARKET ENVIRONMENT OUTLOOK

A

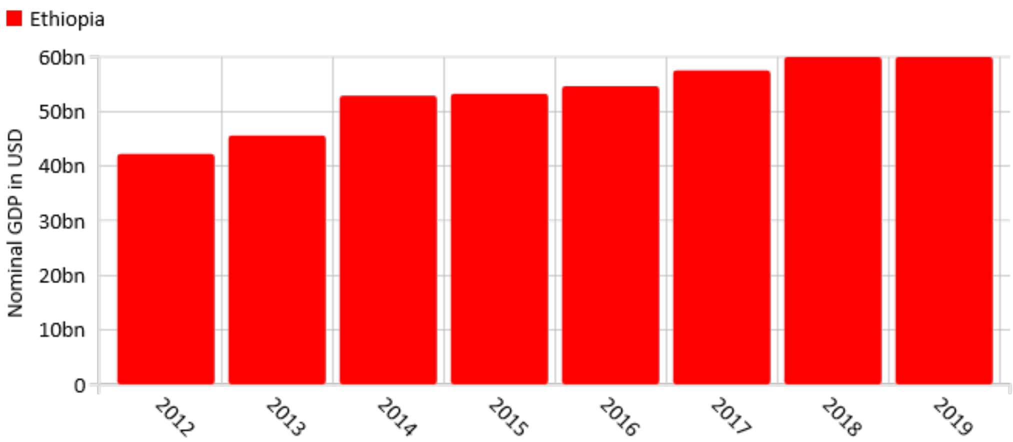
Current Issues

- Foreign firms can encounter corruption in public office (affecting tax payments and customs clearance), which adversely impacts on business operations and costs.
- Ethiopia is expected to join the Common Market for Eastern and Southern Africa (COMESA) free-trade agreement (FTA) in 2015 and could implement the tri-partite FTA covering 26 states in the East African Community, the Southern African Development Community and COMESA during the course of this year.

Risks and Opportunities

- The government aims to improve the business environment through extensive infrastructure development, and more efficient processes in business registration, logistics and taxation.
- Securing strong local connections with a nuanced understanding of the regulatory regime and Ethiopian market is crucial to ensure a successful venture.

Nominal GDP Forecast



Source : D&B

Recommendations

- Plan for relatively high import tariffs and non-tariff barriers to trade during the next two-three years.
- Monitor discussions on regional FTAs, which could evolve rapidly over the next few years.
- Establish guidelines for dealing with corrupt practices and demands for unofficial payments.

POLITICAL ENVIRONMENT OUTLOOK

R

Current Issues

- Ethiopia provides a reasonably stable and secure political environment for investors and traders to operate in, although this reflects the controlling nature of the dominant Ethiopian People's Revolutionary Democratic Front (EPRDF).
- The parliamentary election in May passed peacefully, and suggests policy continuity by the ruling EPRDF and little change in the party leadership.

Risks and Opportunities

- A slow-moving privatisation programme could see public-private partnerships or the outright sale of state-owned enterprises, but key sectors will remain under state control.
- The main risk to security in Ethiopia comes from extremist terrorist groups, in particular the Somalia-based al-Shabaab.

Political Freedom

Location	Electoral Process	Pluralism and Particip.	Function'g of Govt.	Freedom of Express'n and Belief	Assoc. and Org. Rights	Rule of Law	Personal Autonomy and Individual Rights
Ethiopia	1	2	4	3	0	3	5
Sub-Saharan Africa	6	8	5	10	7	7	9
OECD Average	10	12	9	13	10	11	12

Source : External

Higher score = greater degree of freedom

Recommendations

- Monitor official warnings and leverage local networks to gauge the level of security risk.
- Expect policy continuity and little leadership change under the ruling EPRDF.
- Watch for privatisation opportunities, but undertake extensive research before bidding.

DETAILED ANALYSIS

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

Short-Term Economic Outlook

Long-Term Economic Potential

Market Potential

FX Risk

Transfer Risk

Business Environment Quality

Business Continuity

Insecurity/Civil Disorder Risk

Expropriation/Nationalisation Risk

Descriptions for each of these categories can be found in the User Guide section of this report.

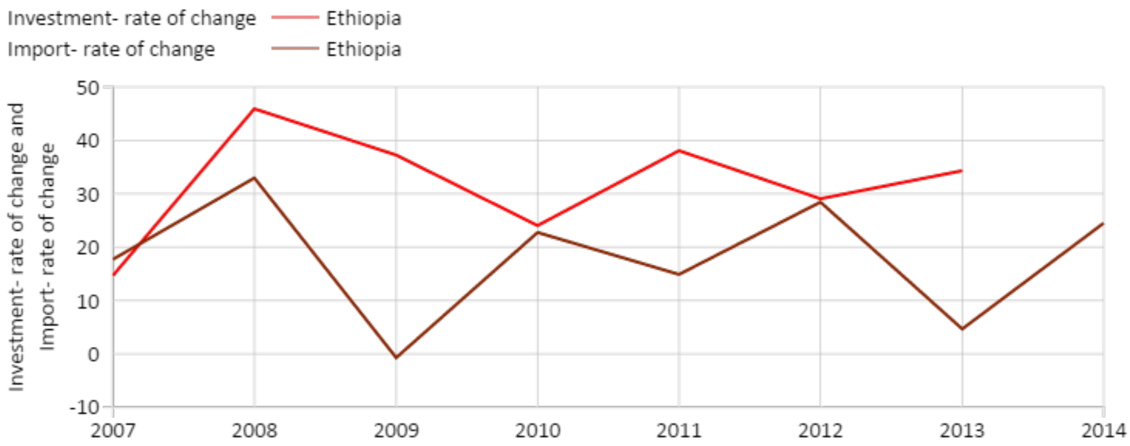
SHORT-TERM ECONOMIC OUTLOOK

Ethiopian real GDP grew by a rapid 10.3% in 2014, which made it the fastest growing non-oil economy in Africa. The short-term economic outlook is positive: contributing factors include continued public and private investment to develop transport and power infrastructure; FDI and job creation in agriculture, light manufacturing and the services sector; and strengthening demand for a wide range of consumer goods in major cities. Low global oil prices are adding to the positive economic outlook as the import bill for fuel products is trimmed, cutting costs for many businesses and households. We expect real GDP to expand by 8.3% in 2015 and 7.8% in 2016.

Risks and Opportunities

- Agriculture and agro-industry sectors are benefitting from new commercial opportunities created by infrastructure development, as well as evolving local markets and supply chains.
- The government's industrial policy is creating opportunities in light manufacturing, which leverage abundant, low-cost labour to supply national, regional and international markets.
- Ethiopia's large infrastructure investment programme and a construction boom in Addis Ababa offer opportunities for building-sector suppliers and contractors.
- The private sector has potential but remains fairly weak due to state involvement in a number of sectors, inadequate access to domestic credit and supply bottlenecks.

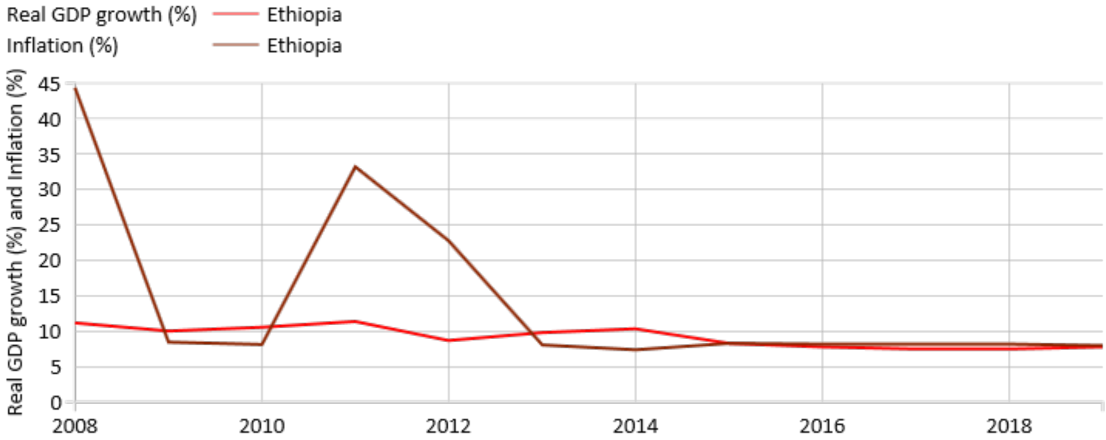
Investment and Imports



Source : Haver Analytics/D&B

The government’s second five-year Growth and Transformation Plan II (2015-20) will continue to direct public funds towards transport and energy infrastructure development, incentivise the development of industrial clusters and attract FDI into areas such as commercial agriculture and light manufacturing. Chinese and Taiwanese shoe manufacturing companies set up large production bases in H1 2015, and additional foreign investment in light manufacturing and product distribution is anticipated in areas such as automotive parts, textiles, as well as food and beverages. Moreover, infrastructure investment will boost demand for contractors, consultants, machinery and equipment, and building materials during 2015 and 2016. Dangote Group opened Africa’s largest cement plant in June just outside Addis Ababa, which has a production capacity of 2.5m tonnes per annum, and will help to meet demand across the country and from the current construction boom in Addis Ababa (including office blocks, housing and hotels).

Real GDP Growth and Inflation



Source : Haver Analytics/D&B

Consumer price inflation has risen steadily since September 2014 and was last recorded at 9.4% y/y in April. Inflation could remain around this slightly elevated rate during H2 2015 due to strong consumer demand, supply bottlenecks and the continued weakness of the local currency. Consumer price inflation can escalate rapidly, as highlighted by the rise to around 40% y/y in H2 2011, and can pose a serious risk to economic stability.

Recommendations

- Consider Ethiopia as a low-cost production base for light manufacturing activity.
- Anticipate growing demand for competitively priced consumer goods and services.
- Be aware of private sector weaknesses and their implications for business ventures.

