



ADDIS ABABA UNIVERSITY

COLLEGE OF DEVELOPMENT STUDIES

TOURISM MANAGEMENT AND DEVELOPMENT PROGRAM

**Motivation and Challenges of Middle East Investment in the Ethiopian Tourism
Sector**

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This is to certify that the thesis conducted by **GIRMA RISSA** entitled “**Motivation and Challenges of Middle East Investors in the Ethiopian Tourism Sector**” Submitted in partial fulfillment of the requirements for the Degree of Masters of Arts in Tourism Development and Management complies with the regulation of the University and meets the accepted standards with respects with the originality and quality.

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Acronyms

| | |
|--------|--|
| DB | Doing Business |
| EIC | Ethiopian Investment Commission |
| ETO/TE | Ethiopian Tourism Organization/ Tourism Ethiopia |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| ILO | Internalization, Location, Ownership |
| JV | Joint Venture |
| KSA | Kingdom of Saud Arabia |
| MoCT | Ministry of Culture and Tourism |
| ME | Middle East |
| MoTI | Ministry of Trade and Industry |
| PMO | Prime Minster Office |
| UAE | United Arab Emirates |
| UNCTD | United Nation Convention on Trade and Development |
| UNESCO | United Nation Educational Scientific and Cultural Organization |
| WTTC | World Travel and Tourism Council |
| WTO | World Tourism Organization |

ABSTRACT

This thesis intends to assess Middle East Investments in Ethiopian tourism Sector, the driving factors and the challenges in the Ethiopian Tourism Sector. To conduct this research, qualitative research approach and purposive sampling design was employed. Both primary and secondary data were used. To gather the primary data, mix of interview questions, interviews and questionnaires were used. Accordingly, 45 licensed investment projects from Middle East between 1992 and 2020 were identified based on data from EIC. In general, responses of 14 informants were gathered from key relevant government institution through survey questions and interviews where necessary. Among questionnaires distributed to 7 investment projects considered as a sample, 3 have got responses. Based on the data gathered, the major interest area of investment engagement by the Middle East investors has been the hotel, lodge, and restaurant and tour operation. With regard to their current status, few of them- 5 Hotels and 3 Restaurants, 1 lodge and 1 tour operator were operating/under implementation. With regard to motivating factors, according to informants in government institutions, location advantages- market size, geographical proximity, incentive package, religious ties & Islamic religious heritages, UNESCO registered heritages, diverse culture and natural attractions are major ones. From investor's point of view, ownership advantages such as knowledge of the tastes and requirements of the customer were drivers that highly encouraged two out of three in restaurant business. Firm size, international experience, trade mark and brand image, size and structure of home industry transaction and, economies of scope and joint supply are encouraging for at least two of them. When it comes to location advantages- access to land, custom duty exemption and easy facilitation of investment visa were the factors that highly encouraged the investors in restaurant business while destination market size and availability of basic infrastructure and Market internalization are also encouraging to them.

Regarding challenges, regular power blackout and fluctuation, lack in access to loan, access to hard currency and profit repatriation, frequent change in government regulations, lack of good governance, lack of necessary infrastructures at destinations, limited promotional efforts, image of Ethiopia in the Middle East, tradeoff between political & economic interest, and absence of sovereign guarantee for investors were among the challenges identified from the opinion of key informants & literature review. Among these, in the investor's view, difficulty in profit repatriation, access to loan and foreign currency are serious problems.

In conclusion, with all the difficulties and challenges, investor's perception is positive given the potential that Ethiopia and the Middle East have. But this doesn't mean that the attitude of all the licensed investors in the period the research covers is positive as only 22% of them survived and hence it needs hard work to exploit full potential and reduce negative perception that may result from the challenges if not addressed.

Key words: *Engagement, Motivation, Challenges, Middle East Investment, Ethiopian Tourism Sector*

CHAPTER ONE

INTRODUCTION

1.1 Background

Every year, scholars attempt to discover new mechanisms that can enhance growth in developing nations. Literature review suggests that in most developing nations, growth is supported by tourism, agriculture, capital, and energy development. Tourism development has gotten worldwide recognition as an impetus for economic growth, agriculture, and energy development and poverty alleviation. Tourism development stimulates growth by attracting new foreign direct investment (FDI) and building new facilities (Asif, Bibi S., Lorenzo, L. Jiaying and Udden Zaheer, 2020).

Multinational Enterprises (MNEs) wish to engage in FDI activities abroad for various reasons, which are usually very closely linked to their overall long-term growth strategy. The eclectic theory of international production also known as the OLI theory is the most commonly used framework to explain the reason for firms investing abroad (Henri Bezuidenhout, 2016). Dunning and Lunden (2008:93) explain that MNEs are likely to engage in FDI only if they find the net benefit to be higher than what they can gain from normal trading relationships.

According to UNCTD (2010) publication forecast, worldwide tourist arrival was forecasted to reach nearly 1.6 billion by 2020. Of these arrivals, 1.2 billion was intraregional, and 378 million was long-haul travellers. The top three receiving regions was predicted to be Europe (717 million), East Asia and the Pacific (397 million) and the Americas (282 million), followed by Africa, the Middle East and South Asia. East Asia and the Pacific, South Asia, the Middle East and Africa were forecasted to grow at rates of more than 5 per cent per year, compared to the world average of 4.1 per cent.