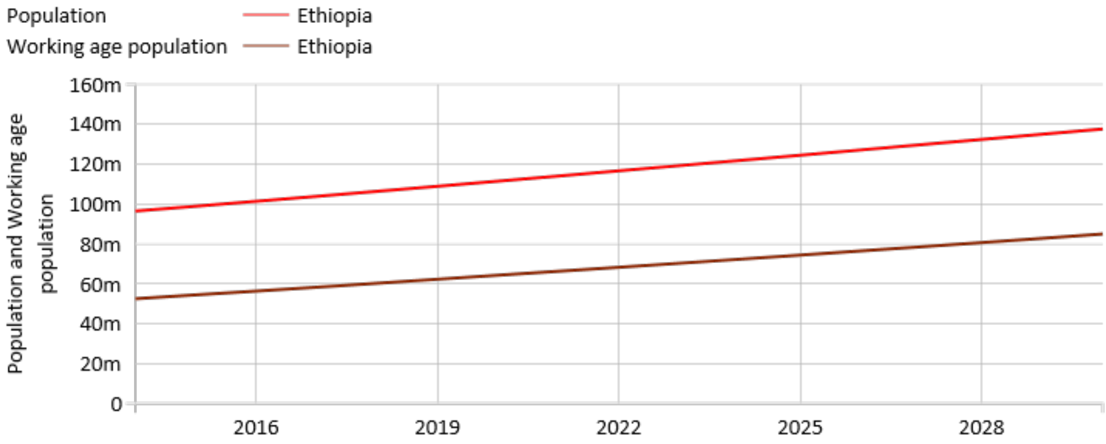
LONG-TERM ECONOMIC POTENTIAL

Ethiopia has the potential to sustain long-term annual growth of 6.0-8.0%, facilitated by the government's commitment to an industrial strategy that seeks to achieve middle-income status by 2025. Ethiopia has potential to benefit from a rapidly growing and young population, which is increasingly concentrated in towns and cities, and enjoys a rising level of income. A number of foreign firms have already taken up positions in the hope of exploiting Ethiopia's long-term potential as an emerging consumer market, while others have identified Ethiopia as a low-cost manufacturing base to feed growing national and regional markets, as well as global value chains. Greater liberalisation and more private sector involvement in currently protected areas of the economy (including financial services and telecommunications) is anticipated in the longer term as the transition to a market-based economy continues.

Risks and Opportunities

- Low-cost labour-intensive light manufacturing will be a key economic sector that feeds markets and supply bases in Africa, the Middle East, Asia and Europe.
- Large areas of Ethiopia remain unexplored for oil, gas and solid minerals, and there is potential for significant discoveries, as well as more extensive and productive agriculture.
- Business sector deficiencies, such as skills' shortages and excessive state interference, will persist and create significant barriers for some foreign firms.
- Restrictions on the private sector (both domestic and foreign) could ease over time and create opportunities in banking, telecoms, retailing and transport sectors (among others).
- Deeper economic integration with other African countries and economic communities will spur intra-regional trade and investment opportunities.

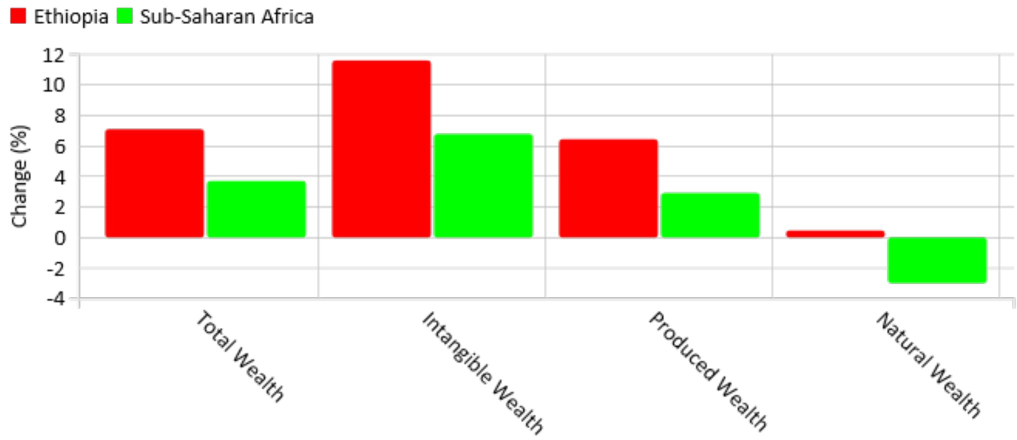
Population Dynamics



Source : UN/Haver Analytics

Ethiopia has the second-largest population in Africa (after Nigeria), at around 94m people, and it could see its population increase to an estimated 111m by 2020 and 138m by 2030. The labour force will grow rapidly as the working-age population (15-65 years) rises to around 83m in 2030 (from an estimated 52m in 2014). The expansion of the labour force (including greater levels of participation by women) could help to maintain a cost advantage for Ethiopia and secure FDI in sectors such as agro-processing and low-cost manufacturing, although skills' shortages will be a problem for some businesses and require extensive training programmes. There could be as many as an extra 30m people aged 20 years or older by 2030, which creates a positive demographic dynamic in support of much larger consumer markets. Ethiopia's towns and cities will experience a sizeable increase in the number of households in the coming decade, which will bring with it significant challenges and opportunities in terms of urban infrastructure (including more extensive housing, utilities and public services) and job creation.

Changes in Wealth, 2000-08 (average per year)



Source : World Bank/D&B

Ethiopia's wealth creation primarily relies upon agriculture, manufacturing and service sectors, rather than the extraction and export of hydrocarbons and solid minerals. The country has an abundant and largely under-exploited natural resource endowment, including possible oil and gas reserves, as well as hydroelectric capacity and rich farmland, which is attracting the attention of foreign investors. We believe that wealth will continue to rise at a steady pace into the longer term, driven by the country's industrial policy and supported by FDI. Stronger and more sophisticated urban markets are likely to be a feature of Ethiopia's long-term growth path, as is a growing divide between rural and urban incomes.

Recommendations

- Build a market presence and brand recognition to benefit from sustained GDP growth.
- Plan for the longer term, but be aware of the risk of policy and regulatory shifts.
- Expect slow and long-term progress in lifting FDI restrictions.

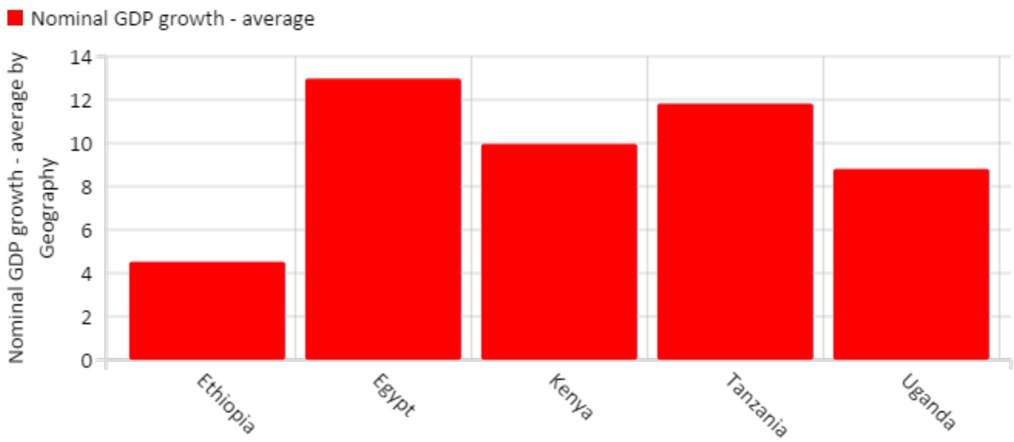
MARKET POTENTIAL

Ethiopia's rapidly growing economy offers potential, although foreign firms face a number of constraints, including low income levels, restrictions on FDI, the dominant role of parastatals, poor transport infrastructure, tough regulations and bureaucratic inefficiency. Tariff and non-tariff barriers to trade and investment can prove difficult obstacles to overcome. Foreign firms are currently barred from various sectors including retailing, banking, insurance, telecommunications and energy supplies (except as suppliers or contractors), but are permitted to invest in construction, mining, agriculture, manufacturing, healthcare, waste management and tourism. Foreign firms are providing services to support the development of mobile banking services in Ethiopia, and any resulting increase in financial inclusion should help to support the country's market potential for competitively priced consumer goods.

Risks and Opportunities

- Per capita income is low, implying a small market for high-end consumer goods, but there is a large and growing market for competitively priced consumer goods and services.
- Foreign investment and ownership is restricted in a range of sectors and there is little likelihood this will change soon, but opportunities for suppliers and contractors will arise.
- Ethiopia is expected to join the Common Market for Eastern and Southern Africa (COMESA) free-trade agreement (FTA) in 2015, and could implement the tri-partite FTA covering 26 states in the East African Community (EAC), Southern African Development Community (SADC) and COMESA during the course of this year.

Average Nominal GDP Expansion (%, USD)



Source : D&B

Chart covers 2015-19

Ethiopia's economy is growing rapidly in real and nominal local currency terms, but expected currency depreciation against the US dollar will curtail market growth in US dollars during the next five years. National income per capital is low and unlikely to rise much in the medium term, which will restrict overall market potential. Competition from low-cost Chinese (and other Asian) suppliers and contractors will probably remain intense, while large established foreign firms (such as the Saudi Arabian Al-Amoudi conglomerate) present a stiff challenge for new entrants. A great deal of economic activity is carried out in the informal sector, and it is essential that firms attempt to capture this during market-sizing and growth exercises.

Main Restrictions on Imports

Tariff Barriers	Ethiopia	Egypt	Kenya	Tanzania	Uganda
Overall Weighted Mean Tariff	10.3	8.1	9.7	8.4	8.6
Manufactures Weighted Mean Tariff	12.5	9.5	9.6	8.8	6.1
Primary Products Weighted Mean Tariffs	4.9	6.4	9.8	7.9	12.8
Overall MFN Tariff	56.3	18.0	35.7	40.7	36.6
Manufactures MFN Tariff	55.9	18.5	33.6	38.9	35.2
Primary Products MFN Tariff	61.2	18.1	48.6	52.4	44.9
Services Restrictiveness Index	88.2	52.1	29.5	25.7	34.5

Source : External

Ethiopia could join the COMESA FTA in 2015 which would phase in a reduction of intra-regional tariffs and quotas. Furthermore, Ethiopia and other members of the EAC, SADC and COMESA aim to launch phase one of the tripartite FTA (TFTA) in 2015, ultimately offering zero tariffs on goods traded between the 26 participating member states. Negotiations on the free movement of business people across the TFTA and dispute settlement are outstanding issues from phase one, whilst talks on phase two covering services and intra-regional investment have yet to commence. The TFTA aims to establish a common customs union by 2019. Ethiopia is likely to remain outside the World Trade Organisation (WTO) during the next few years at least, as its inclusion would require the liberalisation of the finance, telecoms and energy sectors, which the government does not appear inclined to relinquish.

Recommendations

- Plan for relatively high import tariffs and non-tariff barriers to trade over the next two-three years.
- Monitor discussions on regional FTAs, which could evolve rapidly over the next few years.
- Target Addis Ababa as a consumer market and operational base when entering Ethiopia.

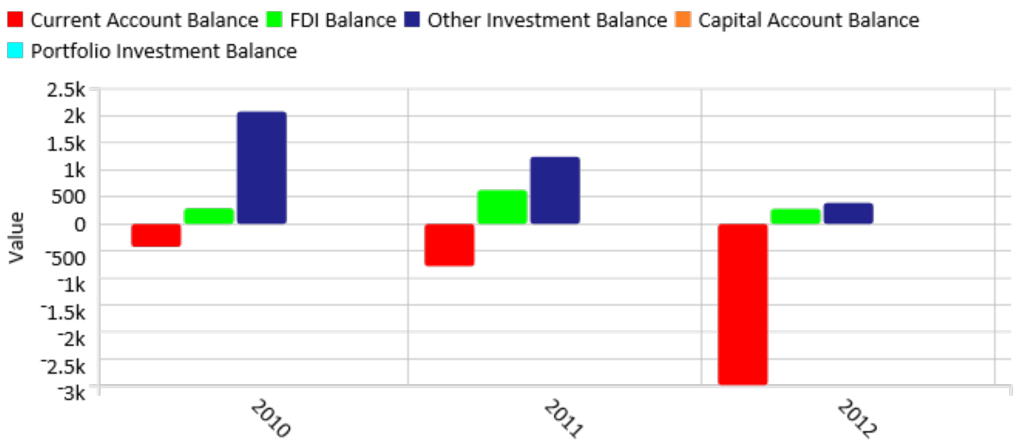
FX RISK

Lower global oil prices, rising coffee export revenues during 2014/15 (July-June) and continued FDI could push FX reserves higher by end-2015. That said, they will remain close to USD3.5bn and provide less than 3.0 months of import cover. Ethiopia's fuel bill has dropped as a result of lower oil prices, but strong demand for consumer goods' imports, as well as machinery, equipment and building materials to support infrastructure and industrial development act as a drag on the current account and a drain on FX reserves. Consequently, business can often suffer from FX shortages and delays in accessing funds for settling invoices on time. The currency is widely regarded as being over-valued in real-terms (possibly by as much as 10%) and the government is encouraging a steady depreciation to help support international competitiveness.

Risks and Opportunities

- Lower global oil prices, rising coffee export revenues and continued FDI will support FX reserves, but will be insufficient to significantly increase low levels of import cover.
- FX shortages often occur and undermine the ability of local counterparts to settle invoices on time, making the build-up of arrears a common feature of doing business.
- The currency has been subject to a steady depreciation in the past few years and this trend is set to continue during 2015-16, prompted by government policy.

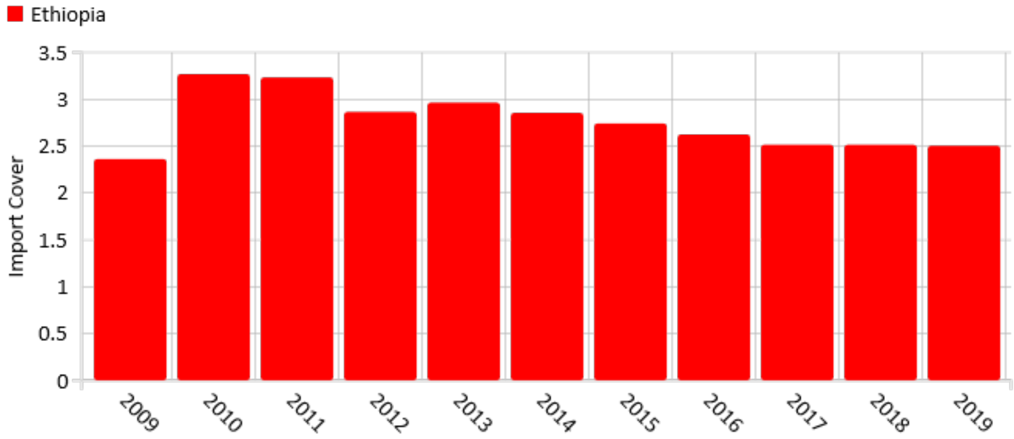
Current Account



Source : Haver Analytics/D&B

The current account deficit is expected to be close to USD4bn in 2015 (around 7% of GDP), mainly as a result of the large and growing non-oil import bill. The fall in global oil prices will help to ease some of the pressure on Ethiopia's large fuel bill, but goods' imports will still be over three times the US dollar value of goods' exports in 2015. Robust receipts from workers' remittances and official transfers will continue to help Ethiopia to sustain its overall balance of payments position. Furthermore, the importance of Ethiopia as a stable economy and strategic partner in one of the more fragile regions of Africa should help to maintain adequate access to donor financial support.

Import Cover (months)



Source : Haver Analytics/D&B

FX reserves will remain under pressure despite lower oil prices and potentially record coffee exports in fiscal year 2014-15. Coffee export earnings will benefit from record production levels and reasonably high prices during the course of the 2014/15 season. However, the country's large import bill means that the level of import cover will remain at or just below the IMF's recommended minimum of 3.0 months in 2015 and 2016.

Recommendations

- Prepare for the risk of delays in accessing funds for bill settlement of repatriation.
- Implement hedging strategies to overcome FX shortages and currency depreciation.
- Watch for fluctuations in world coffee and oil prices to help determine likely FX trends.

TRANSFER RISK

The financial sector is highly protected and foreign banks are not permitted to operate in the domestic market, which is dominated by the state-run Commercial Bank of Ethiopia. Ethiopia maintains a range of controls on the capital account, although foreign investors are permitted to freely remit all profits and dividends, payments on external loans and proceeds from the sale or liquidation of an enterprise. However, the National Bank of Ethiopia (the central bank) must approve all currency transactions, which can add to transfer delays. The expansion of mobile money services could see a sharp increase in financial inclusion in the years ahead, and offer an alternative payment method for individuals and businesses.

Risks and Opportunities

- Controls on payments and transfers, combined with FX shortages, represent an additional source of transfer risk; payment delays are common, but non-payment is rare.
- Restrictions on current and capital transactions will be gradually eased in the medium term, although the timing of any changes is uncertain and temporary reversals are possible.
- The absence of foreign banks heightens transfer risk; the state-run Commercial Bank of Ethiopia dominates the FX market, while domestic private banks play a secondary role.

Financial Sector/Capital Flows Provisions

Provision	Active
Restrictions on Inward Direct Investment	Yes
Special Treatment for Deposits held by Non-Residents	No
Special Treatment for Deposits in Foreign Currency	No
Special Treatment for Lending to Non-Residents	No

Source : External

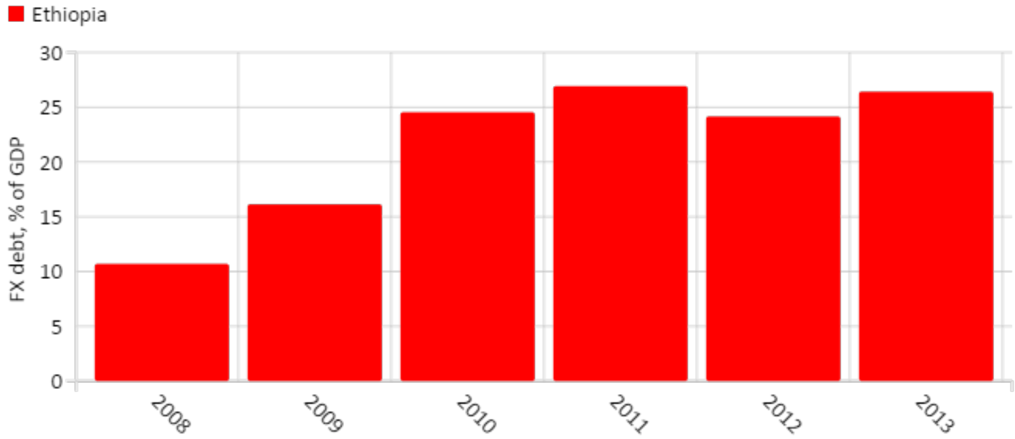
Trade Restrictions

Trade Restriction	Ethiopia	Sub-Saharan Africa	OECD Average
Restrictions on non-Residents' Accounts	0	0.24	0.06
Restrictions on Payments for Imports	2	1.29	0.06
Restrictions on Payments for Invisible and other Current Transfers	3	1.81	0.35

Source : External

Fluctuations in global commodity prices and their impact on liquidity in the banking system represent a risk to firms wishing to transfer funds out of Ethiopia, although currently commodity price movements (lower oil prices and reasonably high coffee prices) are in Ethiopia’s favour. Other factors contributing to transfer risk include the central bank’s lack of full independence, weak monetary transmission mechanisms, still somewhat high inflation, and Ethiopia’s absence from the WTO.

Total Foreign Debt



Source : Haver Analytics/D&B

Ethiopia has taken on increasing amounts of debt to help fund its ambitious public spending programme, although much of this has come from the domestic market. Large infrastructure projects implemented under the Growth and Transformation Plan (GTP) I (2010-15) and its successor GTP II (2015-20) will keep public borrowing high. The government issued its first Eurobond to international capital markets in December 2014 (a ten-year bond valued at USD1bn at a yield of 6.25%), and this, together with additional borrowing from multilateral lenders on concessional terms, will edge external debt higher in the years ahead. However, slightly higher debt levels, servicing and arrears do not appear to present a serious risk to the financial stability of Ethiopia.

Recommendations

- Plan for the absence of foreign banks in Ethiopia and the need to deal with local entities.
- Prepare contingencies to account for interference by the state that creates payment delay.
- Consider evolving mobile money services as a future in-country transfer system.

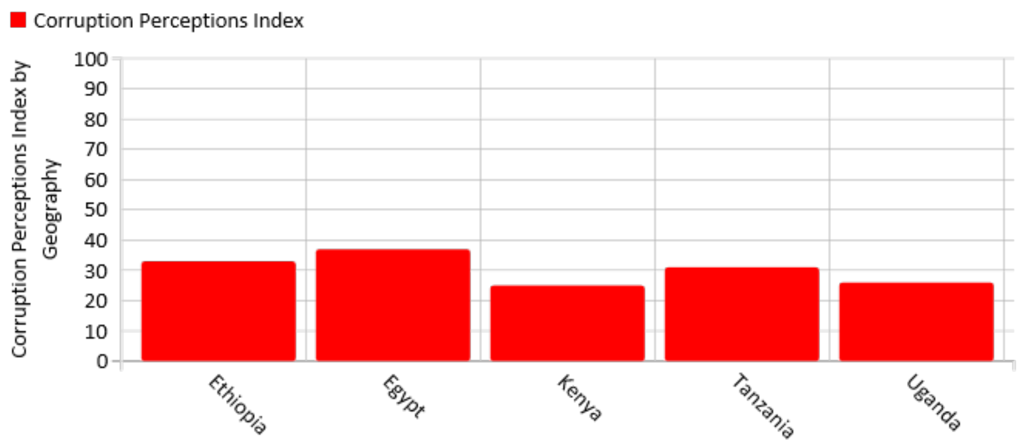
BUSINESS ENVIRONMENT QUALITY

The business environment will remain very challenging in the short to medium term, marked by the dominant role of the state, excessive and often unclear regulations, a lack of transparency in procurement procedures, prohibitions on FDI in some sectors, corruption and weak (albeit rapidly improving) transport and energy infrastructure. Low-cost labour is readily available (and the use of child labour is widespread) but there is a significant skills gap in most sectors, which can require extensive training programmes and expatriate staffing. Foreign firms and investors often rely upon a trusted network of well-connected local trading partners with a nuanced understanding of local trading conditions and the regulatory environment to facilitate successful market entry and expansion. Positively, the government is attempting to improve the business operating environment and investment climate through extensive infrastructure development, and by adopting more efficient bureaucratic processes in business registration, logistics, and tax administration.