Another report by WTTC (2020) regarding the Tourism and Travel sector's economic impact in 2019, showed that globally tourism and travel sector's direct and indirect induced impact has been accounted for 8.9 trillion USD contribution for the world GDP (10.3% of global GDP), 330 million jobs (1 in 10 jobs), 1.7 trillion USD visitors export (6.8% of total export, 28.3% of global services export) and 948 billion USD capital investment (4.3% of total export).

With regard to Ethiopia, Travel and Tourism sector's contribution to the economy has been increasing and attracting the attention of the government and international organization. For instance, WTTC (2019) report indicated that Ethiopian tourism sector grew by 48.6 in 2018 and said it is the largest of any country in the world. According to this report the Travel and Tourism direct and indirect induced impact on the economy was US\$7.4 billion, an increase of \$2.2 billion on 2017. The sector represented 9.4% of Ethiopia's total economy. It also indicated the sector supported 2.2 million jobs, or 8.3% of total employment primarily driven by leisure travelers and this has been driven by the very strong performance of aviation in the country and the development of Addis Ababa as a dynamic and growing regional hub.

Regarding 2019 Ethiopian Tourism sector performance, WTTC (2020) report highlighted the sectors contribution to GDP as 6.7% (6bln. USD), 7.0% of total employment (1.9ml), and 49.5% of total export (3.6bln USD).

The facts and the figures highlighted above indicates the importance the sector to Ethiopian development in general and the need for expediting all necessary efforts to exploit the potentials of different market segments based on proper assessment. In this regard, private sector investment in tourism sector plays pivotal role in enhancing destination attractiveness and thereby insuring the readiness of destinations in terms having necessary tourism products, competent facilities and tourism facilitation mechanisms.

Most of previous researches undertaken in Ethiopia and reviewed has been focusing on specific product aspects such as investment vs social responsibility in certain tourism product area, challenges and opportunities around a given tourism product; challenges and opportunities of tourism development in a given area, perceptions and challenges with regard to Ethiopian tourism brand, Economic impacts of Tourism in Ethiopia, challenges facing the sector, tourism product/destination promotion and roles of different stakeholders and so on.

Hence, this research aims to assess the level of investment engagement from the Middle East in the Ethiopian tourism sector, factors driving the investment and the challenges and then tries to figure out its implications on the future of Ethiopian tourism.

1.2. Statement of the Problem

Ethiopia and the ME region are not only close geographically but also share culture, religion and history partly. Looking into this fact and ample opportunities to cement this relation through investment, it is appropriate and timely to assess the current level and status of Middle East Investment engagement specifically in Ethiopian Tourism Sector, the driving factors and challenges to chart the way forward.

According to Cornwell (2016), promoting tourism products successfully requires a setting that gives opportunity to potential visitors to appreciate what the country has to offer. Based on this understanding and knowledge, an appropriate marketing strategy such as market segmentation, branding and positioning is very important (Paul Fifield (2008).

One mechanism to realize this is through engagement of private sectors via implementation of proper investment promotion or marketing strategy. In the case of Ethiopia when we look at documents published by different relevant institutions regarding the participation of foreign companies in Ethiopian tourism sector, there are clashing figures seeking the reader's the attention.

For instance, a data over 1992-2020 from Ethiopian Investment Commission regarding investment trend from the ME region shows an increasing trend in general in the Hotel, lodge, Restaurant and Tour Operation.

However, when we look at the Ethiopian Ministry of Culture and Tourism (2013-2023) Culture, Tourism and Sport Sector Ten Year Development Plan, it is indicated that there were no investment in the above mentioned areas and hence the plan put zero baseline as a bench mark.

In this connection, there have been few researches when it comes to foreign investment in tourism sector in particular. For instance, Tadesse Bekele (2012) research tried to indicate “challenges and opportunities of investment in tourism” taking Addis Ababa as a case study. However, research on region specific FDI engagement in Ethiopian tourism sector is one of the areas that have gotten very limit attention.

Another compelling point to look at investments from this region in addition to its potential as an investment source is its current and potential capability as a tourist source. For instance, according to the WTTC 2019 arrival statistics covering the years 2014 to 2018, the arrivals from the Middle East to Ethiopia were 68,000,76,000,76,000,82,000 and 70,000, respectively in the indicated consecutive years.

A 2021 data from Ministry of Foreign Affairs (MFA) indicating trends of tourist arrival to Ethiopia had shown that the a total arrival from all over the world was 870,597 in 2016, 933,443 in 2017 and 849,122 in 2018 and the corresponding receipts were 3.3 billion, 3.5 billion and 3.2 billion in USD, respectively. In these consecutive years, the total number of arrivals from Africa was 248,687 in 2016, 281,568 in 2017, and 249,252 in 2018. It was also indicated that the number of arrival from Middle East in general is 77,053 in 2016, 82,235 in 2017 and 70,101 in 2018.

Looking specifically at the Business, Professional and Conference arrivals, from KSA and UAE, only in three years (2016, 2017 and 2018) respectively, it was 4,170, 1,714 and 3,330 from KSA, and 2,834, 1,020 and 2,442 from UAE.

On the one hand these arrivals indicate that there is a promising trend. On the other hand it calls for readiness in terms of provision of proper facilitation, accommodation and hospitality that takes into account the region's specificity in terms of culture, religion and other factors.