Risks and Opportunities

- Excessive bureaucracy can pose a significant barrier to setting up and operating businesses or realising investments in Ethiopia.
- Securing strong local connections with a nuanced understanding of the regulatory regime and Ethiopian market is crucial to ensure a successful venture.
- Foreign firms can encounter corruption in public office (affecting tax payments and customs clearance), which adversely impacts on business operations and costs.

Corruption Perceptions Index

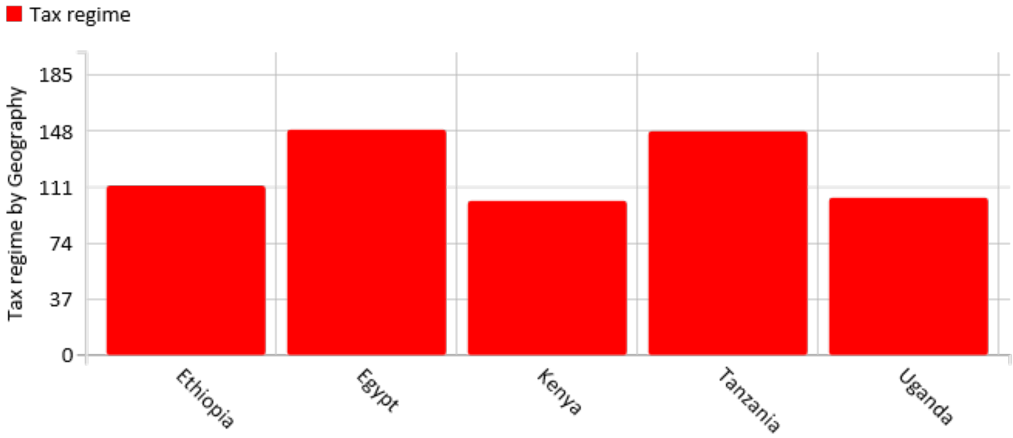


Source : Transparency International, 'Corruption Perceptions Index'/Haver Analytics

Note: 100 = least corrupt, 0 = most corrupt.

Corruption remains a serious problem at all levels, although an official campaign against graft, led by the Federal Ethics and Anti-Corruption Committee (FEACC), appears to be paying some dividends. According to Transparency International's *Corruption Perceptions Index* (which focuses on the public sector), Ethiopia was ranked 110th (out of 177 countries) in 2014, which reflects a continued improvement in the country's global ranking. However, the FEACC has been accused by some critics of targeting the government's political opponents. Furthermore, foreign firms often complain of a lack of transparency in the public sector procurement process, while some firms have suffered from the abrupt cancellation of government contracts. There is also a perception of government favouritism towards contractors and suppliers who provide concessional financing.

Ease of Paying Taxes



Source : World Bank, 'Doing Business Report'

Ranking: Best = 1, Worst = 189

In principle, the tax regime is fairly clear, does not discriminate against foreign firms and poses little risk of retro-active taxes. The official fiscal burden of paying taxes is competitive by regional standards. However, the problem of corruption and claims for unofficial tax payments impose an additional financial burden on business operations. Importantly, the government is seeking to encourage foreign investment outside restricted areas and attractive tax incentives are subject to negotiation.

Recommendations

- Regulations governing business are subject to change and require close monitoring.
- Establish guidelines for dealing with corrupt practices and demands for unofficial payments.
- Build close relations with all levels of government to help overcome potential obstacles.

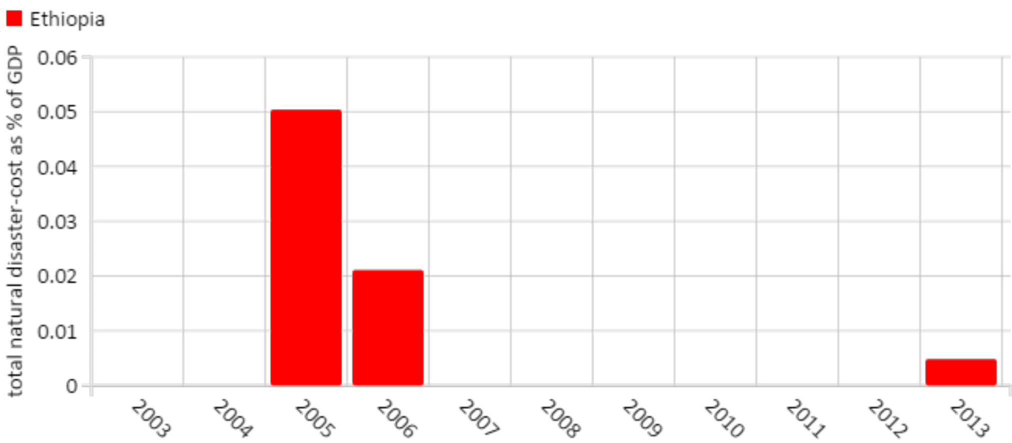
BUSINESS CONTINUITY

The Ethiopian government is investing heavily in transport and energy infrastructure in an attempt to improve the logistics environment and sustain rapid economic growth rates. Road and rail links across the country, and seaports in neighbouring Djibouti, are being expanded and upgraded, which should help to reduce lengthy transit times and high transport costs. The majority of goods are transported by road, but railway and airport expansion will increase logistics options in the years ahead. Ethiopia plans to export surplus power to other East African states within the next five years, although additional investment in the transmission and distribution grid is essential to avoid grid failure and blackouts, which are a common occurrence. The Gilgel Gibe III hydroelectric facility could come online by July, when the first of ten new turbines become operational. This could be followed by another turbine each month until the dam becomes fully operational in 2016, adding 1,870MW to generation capacity by 2016. The Grand Renaissance dam could be completed and online by 2017, and would be Africa's largest hydroelectric facility, capable of generating up to 6,000MW per year.

Risks and Opportunities

- Supply disruptions are common due to continued transport infrastructure weaknesses, regular power outages, and bureaucratic and procedural delays affecting logistics.
- Road, rail and airport expansion are essential parts of the second five-year Growth and Transformation Plan (2015-20), which could greatly reduce transit times and lower transport costs.
- Ethiopia could establish new transport links to ports in Sudan, Somalia and Kenya to reduce its reliance on the Port of Djibouti and to create capacity to support its fast growing economy.

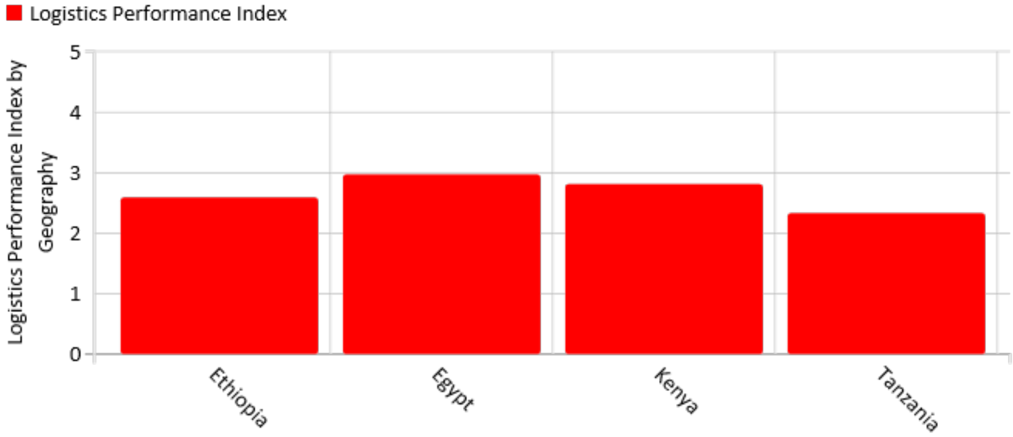
Natural Disaster Impact as a Percentage of GDP



Source : Emergency Events Database (EM-DAT)

Disaster Risk: Apart from infrastructure deficiencies, the country is vulnerable to cycles of severe flooding and droughts (although these are not annual events), while climate change may exacerbate water stress in the longer term. Risks vary by region; floods are more prevalent in the western highlands and river valleys, and drought is more common in the eastern lowlands. There are seismic and volcanic risks in the remote and sparsely populated northeast, where potash reserves are being developed. Ethiopia's capacity to deal with natural disasters is limited, but it has made significant progress in the past decade, with support from international donors.

Logistics Performance Index



Source : Haver Analytics/World Bank

Note: 1 = worse performance, 5 = better performance

Logistics and Infrastructure: Transport can be costly and unreliable, but conditions should improve significantly in the next five years. Substantial investment on road and railway expansion was an essential part of the government's first Growth and Transformation Plan (GTP, 2010-15) and this continues to be the case in the second GTP (2015-20) in order to boost internal, regional and international trade. Ethiopia aims to complete 5,000km of new railway lines by 2020, which include the planned opening of two new rail links in 2016, running from Addis Ababa to the Port of Djibouti and the north east Afar region with Djibouti's new port at Tadjura. Road and rail developments could lower transit times and reduce transport costs during the next few years. An alternative route in and out of Ethiopia is offered by the international airport at Addis Ababa, which is being expanded and is scheduled to have an annual operating capacity of 20m passengers by 2018. The government is short-listing sites for another international airport in the vicinity of Addis Ababa that could have an annual capacity of around 70m passengers.

Recommendations

- Build relations with officials to help minimise lengthy bureaucratic and procedural delays.
- Anticipate a high risk of power shortages and ensure back-up energy supplies are in place.
- Plan for reduced transit times and increased transport options over the next few years.

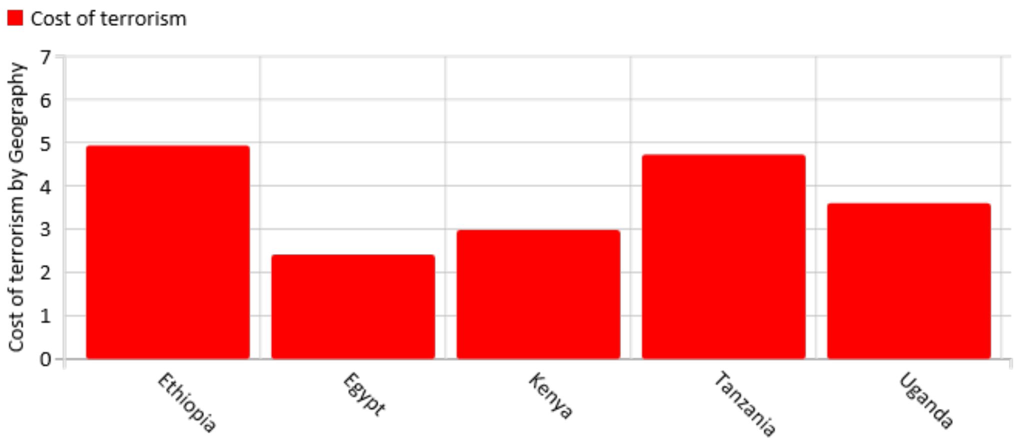
INSECURITY/CIVIL DISORDER RISK

Ethiopia has provided a reasonably stable and secure political environment for investors and traders to operate in. This reflects the dominance of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF), which is expected to have won another overwhelming majority in the May election. Provisional results (at the time of writing) suggest the EPRDF won all of the parliamentary seats, news that was received relatively peacefully despite opposition party protests about the legitimacy of the potential land-slide victory. In part this reflects the government's policy of suppressing opposition voices (through restrictive legislation and occasional aggressive military operations). However, Ethiopia does face some security threats caused by the presence of several separatist groups within the country, as well as tension between the central government and some ethnic groups. Moreover, external terrorist groups, particularly al-Shabaab of Somalia, pose a real risk to business operations and travel in Ethiopia.

Risks and Opportunities

- Ethiopia provides a reasonably stable and secure political environment for investors and traders to operate in, although this reflects the controlling nature of the dominant EPRDF.
- The parliamentary election in May passed peacefully, and points towards policy continuity and little change in the EPRDF leadership.
- The main risk to security in Ethiopia comes from extremist terrorist groups, and in particular the Somalia-based al-Shabaab.

Business Cost of Terrorism

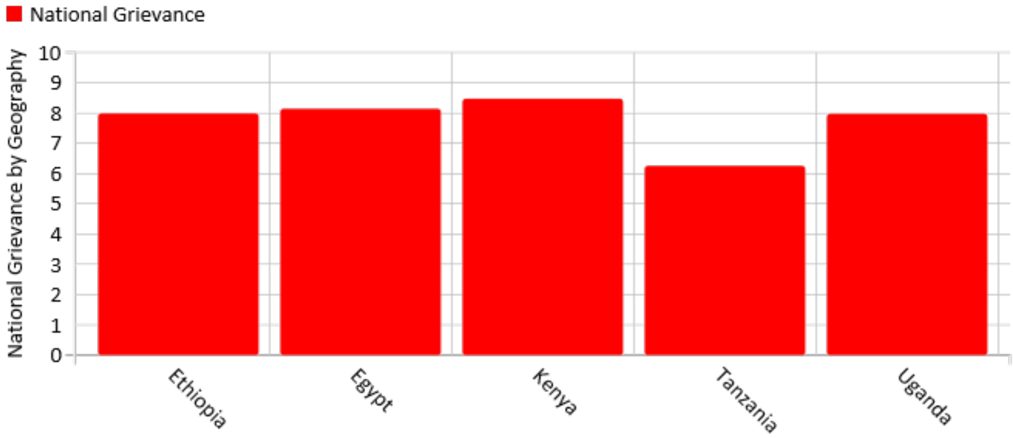


Source : World Economic Forum, 'Global Competitiveness Report'

Note: 1.0 = highest cost imposed, 7.0 = lowest cost imposed

The strong authority of the federal government and its uncompromising approach to dissent contains the risk associated with domestic civil unrest and crime. However, insecurity in neighbouring states can be problematic for firms operating in Ethiopia. In particular, the threat from Islamist militant groups operating in Somalia is increasing the need for security measures and raising security costs. The government is wary of attempts to establish an Islamic State operation similar to that currently destabilising Syria and Iraq in its territory, but critics suggest that anti-terrorist activities are being used as an excuse to further suppress dissenters and opponents of the government. An unresolved border conflict with Eritrea (following a bitter war in 1998-2000) represents another source of security risk. A tense peace agreement is in place, but there is a danger of a small incident spiralling out of control.

Level of National Grievance



Source : Fund for Peace, 'Failed States Index'

Note: 1.0 = lowest grievance, 10.0 = highest grievance

It is difficult to assess the level of popular discontent with the ruling regime, due to strict controls on the democratic process and freedom of expression. The government is highly intolerant of criticism, and the regime actively protects its position through suppression and curtailing freedom of expression. Ethiopia's Christians and Muslims have traditionally enjoyed a harmonious relationship, but government attempts to influence the Muslim agenda in favour of moderates at the expense of extremists has led to protests against alleged government interference. Separately, tensions are high between the central government and the Oromo, Ethiopia's largest ethnic group, totalling 27m people, who regard themselves as politically and economically marginalised and harassed by the state.

Recommendations

- Maintain heightened security measures to protect staff, property and premises.
- Monitor official warnings and leverage local networks to gauge the level of security risk.
- Expect policy continuity and little leadership change under the ruling EPRDF.

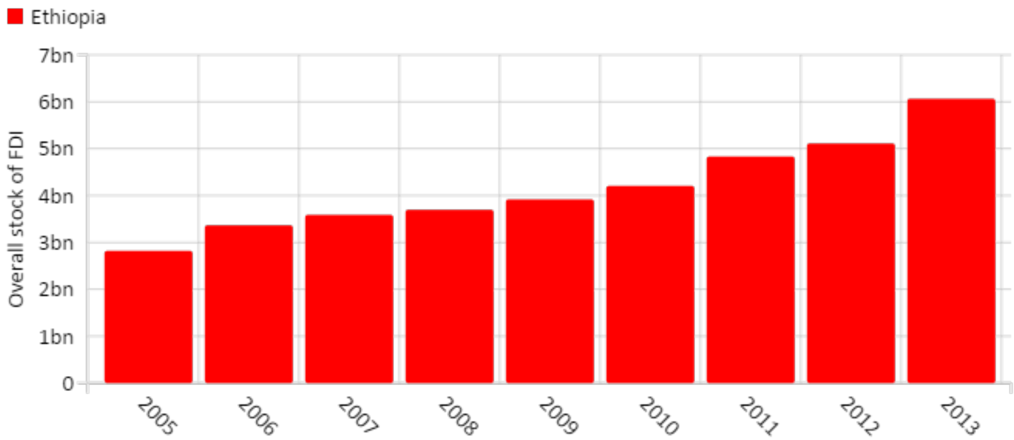
EXPROPRIATION/NATIONALISATION RISK

Large sections of the economy remain under state control and foreign investors are barred from several key sectors, including banking, insurance, financial services, telecommunications and retailing. However, the government permits foreign participation in these sectors as contractors and suppliers of supporting goods and services. Ethiopia is actively encouraging foreign investment in the priority sectors of light and heavy manufacturing, agribusiness, textiles, sugar, chemicals and pharmaceuticals, and there are opportunities for foreign ownership in mining, waste management and tourism. Where foreign firms are able to invest the risk posed by expropriation and nationalisation is low given the scale of investment required to achieve the government's development targets in its successive Growth and Transformation Plans. However, the presence of state-owned enterprises and state interference in favour of preferred local suppliers can stifle competition and reduce investment opportunities.

Risks and Opportunities

- State-owned enterprises or ruling party-owned entities are present in many sectors and benefit from favourable access to credit and passage through bureaucracy.
- Ethiopia has had some success in attracting greenfield investment, but difficulties in acquiring access to land (private ownership of land is prohibited) can be problematic.
- A slow-moving privatisation programme could see public-private partnerships or the outright sale of state-owned enterprises, but key sectors will remain under state control.
- The judicial system is weak and inefficient, and can be subject to political or key local stakeholders interference.

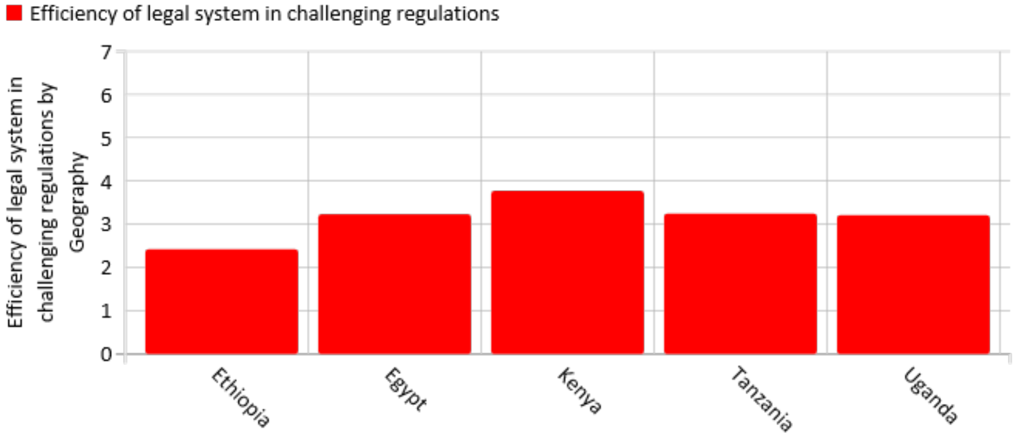
FDI Stocks



Source : UNCTAD

Ethiopia has benefitted from a surge in FDI during the past five years, particularly as foreign firms have sought to relocate manufacturing operations on greenfield sites in the country, as well as gain a foothold in one of Africa's most promising consumer markets. Ethiopia's industrial strategy, low-cost labour, cheap electricity supplies, improving infrastructure and relatively tight security are attracting firms from Asia (mainly China and India), Europe (particularly Turkey) and the US. The government is creating industrial parks and offering attractive tax breaks in the hope of luring additional FDI over the next five years. The UN Conference on Trade & Development estimates that FDI inflows stood at USD1bn in 2014, and the government expects this to reach USD1.5bn in 2015, keeping Ethiopia at the top end of recipients of FDI in Africa. The government will continue to incentivise FDI in strategic areas such as heavy and light manufacturing, tourism, textiles, agri-business, chemicals, pharmaceuticals, extractive industries and metal processing.

Efficiency of Legal System in Challenging Government Regulations



Source : World Economic Forum, 'Global Competitiveness Report'

Note: 1 = Extremely inefficient, 7 = Highly efficient

Ethiopia's continued need for donor funding means that the country is sensitive to the interests of key trade partners, and it has sometimes reversed unfavourable policy shifts as a result of outside pressure. The risk of unwelcome changes in regulations is higher than outright expropriation. at present.