In this respect, a study entitled, Hotel sector in Ethiopia, by Ebisa and Andualem (2013) to investigate the overall performance of the hotels industry in Ethiopia, recommended that many international standard hotels should be in place to satisfy the inbound tourist flow of the country and improvements of the banking system in extending credit services would be helpful for the hotel sector. This issue of readiness and the contradicting figures with regard to the participation of ME investors in Ethiopian tourism sector is another reason which provoked the research. Additionally, despite many opportunities for the improvement in the number of investment from the ME region in the sector, review of literatures indicate that there is a gap in the attention given to this region's market segment.

Among literatures that appreciated the gaps in this regard is the Ethiopian Foreign relation and National Security Policy and Strategy (2002). The policy stated that *there may have been a relationship between Ethiopia and the Middle East for more than one thousand years, but the one did not really know the other during all that time.* Nevertheless, the document stressed the importance of the region for Ethiopian Economic development and security.

Because of this, many including the writer of this research thesis believe that lack of knowledge about one another has been one of the major factors that have limited the number of investment in the sector and tourists coming from Middle East region.

In this regard, review and analysis of Ethiopian Culture, Tourism and Sport Sector Ten Years (2013-2023) Development Plan shows that, even though there is a plan to device instruments that will help to attract foreign investment in general; it is not based on region specific SWOT analysis. Moreover, while highlighting a plan to expand marketing from traditional markets like America and Europe to the Eastern world including ME, again there is no region based analysis of the current status, marketing practices and the potential of the region which ought to be the bases for the planning. However, the plan mentioned that there have been many efforts to expand tourism investment aimed at enhancing tourism services in terms of coverage, types and quality. In this respect, as a matter of fact, the document stated that in general, 353 international standard hotel, 70 lodges, 300 restaurants, and 600 legally recognized tour operators are operating in the sector.

To add one more point indicating that there has been lack of attention, currently most of the countries from the ME region are not eligible (except Israel) to get visa on arrival in Ethiopia (Ethiopian Immigration, Citizenship and Vital Events Agency 2021) while all African countries and many from Europe, Asia and America are eligible. But, many countries in Europe, Asia and America provide on arrival visa especially for the nationals of UAE while some countries (with the exception of most Europe and North America) provide on arrival or visa free access to the nationals of KSA. This shows that this market segment seeks attention in general

Overall, this research tries to find out the engagement of investors from the ME using two approaches: first, it tries to gather information on the number of investments which secured investment permit/license to operate in Ethiopian tourism sector as specified in the thematic scope and assess their current status on the ground. Second, it tries to shade light on the factors that motivate investment from the region and finally identify the challenges. It also highlights the views or perception of key informers from key government institution and investors on Ethiopian investment facilitation practices and potential of ME as tourism investment source.

Additionally and most importantly, this research indirectly tries to hint out whether the current level of investment engagement from the Middle East region in Ethiopian tourism sector and the attention given to this market segment would equate with what is expected or ought to be.

1.3. Guiding Research Questions

1. What are the areas of investment in Ethiopian tourism sector in which investors from the ME are engaged in?
2. What are the factors motivated the investors to invest in Ethiopian tourism sector?.
3. What are the challenges facing ME investors in Ethiopian Tourism Sector?
4. What are the attitude of ME investors on the Tourism investment facilitation practices in Ethiopia?

1.4. Research Objectives

1.4.1 General Objectives

The general objective of the study was to assess the tourism investment engagement of investors from the ME, their major motivational factors and the challenges affecting their investment.

1.4.2 Specific Objectives (SO)

- To identify areas of tourism investments in which investors from Middle East are engaged in and find out their current status.
- To assess factors that motivates investors from Middle East to invest in Ethiopian Tourism sector.
- To assess the attitude/views of Middle East investors on tourism investment facilitation practices in Ethiopia and the potential of ME as tourism investment source.

- To identify the challenges encountered by the investors and its implications on the future of Ethiopian tourism development.

1.5 Scope of the Study

Conceptually, the study was delimited to assess investments in a selected Ethiopian tourism sectors: the Hotel, Tour Operation, Restaurant and Lodge by investors from the Middle East. In terms of geography, it covers licensed investments in Addis and its surroundings starting from early 1990's in general taking in to account accessibility in terms of distance from Addis, cost and time. In terms of the Research approach adopted, the study applied, qualitative research approach, descriptive research design and the data were mainly gathered via questionnaires and interview methods substantiated with secondary data.

1.6 Significance of the Study

The study is very crucial in terms of objectively assessing the investment engagement level of investors from the Middle East in Ethiopian tourism sector, the major driving factors attracting investors to the sector, their views on Ethiopian business climate and the key challenges. It will provide updated information on current level and status of investments from the ME region for different stakeholders such as government, researchers, students, tourism companies and other interested stakeholders. In other word, it will help all concerned entities to have a fresh look at ME market segment and review their current promotion practices to device better approach.

1.6.1 Policy Significance

The research finding will help the government to make informed decision to review tourism policy, strategy, promotion practices, and service delivery practice and also formulate better incentive packages to attract more investment. It will also motivate tourism companies and businesses to appreciate the gap and change it to a business opportunity.