Recommendations

- Consider political risk insurance from, for example, MIGA or OPIC.
- Watch for privatisation opportunities, but undertake extensive research before bidding.
- Be wary of taking disputes through the local system, and seek redress through international arbitrage or out-of-court settlements.

PERSPECTIVES

The following sections provide an overview of the broader/longer-term factors that influence the way that business is done in Ethiopia. These factors provide the foundations upon which the economy is built and the frameworks within which business is done, and provide a richer insight into the background influences that lie beyond the raw data and focused insight that is supplied elsewhere in the report.

THE ECONOMY

Economic Overview

The economy is predominantly based on agriculture, of which a significant proportion is at the subsistence level. Economic prospects have been transformed gradually via the expansion of commercial farming, a focus on agriculture-led industrialisation, investment in infrastructure and pro-market policies, such as privatisation, deregulation and trade liberalisation, which have boosted the role of private enterprise at the expense of the state. Yet large parastatals continue to play a significant role in key sectors and the commercial environment remains challenging. A key policy challenge is to improve agricultural productivity and value-added to ensure food security and boost cash-crop exports.

Ethiopia is still dependent on a small range of primary products to generate export revenues and depends entirely on imported oil. The government is pursuing further liberalisation and diversification into new sources of growth (such as agri-business and manufacturing) to capitalise on the country’s farming resources, huge pool of relatively cheap labour and competitive energy costs. Ethiopia’s industrial policy seeks to move the country up the agricultural and manufacturing value chains.

Economic Framework

Industrial Relations and the Labour Market

Around 80-90% of the workforce is engaged in farming (or farm-related activities), much of which is informal. Formal employment is limited and concentrated in the public sector. The Confederation of Ethiopian Trade Unions (CETU) has approximately 300,000 members and has opposed some privatisation deals, but its powers are limited. CETU works with the government and the Ethiopian Employers’ Federation in a tripartite council to help resolve industrial disputes, and is jointly devising a new labour code. Civil service workers and those engaged in ‘essential services’ are not permitted to strike.

Businesses tend to encounter more problems with rigid labour market regulations than from the threat of industrial action. Although the non-salary cost of employing workers is low (and there is no minimum wage), companies can face difficulty in firing surplus or poorly performing employees, which is a significant disincentive to job creation. There are also restrictions on the number of hours worked.

Fiscal Framework

Ethiopia has a well-established legal framework governing its budget system. However, very little budget information is made available during the drafting phase, and no pre-budget statement is released to the legislature or the public for scrutiny and debate. The government relies on donor support to contain the budget deficit due to weak revenues, although efforts to boost tax collection are being made. Given Ethiopia’s enormous spending needs, the country will remain dependent on donor assistance into the medium term. Maintaining good relations with donors (which Ethiopia has largely managed to date) will therefore remain a priority. Fiscal policy is relatively prudent, but the headline figures exclude parastatal borrowing. Ethiopia’s fiscal year runs from 8 July to 7 July.

Monetary Regime

The National Bank of Ethiopia is responsible for formulating monetary policy to achieve its desired targets of low inflation, a stable exchange rate and a suitable level of FX reserves. To combat inflationary pressure and control broad money growth, the central bank targets reserve money and the reserve requirements of commercial banks. However, unlike advanced industrialised countries, Ethiopia lacks a strong and credible monetary tradition, as well as the instruments needed to influence inflation expectations, such as a coherent interest rate structure. The authorities plan to develop central bank open market operations using government paper, but the institutional capacity to achieve this is currently lacking.

Exchange Rate Regime

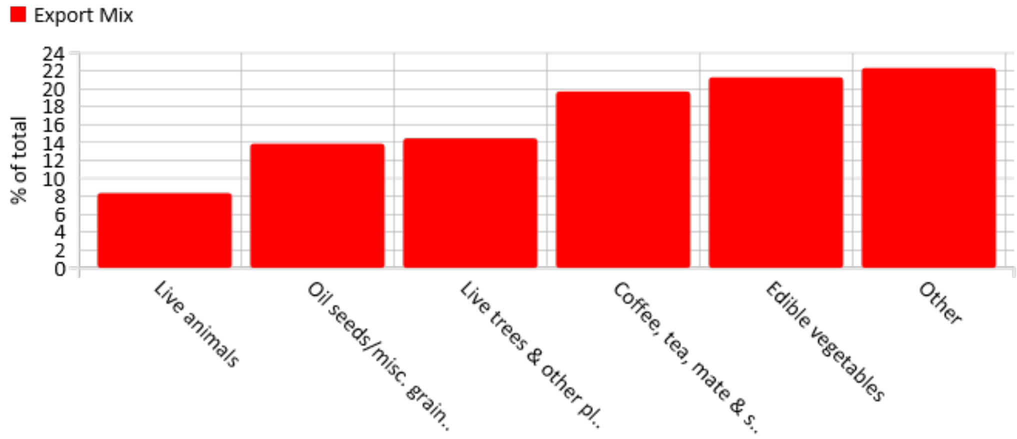
The birr is managed closely by the central bank, which maintains a policy of gradual depreciation punctuated by sharper downward adjustments. The government uses the exchange rate as a policy tool, seeking to mitigate the impact of imported inflation, and to devalue the birr in an attempt to maintain export competitiveness and help to drive economic growth.

Export Profile

Coffee is the main export, accounting for around 28% of total revenues, followed by other agricultural produce such as vegetables and seeds. Gold is another important source of export earnings. Other significant earners are primarily agricultural, including flowers, pulses, live animals and animal products (including leather). Electricity exports are poised to grow briskly.

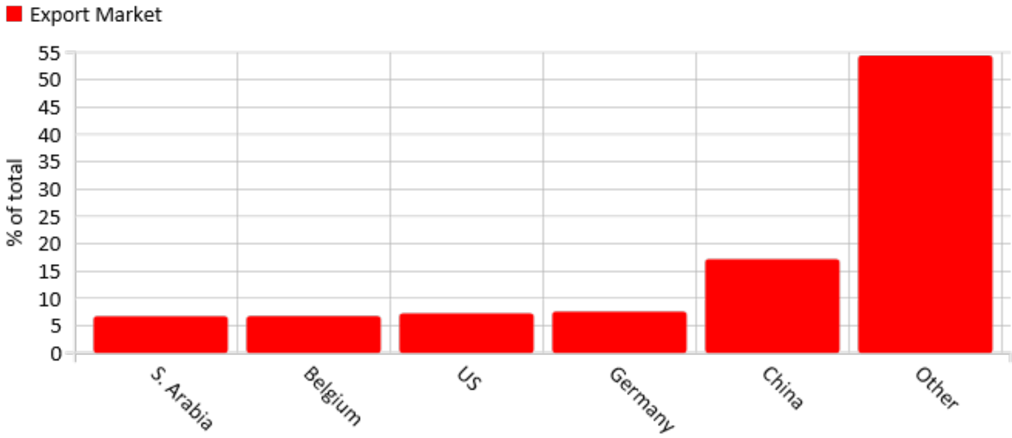
Ethiopia's export markets are diverse. China has grown in importance in recent years, whilst traditional partners such as Germany, the US and Belgium remain top export destinations. Belgium is the hub of Ethiopian flower sales, while Saudi Arabia dominates the meat and live animal trade. Khat (an illegal substance in the US) is mainly sold to neighbouring states.

Export Mix



Source : IMF/National Statistics Office

Export Markets

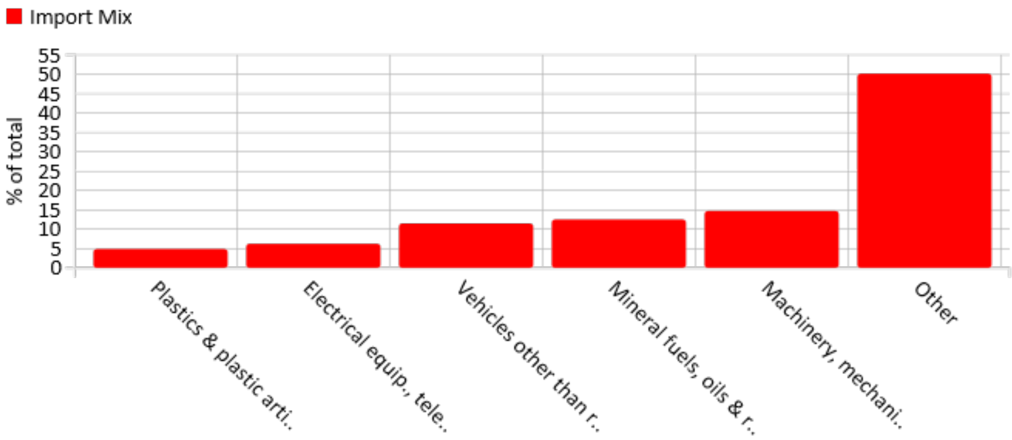


Source : IMF/National Statistics Office

Import Profile

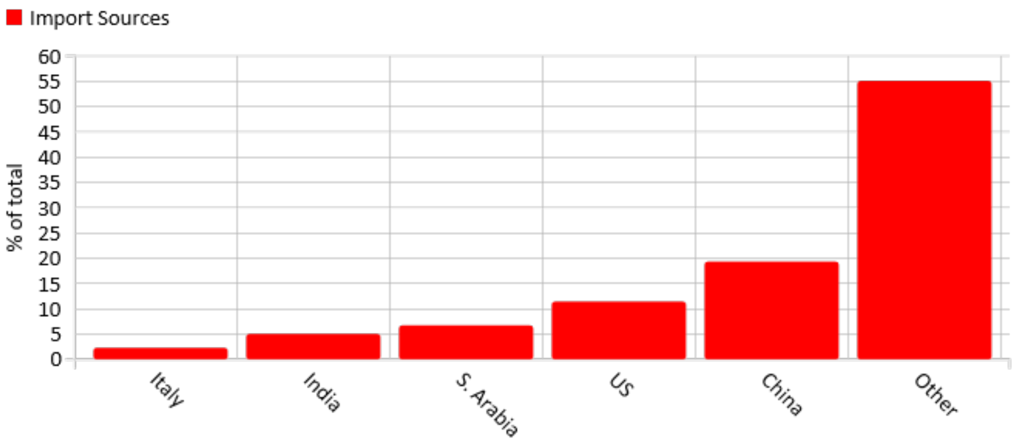
Ethiopia depends on imports for an array of goods, including capital items, consumer goods and all of its petroleum. According to official statistics, capital goods are a major import category, driven by high demand for machinery and transport equipment used in infrastructure projects. The share of fuel varies according to global oil prices. Trade with China has substantially increased in response to growing commercial links and the success of Chinese businesses in winning infrastructure contracts, catapulting China to the top of the import supplier list, alongside Saudi Arabia, the main source of oil.