1.6.2 Planning Significance

The study will further help government institutions in charge of tourism sector development and those responsible overall planning to appreciate the gaps and challenges with regard to investment from the region, rethink their planning, coordination, promotion practices, and device better approach to exploit the ME market segment. In general the recommendation at the end will significantly contribute to the efforts made by the government and other partners in terms of informing where the fact stands and motivate them to rethink the future planning approach and decision making.

1.6.3 Academic Significance

The study can be used by other researchers interested to make further study on how better consolidate the achievements so far in terms of attracting investors from the Middle East to Ethiopian tourism sector.

1.7 Limitation of the Study

This research is the first of its kind in terms of trying to shade light on investment engagement of investors from the ME in Ethiopian Tourism Sector, the driving factors, the challenges and its implication on Ethiopian Tourism to some extent. Due to this, there has been serious challenge in getting more information which in turn partly emanates from the attention given to the region, lack of follow up on investment projects which were licensed mainly in the last two decades by EIC.

On top, reluctance of some companies who are currently in operation to provide information contributed to the limitation. Among the licensed companies in the last two decades, few are confirmed to be available on the ground and this also limited the opportunity to get more information from companies. Most has terminated the process due to various reasons.

So, this research is mainly based on primary data, secondary sources and information obtained from key informants in different institutions with inclusion of response from

some companies. Hence, there is limitation in terms of including views of all companies currently operational even though they are very few in numbers. This fact to some extent posed a challenge to reach conclusion specifically regarding driving factors through adequate collection of data from companies.

1.8. Definition of Basic Terms and Related Concepts

- **Tourism:** “comprises the activities of persons travelling to and staying in places outside of their usual environment for not more than one consecutive year for leisure, business or other purposes” (UNWTO. 1991)
- **Investment:** is a spending to capital and financial assets that are made by private or public organizations or governments in the expectation of getting future returns. Tourism investments are targeted to tourism industry, and such investments underlie and support tourism development (Dwyer et al. 2010). According to economics, investment is the utilization of resources in order to increase income or production output in the future (Delhi University, 2020)
- **The Middle East (ME):**...is a geopolitical term that commonly refers to the region spanning the Levant (Syria, Lebanon, Jordan, Israel, Palestine Territories), Arabian Peninsula (Kuwait, Oman, Qatar, KSA, UAE, Yeman and parts of Iraq and Jordan), Anatolia (Modern Turkey and Cyprus), Egypt, Iraq and Iran (The Free Encyclopedia).

1.9 Organization of the Study

The study had organized in 6 chapters. Chapter one will provides general introduction to the research problem, objectives, research questions, scope of the study, significance of the study and methodology.

Chapter two deals with review of existing relevant literatures- on the conceptual and theoretical framework of factors driving investment, related concepts and definition of terms, Ethiopia-Middle East relations, Ethiopia’s Tourism development Policy,

Investment laws, key motivation factors/incentives provided for those interested to invest in the selected Ethiopia tourism value chain & key challenges from literature review.

Chapter three presents research methodology while chapter four deals with the Presentation of data, analysis and discussion.

Chapter five provides over all discussion of the study result and the Summary and chapter six deals with conclusion and recommendation based on the findings. Finally references are cited.

CHAPTER TWO

Literature Review

2.1. Introduction

Review of related literature was conducted to familiarize the researcher with the concepts of motives and motivation, which are underlying drivers of investment, theories and current knowledge of FDI. In particular, it explores theories that explain the motivating factors from the point of view of foreign investors and host government.

2.2 Conceptualization

2.2.1. Idea of Motivation

According to Emily R. Lai (2011), motivation is defined as follows;

“Motivation refers to reasons that underlie behavior that is characterized by willingness and volition. Intrinsic motivation is animated by personal enjoyment, interest, or pleasure, whereas extrinsic motivation is governed by reinforcement contingencies. Motivation involves a constellation of closely related beliefs, perceptions, values, interests, and actions”

2.2.2 Drive Theory, Expectancy Theory, and Motivation

According to Hull (1943) “drive x habit” theory, behavior is regarded as the product of drive strength and habit strength. The drive theory is part of the stimulus-reaction (S-R) approach to behavior. Conversely, the cognitivist expectancy theories stress the “expectancy x value” equation that helps predict behavior (Lewin 1942; Vroom 1964). While drive theory is retrospective in nature, in that past rewards are associated and objects of learning can acquire the role of an enforcer, the expectancy theory is forward-looking and anticipatory in nature. In expectancy theory, action is motivated via knowledge of or belief in future rewards. Expectancy theory is thus fundamentally cognitive, whereas drive theory is emotional.

2.3 Theoretical Approach to the Study of Motivation

According to Stipek (1996) and B.F. Skinner, cited by Emily R. Lai, early approaches to the study of motivation were rooted in the literature on extrinsic reinforcement. Within this literature, all behavior, including achievement, was believed to be governed by reinforcement contingencies. Positive reinforcers, or rewards, are consequences that increase the probability of a given behavior they were made contingent on, whereas negative reinforcers are consequences that increase the probability of a given behavior by removing or reducing some negative external stimulus.