Import Mix



Source : IMF/National Statistics Office

Import Sources



Source : IMF/National Statistics Office

POLITICS

Ethiopia is the oldest independent country in Africa, but its history has been blighted by conflict and civil war. The most recent episode of civil war ended in 1991 after the Ethiopian People's Revolutionary Democratic Front (EPRDF), a group of former ethnically-based opposition movements, overthrew the former military regime (the Derg).

The EPRDF has re-organised the political system along ethno-regional lines: each main ethnic group is represented by a political party and its own regional government. These parties join together to form the EPRDF at the federal level. In theory, the system should have devolved decision-making to the regions and given each ethnic group control over its own affairs. In practice, the policy entrenched the power that the EPRDF inherited from the civil war. The policy of ethnic-federalism became one of 'divide and rule', which has underpinned the EPRDF's dominant position. The culture of authoritarianism and centralised decision-making that has long characterised Ethiopian society has proven difficult to change.

Constitutional Arrangements

Ethiopia has enjoyed a modest increase in political freedoms over the past few decades. The country was under the dictatorship of the former ruler, President Mengistu Haile Mariam, who held the country in a Stalinist-type grip from 1974-91 (as leader of the Derg, the Communist military junta). Currently, Ethiopia holds regular multiparty elections and devolves some economic powers to regional authorities. However, the EPRDF retains a tight grip on political activity and maintains a hardline approach towards all forms of dissent. The party has won a series of elections, although the ballots were marred by irregularities.

Legislature

The legislature (the federal parliamentary assembly) comprises a lower house, the house of people's representatives, with 547 seats (22 reserved for representatives of minority groups), and an upper house, the house of federation, with 112 seats, which mainly serves in an advisory capacity. The lower house is elected directly by voters every five years in single-member constituencies. The upper house is indirectly elected by the nine state councils, also on a five-year cycle.

Executive

The federal government is headed by an executive prime minister and a cabinet. Most decisions are taken by the prime minister's inner circle rather than the full cabinet. There are few checks on executive authority. The nine states also have executive authorities, but their power is limited and the system is highly centralised in practice.

Judiciary

The judiciary consists of a supreme court, high court, regional (awraja) courts and sub-regional (woreda) courts. The supreme court primarily hears appeals on disputed rulings from lower courts. Major criminal trials are held in the high court. The constitution provides for an independent judiciary and the devolution of legal powers, but in practice the legal system is weak (especially at lower levels) and subject to interference from the executive.

Political Parties

The Ethiopian People's Revolutionary Democratic Front (EPRDF) is the ruling coalition and has dominated parliament since the first multiparty election in 1995, securing a resounding win in 2010, albeit tainted by allegations of malpractice. The ruling EPRDF coalition is an alliance of four groups: the Oromo Peoples' Democratic Organisation (OPDO), the Southern Ethiopian Peoples' Democratic Front (SEPDF), the Amhara National Democratic Movement (ANDM), and the Tigrayan Peoples' Liberation Front (TPLF). Before forming a government in 1991, the TPLF was a rebel group, battling the military junta known as the Derg. The original aim of Tigrayan independence was abandoned by the TPLF when it formed the EPRDF in order to depose the Derg regime it had fought since 1974. It also moved from a Marxist approach to a social democratic one.

There are numerous opposition parties that tend to form coalitions to challenge the ruling EPRDF, but none have achieved sustained success. Medrek (officially known as the Forum for Democratic Dialogue in Ethiopia) is the main opposition coalition at present. It was formed in 2008 and contested the 2010 election, winning 21% of the individual vote nationwide, but only receiving one seat in parliament because of the winner-takes-all system for each constituency. The Somali People's Democratic Party has the largest single number of seats outside the EPRDF, but is allied with the ruling coalition. Other parties have very little influence.

Interest Groups

The Urban/Rural Divide

There is a growing divide between the urban and rural population. Although most people (84%) live in rural areas, urbanisation is accelerating. However, young people with very little education and training are struggling to find employment in towns and cities, and it is estimated that up to three-quarters of young urban inhabitants are jobless. This creates a large pool of potentially disaffected people with little stake in the existing system. Despite rapid economic growth, the bulk of the growth has taken place in rural areas and the benefits have yet to reach the majority of urban dwellers: high food prices have encouraged farmers but are a burden for poor urban consumers.

Ethnicity and Religion

There are over 70 different ethnic groups in Ethiopia, the largest of which are the Oromo and the Amhara. Although the political system is geared towards ethnic balance, it has also contributed to inter-ethnic tensions and violence. In addition, Ethiopia has a sharp religious divide between Christians (about 65% of the population) and Muslims (about 35%). Approximately two-thirds of Christians belong to the Ethiopian Orthodox Church, while the rest are Protestant. Apart from occasional clashes, religious factors have not played a major role in civil disturbances, although there is a risk of greater conflict in the future.

The Media and Civil Society

Civil society and media remain tightly controlled by the ruling EPRDF regime. Curbs on the free press (represented by the Ethiopian Free Press Journalists' Association) increased after 2005's post-election disturbances when numerous journalists and editors were arrested and charged with treason, alongside members of the opposition. A new media law in 2008 relaxed some restrictions but imposed others, while new anti-terrorism legislation in 2009 is being used against all forms of dissent, including media critics. Given the restrictive environment, the lobbying power of civil society and the media is very limited.

Labour and Employers' Organisations

Ethiopian labour legislation fails to provide for the level of 'worker representation' found in advanced economies. At the workplace level, employees may be represented by trade union delegates. At the national level, the Confederation of Ethiopian Trade Unions (CETU) claims to represent about 300,000 workers organised in 431 basic unions and nine federations. However, although labour law, in theory, protects the rights of workers (including the right to strike), lawful industrial actions are extremely rare.

The Diaspora

More than 1m Ethiopians live abroad, with roughly half in the US. The diaspora has a major influence on the country's finances, especially in terms of remittances, some of which are used to fund investment projects and local political parties. All political parties, including the EPRDF, seek the support of the diaspora.

International Environment

Ethiopia has good relations with the US and other major industrialised nations, and is viewed as an important player in maintaining regional security and combatting terrorism. The US remains critical of Ethiopia's human rights' record but views the country as a vital regional partner. Relations with China and India have grown deeper. The African Union is headquartered in Addis Ababa (as was its predecessor, the Organisation of African Unity).

Ethiopia's relations with Eritrea have remained tense since a brutal war between 1998 and 2000. Although it ended with a peace agreement in December 2000, the two countries remain deeply divided over their common border. There have been no fresh hostilities and both sides say they will not instigate a new conflict, but there are tens of thousands of troops stationed along the border on each side.

Ethiopia does not have an overt military presence in neighbouring and unstable Somalia, but it views the ongoing conflict there as a key national security concern and remains involved in covert operations. One of Ethiopia's main concerns is that the conflict will spread to its own regions inhabited by ethnic Somalis, such as the Ogaden region.

COMMERCIAL CULTURE

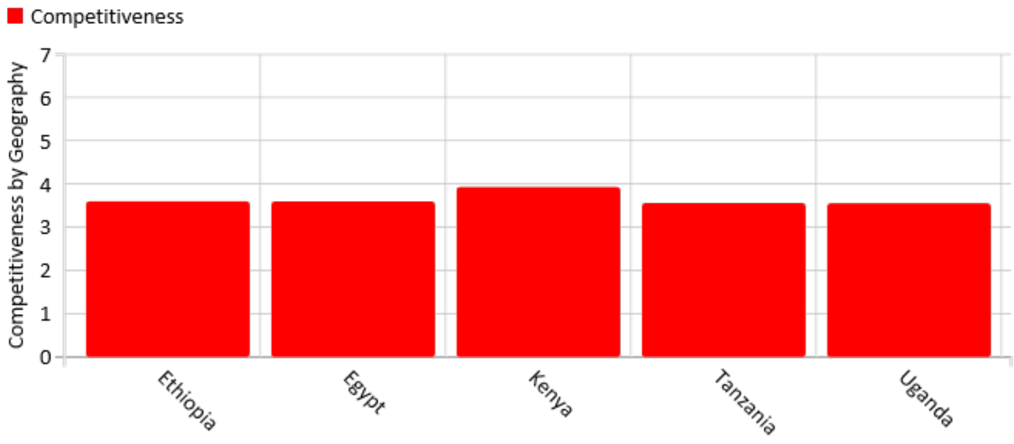
The commercial environment remains very challenging due to onerous regulations, a slow-moving bureaucracy, restrictions on foreign investment in key sectors (including banking, insurance, financial services, telecoms and retailing), a bar on private land ownership, weak infrastructure and corruption. Conditions have improved gradually in recent years following reforms, but progress is erratic and subject to setbacks. Businesses cite access to financing, corruption, inflation and inefficient bureaucracy as the main challenges.

Export Payment Indicators

Agency	Cover
US Eximbank	ST/MT cover available
Atradius	Cover available subject to CLC, no discretionary limits
ECGD	Cover avaliable, ST subject to LC
Euler Hermes UK	Restrictions will apply

Source : External

Competitiveness



Source : World Economic Forum, 'Global Competitiveness Report'/Haver Analytics

Note: 0 = least competitive, 7 = most competitive

Infrastructure

Ethiopia, a landlocked state, has relied on Port of Djibouti for sea trade since the 1998-2000 border war with Eritrea. Ethiopia connects to the port via roads and an inadequate, colonial-era railway. Ethiopia's road network is sparse and under developed, making land transport costly and logistically difficult, but donor-backed investment since 1997 has more than doubled the size of the classified network, while investment in new road and rail networks is underway. The aviation sector, by contrast, is relatively well developed. Primary needs are pressing, and access to water supply and sanitation are among the lowest in the world. Despite notable improvements in some healthcare indicators, backed by donor-funded programmes, there is considerable scope for further improvement.

Ethiopia is one of the last countries in Africa to allow its national telecommunications company (Ethiopian Telecommunications Corporation, ETC) a monopoly on all telecom services, including fixed, mobile, internet and data communications. The communications infrastructure is operated by the state. The sector is heavily regulated, and the monopoly stifles innovation and expansion. Nonetheless, the number of mobile phone subscribers has grown rapidly, but penetration rates are very low (at around 30% at end-2014). Fixed line and internet usage remain very low, at just 1.0% and 1.3% of the population, respectively.

Legal and Regulatory Environment

Judicial Environment

Despite legal reforms, the judiciary is subject to political interference and cannot be relied on for impartial judgement. As in most other African countries, the rule of law is inadequate. Contract enforcement is comparatively good, as a result of reforms in 2009 to reduce court delays. According to the World Bank's *Doing Business 2015* report, Ethiopia is ranked 50 (out of 189 countries). The number of procedures (38) and the time taken (530 days) are lower than the sub-Saharan average. Moreover, the cost, at 15.2% of the claim, is much lower than the regional average of 45.1%.