Broussard and Garrison (2004) include expectancy-value theories, intrinsic motivation theories, and self-determination theory. One strand of this literature focuses on the values individuals hold for participating in various types of activities (Eccles & Wigfield, 2002). Values are incentives or reasons for engaging in an activity. The value of a given task or activity has four components: attainment value, which refers to the personal value of doing well on a task; intrinsic value, which refers to subjective interest or enjoyment of performing a task; utility value, which refers to the extent to which task completion is perceived to facilitate current or future goals; and cost, which refers to the negative aspects of engaging in a given task, such as anxiety and fear of failure (Eccles & Wigfield, 2002; Stipek, 1996).

2.4 Definition of Motive for FDI

Motives for FDI are the reasons for a firm to invest abroad (Dunning, 1993). Based on this definition and the conceptual discussion above, motives is not an arbitrary, but guided by objective analysis of the benefit, goal, experience, or situation. In the context of Ethiopia, this study would try to explore the factors that motivate foreign investors to invest in the country's tourism sector. In this regard, foreign investor may be motivated to engage in FDI to benefit from different policy incentives, natural resource, market opportunity and etc. The government may be motivated to benefit from new technology,

job opportunity, gain of foreign exchange and interest to enhance is global competitiveness.

2.5 Foreign Firms' Motive for FDI

The motive of an investment helps to determine (in conjunction with the host-country specific factors) the kind of Multinational Enterprises (MNE) affiliate and therefore the potential for spillovers. It is generally acknowledged that there are four main motives for investment: to seek natural resources; to seek new markets; to restructure existing foreign production through rationalization and to seek strategically related created assets (Narula and Dunning, 2000). These in turn can be broadly divided into two types. The first three represent motives which are primarily asset-exploiting in nature: that is, the investing company's primary purpose is to generate economic rent through the use of its existing firm-specific assets. The last is a case of asset-augmenting activity, whereby the firm wishes to acquire additional assets, which protect or augment their existing created assets in some way. In general, developing countries are unlikely to attract much asset-augmenting FDI. In general, developing countries have tended to receive FDI that is primarily resource-seeking, market-seeking or efficiency-seeking, and the relative importance of each is a function of the stage of economic development which itself is a function of the quality of its absorptive capacity (Narula and Dunning, 2000; Narula, 2002).

One of the key questions in international business is why firms engage in FDI. The "classic" taxonomy of FDI motives is the four-way classification advanced by John Dunning (Dunning, 1993 and Dunning and Lundan, 2008 as cited by Pavida Pananond, 2015). According to Pananond, Dunning's framework groups FDI motives into four broad categories. Natural resource seekers invest abroad to acquire specific resources that do not exist, or exist but at higher costs, in their home country. These resources range from physical ones, like oil and gas, to unskilled and semi-skilled labor and also technological and managerial capabilities. Market seekers invest overseas to supply

goods or services to new markets. Efficiency seekers are driven by the need to rationalize and gain from common governance of geographically dispersed activities through economies of scale and scope or through the benefits of different factor endowments in different countries. Unlike the previous three types of FDI, the motive for strategic asset seekers is less to exploit the advantages firms already possess, but to augment existing or to obtain new ones that contribute to long-term competitiveness.

2.6 Historical context of Tourism and FDI in tourism

Developing countries began to recognize the promise of large-scale international tourism in the decades after the Second World War. Although the development paradigm of that time strongly favored industrialization – to reduce dependence on commodities – a growing number of developing countries began to see international tourism as a source of much needed foreign exchange, jobs and economic growth. Even though tourism is the largest industry in many countries, it appears to be one of the least globalized because of narrow range of its sub-activities. Bulk of FDI at the global level is in the Hotel and Restaurant businesses (UNCTAD, 2007). According to this study, The largest FDI stocks in tourism had been in Hong Kong, Singapore, Republic of Korea, Hungary, Thailand, Saudi Arabia and Turkey but virtually all the countries for which data was available were reported to have experienced very rapid increases in FDI. For instance, from Africa, Zambia, Tanzania, Morocco, Tunisia and Kenya were countries highlighted as among those received considerable account of tourism FDI.

2.7 Foreign Firms' Motive for FDI in Tourism

Tourism is an activity where capital, infrastructure, knowledge and access to global marketing and distribution chains are critical. FDI is often considered one of the most effective engines for harnessing these elements. Hence most developing countries place a high priority – often the highest priority – on attracting such investment, some by experimenting with a variety of policies. However, the role of FDI in tourism is more nuanced than it is in some other sectors of

the economy, and most countries approach it with a combination of hope and fear. It is valued because of what it can provide, but it is also feared for its impact upon economic and cultural independence, and its potential damage to the communities and the environment (UNCTAD, 2007)

2.7.1. Empirical Review of FDI Motives in Tourism

Larry Dwyer and Peter Forsyth (1994) in their study of foreign tourism investment motivation and impact in Australia identified various motives for foreign investment in tourism that can be explained in large part using a widely accepted paradigm of international production: for example, the eclectic paradigm (Dunning 1988,1999; Itaki 1991). The usefulness of the paradigm in explaining foreign investment in services, as well as manufacturing, had been discussed (United Nations 1989). In earlier research, the theory has been used to explain the reasons for, and patterns of foreign involvement in the international hotel industry (Dunning and McQueen 1982).

The OLI framework over the years has shown itself to be a good way of looking at multinational enterprises (Neary 2017). This framework is specifically helpful to decide if a foreign direct investment by an organization is profitable or not. A multinational enterprise refers to a firm controlled from one home country but operates in several other countries.

Craig, Akindeji Abiodun (2020) applied the OLI framework to in his study of motives of German FDI in China and concluded that the major motive had been to use China's open policy because of its WTO membership and China's big market.

Dunning's eclectic OLI framework [1993] of foreign direct investment as applied to entry mode choice suggests that firms will select their entry mode structure by considering three sets of variables: Ownership advantages (which are concerned with the control issue, the costs and benefits (risk) of inter-firm relationships and transactions), Location advantages (which are concerned with the resource commitment issue, the availability and cost of resources) and Internalization advantages (which are primarily concerned

with reducing transaction and coordination costs (Lance Eliot Brouthers, Keith D. Brouthers and Steve Werner, 1999).

The eclectic paradigm asserts that the extent, pattern, and growth of value-adding activities undertaken by transnational corporations (TNCs) outside their home countries are dependent on the value of and interaction between the following three main variables (Larry Dwyer and Peter forsyth 1994).

2.7.1.1 Ownership Advantages

In order for foreign firms to compete with domestic firms in the host country, they must possess certain advantages specific to the nature and/or nationality of their ownership. These advantages must suffice to compensate for the costs of setting up and operating a foreign value-adding operation in addition to those faced by the domestic firms. The TNCs might have exclusive and privileged access to specific technological, managerial, financial, or marketing assets, or possess better organizational capabilities to successfully integrate separate value-adding activities which draw on such assets. Owner-specific advantages of foreign investors in tourism might include an established international reputation in providing tourism services, better knowledge of customer taste and requirements, and favored access to international tourism markets; greater availability of equity finance of the type appropriate to the tourism industry; a lack of entrepreneurship in the host country, reflected in an unwillingness to take risks as principal of a tourism facility; and deficiencies in the host country's capital market as it affects tourism Larry (Dwyer and Peter forsyth 1994) .

2.7.1.2 Location Advantages

The advantages of location are the benefits of value-adding activities that combine ownership-specific advantages with immediate factor endowments in a foreign country. Location-specific advantages of foreign investment in tourism may include particular countries and sites within countries, input prices, quality and productivity, international

transport costs, infrastructure provisions, and investment incentives (disincentives) of the host country government (Dwyer and Peter forsyth 1994).

According to Rick T. Wilson and Daniel W. Baack 2012, In Dunning's 1998 article, location advantages were categorized as one of the following: resource-seeking, market-seeking, efficiency seeking, and strategic asset-seeking.

- a) **Resource-seeking** investments are made in locations with an abundance of physical resources and the infrastructure necessary to process and transport these resources. Those engaged in resource seeking investments look for locations where local partners can aid in knowledge- and capital-intensive resource exploitation. However, according to (Dunning 1993; Loewen dahl 2001; Narula and Dunning 2000; Porter 2000) cited by Rick T. Wilson and Daniel W. Baack (2012), investments focusing on resources have declined since the 1980s and 1990s, as firms began to seek investments based on strategic asset seeking and efficiency.
- b) **Market-seeking** investments are made on the basis of several factors. These include a large and growing domestic market, availability and price of skilled or professional labor, proximity to regional markets such as NAFTA and the European Union, and proximity to users in knowledge-intensive sectors. They also include the quality of infrastructure and the quality of governmental institutions.
- c) **Efficiency-seeking** investments are made in locations in which governments actively remove obstacles to economic activity, specialized spatial clusters exist, the presence of competitive and related firms is great, and firms regularly cooperate in the development of new initiatives. Economies of scale resulting from agglomerative markets constitute another important efficiency-seeking factor (Nachum 2000, cited by Rick T. Wilson and Daniel W. Baack 2012).
- d) **Strategic asset-seeking investments-** MNEs select locations according to the availability and price of synergistic assets; the objective of tapping into the growing geographical dispersion of knowledge-based assets; and the desire to gain

access to different cultures, institutions, and consumer demands and preferences (Dunning 1993, 1998 cited by Rick T. Wilson and Daniel W. Baack 2012).

2.7.1.3 Market Internalization Advantages

These refer to the advantages of controlling and coordinating ownership and location-specific advantages with a TNC hierarchy rather than selling the right to use those advantages to domestic firms in the host country (Dwyer and Peter forsyth 1994). The utilization of these advantages depends primarily on the relative costs of equity and non-equity forms of managing interrelated economic activities. The benefits to the firm of better planning, coordination, and opportunities to increase profits must be weighed against communication and control difficulties (Buckley 1987 cited by Dwyer and Peter forsyth 1994). Thus, according Dwyer and Peter forsyth 1994, on the one hand, it may be easier for a tour wholesaler to control the character of the tourism product, including security of supply, price, and quality, if it takes equity in the industry of the tourism destination country. If it tries to control product quality when independent firms produce its inputs (e.g., transport and accommodation), it incurs costs of negotiation, quality monitoring, and risks of inappropriate price and quality levels. On the other hand, minority joint ventures or non-equity agreements may sometimes be preferred. In the accommodation sector, for example, international hotel chains exact rigid management standards over the hotels that bear their names regardless of their ownership.