Bankruptcy and Insolvency

Bankruptcy procedures fare comparatively well on a regional basis. According to the World Bank's *Doing Business 2015* report, Ethiopia is ranked 74 (out of 189 countries) for resolving insolvency. It takes 1.8 years to complete the process, shorter than the sub-Saharan African average (3.1 years) and similar to the OECD average (1.7 years). Moreover, the cost (14.5% of the estate) and the recovery rate (38.3 cents in the dollar) are much better than the regional average.

Corporate Governance

The Commercial Code of Ethiopia defines five forms of legal business organisations: ordinary partnership, general partnership, limited partnership, private limited company and 'share company' (a public company whose capital is fixed in advance and divided into shares; liabilities are met only by the assets of the company). Although an ordinary partnership is defined as a business organisation, it is not authorised to undertake trade activities, unlike a general partnership. The forms most commonly used by foreign or domestic businesses are private limited companies or share companies. Before a business begins operating, it must enter the commercial register kept by the ministry of trade and industry or regional trade bureau. As a 'one-stop-shop', the Ethiopian Investment Authority serves as a trade register for foreign investors.

Starting a business can be problematic and Ethiopia is ranked 168 (out of 189 countries) in the World Bank's *Doing Business 2015* report. The procedures involved (nine) are slightly higher than average for sub-Saharan Africa, but time taken (15 days) is almost half that for sub-Saharan Africa. The costs involved (89% of income per capita) and the minimum capital requirement (164% of income per capita) are very high.

Corruption

There is a high risk of corruption in Ethiopia, as reflected in Transparency International's 2014 *Corruption Perceptions Index* which ranks the country 110 out of 175 countries. Corruption remains prevalent. The fight against graft in Ethiopia is led by the Federal Ethics and Anti-Corruption Commission (FEACC), established in 2001, which has prosecuted in several high-profile court cases, affecting both private and public companies, although doubts about its independence and impartiality persist as some prosecutions appear to have been politically motivated.

Sanctions

There are no known sanctions in place against Ethiopia at the current time.

STATISTICAL REFERENCE

Key Indicators and Forecasts

Historical Data

Metric	2005	2006	2007	2008	2009
Real GDP growth (%)	12.64	11.54	11.79	11.19	10.04
Nominal GDP in USDbn	12.39	15.25	19.33	26.06	28.67
Nominal GDP in local currency (bn)	107	133	173	250	338
GDP per Capita in USD	163	195	240	315	338
Population (year-end, m)	76.17	78.29	80.44	82.62	84.84
Exchange rate (yr avge, USD-LCU)	8.67	8.7	8.97	9.6	11.78
Current Account in USDbn	-1.57	-1.79	-0.83	-1.81	-2.19
Current Account (% of GDP)	-12.66	-11.71	-4.28	-6.93	-7.64
FX reserves (year-end, USDbn)	1.04	0.87	1.29	0.87	1.78
Import Cover (months)	2.56	1.97	2.24	1.09	2.36
Inflation (annual avge, %)	12.9	12.2	17.2	44.4	8.5
Govt Balance (% GDP)	-3.6	-2.9	-3.6	-2.9	-0.9

Source : D&B

Historical Data (continued)

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	10.57	11.39	8.7	9.82	10.35
Nominal GDP in USDbn	26.78	30.48	42.21	45.61	52.9
Nominal GDP in local currency (bn)	386	515	747	865	1,047
GDP per Capita in USD	308	341	460	485	548
Population (year-end, m)	87.1	89.39	91.73	94.1	96.51
Exchange rate (yr avge, USD-LCU)	14.41	16.9	17.7	18.96	19.8
Current Account in USDbn	-0.43	-0.78	-3	-2.77	-4.09
Current Account (% of GDP)	-1.59	-2.56	-7.1	-6.07	-7.72
FX reserves (year-end, USDbn)	2.7	3	3.2	3.36	3.45
Import Cover (months)	3.27	3.23	2.87	2.96	2.86
Inflation (annual avge, %)	8.1	33.2	22.8	8.1	7.4
Govt Balance (% GDP)	-1.3	-1.6	-1.2	-1.9	-2.6

Source : D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	8.3	7.8	7.5	7.5	7.8
Nominal GDP in USDbn	53.2	54.6	57.5	60.3	63.6
Nominal GDP in local currency (bn)	1,144.8	1,245.6	1,351.4	1,466.3	1,595.4
GDP per Capita in USD	538	539	553	567	583
Population (year-end, m)	98.9	101.4	103.9	106.4	109
Exchange rate (yr avge, USD-LCU)	21.5	22.8	23.5	24.3	25.1
Current Account in USDbn	-3.8	-3.9	-4.4	-4.4	-4.7
Current Account (% of GDP)	-7.18	-7.1	-7.64	-7.37	-7.39
FX reserves (year-end, USDbn)	3.6	3.6	3.7	3.8	3.8
Import Cover (months)	2.74	2.62	2.52	2.51	2.5
Inflation (annual avge, %)	8.3	8.2	8.2	8.2	8
Govt Balance (% GDP)	-2.9	-2.9	-2.6	-2.5	-2.4

Source : D&B

Comparative Market Indicators

Indicator	Ethiopia	Egypt	Kenya	Tanzania	Uganda
Income per Capita (USD)	548	3,384	1,337	953	637
Country Population (m)	96.5	83.4	45.5	50.8	38.8
Internet users (% of population)	1.9	49.6	39	4.4	16.2
Real GDP Growth (% p.a., 2015 - 2024)	5 - 8	4 - 6	4 - 7	5 - 8	6 - 8

Source : InternetWorldStats.com

USER GUIDE

Ratings and Indicators

Traffic Light System

The traffic light system used in this report gives you a speedy way of assessing the balance of risks and opportunities in a given country or category of analysis for that country. Three traffic lights are used:

G Green: indicates that positive factors/influences dominate.

A Amber: indicates that there is a balanced mixture of negative/positive factors/influences.

R Red: indicates that negative factors/influences dominate.

The traffic light indicators act as a quick guide to the overall balance between the detailed analytical components covered elsewhere in the report. This allows you to rapidly identify areas of concern or promise, which you can then explore further, either elsewhere in the report or via the content of the other products in our portfolio. You should always use the more detailed analysis as the basis for any further investigation/assessment/decision-making.

Dun & Bradstreet Risk Indicator

Dun & Bradstreet's Country Risk Indicator provides a comparative, cross-border assessment of the risk of doing business in a country. The risk indicator is divided into seven bands, ranging from DB1 to DB7. Each band is subdivided into quartiles (a-d), with 'a' representing slightly less risk than 'b' (and so on). Only the DB7 indicator is not divided into quartiles.

The individual DB risk indicators denote the following degrees of risk:

DB1	Lowest Risk	Lowest degree of uncertainty associated with expected returns, such as export payments and foreign debt and equity servicing.
DB2	Low Risk	Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.
DB3	Slight Risk	Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.
DB4	Moderate Risk	Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.
DB5	High Risk	Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.
DB6	Very High Risk	Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.
DB7	Highest Risk	Returns are almost impossible to predict with any accuracy. Business infrastructure has, in effect, broken down.

HEADLINE CATEGORY DESCRIPTIONS

These headline categories combine the analysis from a number of detailed categories in order to provide focused analysis of business-critical issues.

Credit Environment Outlook

This category assesses the factors that affect the country's credit environment, and helps cross-border traders and investors understand the level of risk related to non-payment or delayed payment.

Supply Environment Outlook

This category covers the factors that could disrupt supply chains associated with the country, thus allowing cross-border traders and investors to assess risks in this area.

Market Environment Outlook

This category provides an assessment of the factors affecting the market environment over the short- to long-term; this assessment will help businesses involved in cross-border trade and/or investment to make informed decisions about increasing, maintaining or decreasing business links in a country.

Political Environment Outlook

This category helps cross-border traders and investors to understand the risks associated with expropriation/nationalisation, and also takes account of intentional human actions that could affect the quality of the business environment.

DETAILED ANALYTICAL CATEGORY DESCRIPTIONS

These analytical categories provide our most detailed, in-depth coverage of the core components of risks and opportunities associated with a given country. Together, they embody our broadest, deepest assessment of a country's risk and opportunity environment.

Short-term Economic Outlook

Analyses the economy/business cycle over the next 2-8 quarters, identifying recession, recovery, growth or stagnation. Helps businesses anticipate the impact of short-term developments in the sphere of aggregate supply and demand.

Long-term Economic Potential

Assesses long-term economic prospects over the next 5-15 years on the basis of trends in the physical environment, natural and human capital, and demographics and labour supply. Helps businesses foresee the long-term impacts on market potential of factors such as ageing, resource depletion and innovation.

Market Potential

Covers the ability of foreign providers of goods and services to access a target country's markets. This helps businesses understand the practical and regulatory barriers, as well as incentives and opportunities.

FX Risk

Looks at the risk of lack of FX, significant devaluation or depreciation, or any instability of the exchange rate over the next 90-180 days. This helps businesses anticipate the pressures facing customers billed in foreign currency, or the risks if their receivables are in local currency.

Transfer Risk

Covers the risk of existing or new regulations, requirements or other government actions preventing, delaying or burdening cross-border transactions. This helps businesses to anticipate risks related to cross-border payments arising from the regulatory environment.

Business Environment Quality

Assesses the risks and opportunities in the business environment associated with regulations, institutions and business culture. This helps businesses assess how intangible aspects of the business environment can facilitate business operations or otherwise.

Business Continuity

This category looks at factors that could affect the physical supply chain due to the effects of natural phenomena or other unintended consequences. This helps businesses anticipate the likely/current impacts of extreme weather, seismic activity and inadequate/improved infrastructure.

Insecurity / Civil Disorder Risk

This covers the risk of disruption of business operations and the services of a functioning economy due to the negative effects of intentional human action on civil peace and internal/cross-border security. This helps businesses to understand the context and risk spectrum for threats arising from social and political disturbances.

Expropriation / Nationalisation Risk

This category assesses the risk of forcible/compulsory, full/partial loss of control or ownership of assets at the hands of a sovereign government, and whether or not there is compensation or judicial redress. This helps businesses understand the country's track record in this respect and highlights the risks posed by acts of expropriation/nationalisation.

LINKS

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

Dun & Bradstreet provides information relating to more than 240m companies worldwide. Visit www.dnb.com for details. Additional information relevant to country risk can be found in the: *International Risk & Payment Review* : Provides timely and concise economic, political and commercial information and analysis on 132 countries. Available as a subscription-based internet service (www.dnbcountryrisk.com) and monthly update journal, the IRPR carries essential information on payment terms and delays. It also includes the unique D&B Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

Disclaimer