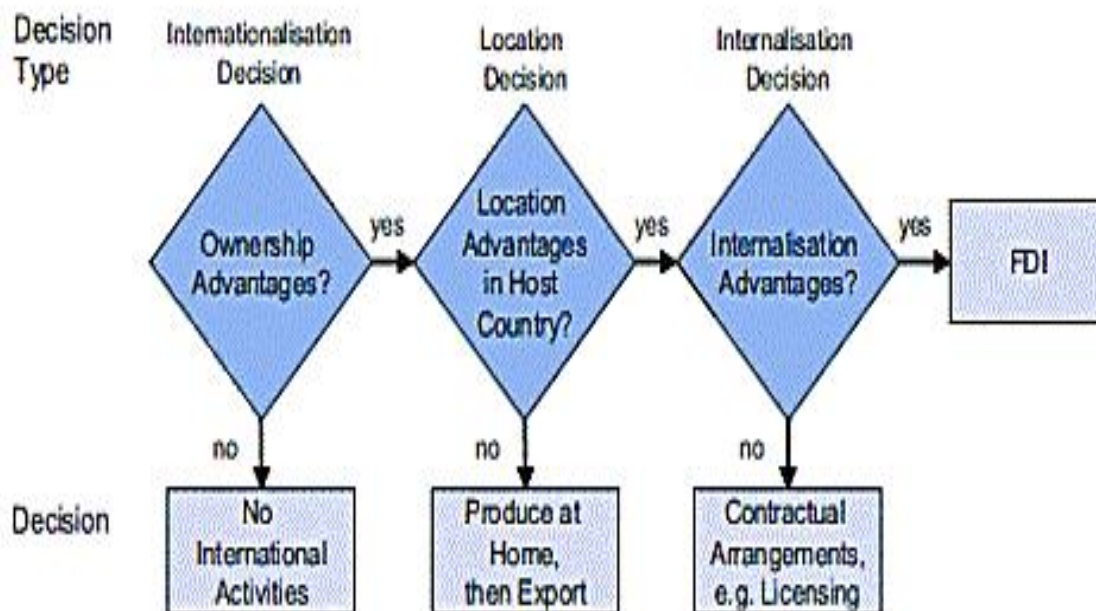
Contract-based control, as opposed to equity-based control, is prevalent in the hotel sector internationally due to the coincidence of interests of management and owners (Dunning and McQueen 1982).The inter-relations of these ownership, location, and internalization advantages, and the response to them by firms, vary according to industry, countries of origin and destination of investment, and firm specific characteristics. They also vary over time as changes in technology and the entrepreneurial and economic environment affect the competitive position of firms and the location of their value-adding activities (United Nations 1989).

2.7.2 Conceptual Framework of the Study

Based on the above Empirical review, John Dunning's OLI conceptual framework was adopted and employed to undertake an analysis of the motivational factors for investors from ME in Ethiopian tourism sector.

Based on this framework, firms decide whether to invest abroad or not by considering the three variables Ownership Specific Advantages, Locations Specific Advantages and Internalization Advantages in conjunction. In other word, if there is no ownership advantage there will be no international activity, if there is no Locations Specific Advantages firms will tend to produce at home and then export, and if there is no internalization advantage there will no FDI engagement and hence companies tend to engage in franchising/licensing from home.

Figure 1. Dunning's Eclectic paradigm



Source: Adapted from Sudarsanam (2003).

The major focus of this research is to assess engagement of the investors in in Ethiopian tourism sector, their major motives and the challenges.

2.8 Brief Overview of Ethiopia -Middle East Relation

2.8.1 Historical Background and problems in the Relation

Ethiopia's early contact with the Arab world could be explained as historic as the relation between the two great religions; Christianity and Islam. Few but influential immigrants from the Arabian Peninsula to northern Ethiopia and other immigrants crossed the Babel-Mandab in the Hadar of Harar was extremely important for the link between the populations of the Horn (Kinfe Abraham, 2004).

Of the countries of the Peninsula, it is with Yemen that Ethiopia has historically closet relations. History shows evidence that Yemen had at one time been part of the Axumite kingdom. But before and since, there were strong historical relations between the two countries. Our relations with Saudi Arabia are also of a longstanding nature. On the other hand the knowledge and ties with other Peninsula States have been reciprocally very limited. The relationship we have with the Peninsula States varies from one country to the other and the problems are also different. Some countries show hesitation in forging any kind of meaningful relationship with Ethiopia, mainly owing to the influence Egypt has over them. Influenced by Islamic extremism and doubtful of religious equality in Ethiopia, some states have problems in understanding Ethiopia. There are countries which exhibit suspicion and hostility toward Ethiopia in connection with the Arab-Israeli dispute. All told, countries in the Peninsula in general have limited knowledge of Ethiopia and this has contributed significantly to the lack of development in the relation with these states. Moreover it is indicated that there is no research or study of real worth that is undertaken on the Peninsula. As a result, the relations are hobbled by emotions and conclusions reached without the benefit of accurate information (Ethiopian Foreign Relation and National Security Policy and Strategy, 2002).

Regarding significance of the region in terms investment source, as many of the Peninsula States are rich in petroleum which obviously makes them an attractive source of investment and

finance for development, it was highlighted that the region could have an important contribution to our development.

In light of the important role that the Peninsula countries can play with regards to our development and ..., our policy should, as a matter of priority, take the initiative to improve and intensify relations with them. It must duly consider the key role these countries can play in our economic development, and focus on seeking development finance, investment, and markets for our products. Our diplomacy should clearly explain our policies with regard to the resources of the Nile's waters, and the equality of religions in Ethiopia (Ethiopian Foreign Relation and National Security Policy and Strategy, 2002).

On the other hand, while recognizing a deep rooted religious and historical relations and their significances, a research by Haggai Erlich (1994:vii) also cited that there has been gaps in the relations. The Author stated that there has been “...contradiction between the importance of the Middle East to Ethiopian political strategy and how Ethiopia and the middle easterners have historically ignored each other, despite the fact that they share so much history-ancient, medieval, modern and contemporary”. He goes on and added that “...yet there has hardly been an effort on either side to understand each other. There is too little curiosity and too much obscurity”.

2.9 Determinants of Middle East Investment- Gulf Investment in the Horn as a case

Contemporary perceptions by Africans of Gulf Arab aid, investment and trade into the Horn cannot be fully understood without considering the role that Gulf societies and states have played for decades and centuries in Africa. The long record of exchanges...has a decisive bearing on the external policy Gulf states currently pursuing vis-à-vis the Horn of Africa. There are two points worth noting regarding current drivers of ME-Africa relation. First, it posits/suggests that the vast majority of economic initiatives by Gulf actors in the Horn are still directly inspired by and mediated through

political factors- politics and economics are not discrete realms, but two sides of the same coin. It thus illustrates how the current mixture of political and economic drivers is translated in concrete policy instruments. Second, it holds not only the related opportunities but also the risks, both to elites and to wider populations. The opportunity lies in the success of partnership and the risk comes with failure of the partnership projects whatever it is, in case it results in mistrust, debt and so on which can affect the elite and society at large.

Mainly Economy (Trade , Food security, the move to diversify the economy which depends less on oil) and geopolitics (proxy war between Saudi –Iran, and the enmity among the Gulf Arabs themselves), Religion and Policy instruments (motivations and expected outcomes) and actors are the major determinants for their engagement in the Horn (Jos Meester 2018:20-39).

Therefore, considering strong affiliation between big companies and the governments in the Middle East, and the above extract, it is very important to understand the way the politics-economic machination works in ME investment context, and try to get political clearance first to attract ME investment in a way that can strike the right balance between risk and economic interest.

2.10 Ethiopian Tourism Development Policy and Investment Legal Frameworks

Besides tourism policy formulation and developing national tourism plan, governments have been actively engaged in the provision of tourism and hospitality facilities and services. Given that tourism is a highly fragmented sector which involves many stakeholders in the provision of various services, the role of governments in facilitating and promoting tourism through the provision of favorable socio-political and legal environment is of utmost importance (Akama, 1997, 2002; Gunn, 1988; Hughes, 1994; Jenkins & Henry, 1982). The involvement of public sector in tourism activities, in most of the developing economies, is not only required in the attainment of long-term

objectives, but also for the compensation of the absence of a strong tourism experienced private sector (Jenkins & Henry, 1982). Therefore, in developing countries, the public sector is required to contribute actively in tourism development, not only in the establishment of legislative frameworks and policies, but, also in the investment and management of the tourism sector

It is also observed that in most developing countries where tourism has evolved and flourished as a major economic sector, such as Bahamas, Jamaica, Mexico, Kenya, Morocco, Tunisia, Egypt and Indonesia, the direct involvement and investment by the governments have played a crucial role (Akama, 1997, 2002; Bennett, 1994; Dieke, 1991). Therefore, during the evolution and emerging stage of tourism development, governments in developing countries have taken deliberate measures that favor the development of the tourism sector (Akama, 2002). These measures include financial incentives and collaboration with private investors for the development of tourism and hospitality services. Due to the fact that tourism is a high-risk economic venture, most private investors may not be willing to do investment in new tourist destinations that are at their exploratory stage or which do not guarantee capital gains on capital investments and long-term political and socio-economic stability (Akama, 2002). As a result, in many developing countries, the governments come forward and establish the required infrastructure for the sustenance and development of tourism industry in order to give confidence to the private sector.

In the same line Petrescu claimed that the role of the state is central in supervising and controlling tourism activities and in some situations, even, facilitating it. He declared that the public sector helps tourism growth by improving infrastructure development, encouraging private investment in hotel construction, maintaining standards of quality and protecting tourists against any kind of insecurities (Petrescu 2011). The actions taken by the state to create the best environment to stimulate the growth of overall production has a direct effect on tourism as well and government intervention is much needed in tourism industry (Ribariæ & Ribariæ, 2013).

2.10.1 Ethiopian Tourism Development Policy (2009)

According to the policy document, the aim of the policy is “to consolidate the fragmented activities and ensure coordination of efforts being made by government, the private sector, communities at the tourism destinations and civic organizations, and to create conducive environment for these entities to be able to discharge their respective responsibilities appropriately”.

Accordingly the attention of the policy is mentioned as:

Guiding the sector in a broad based development framework, developing the existing and new tourism attractions and products, expanding the infrastructure and tourist services that are vital for the growth of the sector, ensuring that the country benefits from the sector by being sufficiently competitive in the international tourism market, and solving the serious limitations in capacity which are apparent in the industry.

One of the main policy issues identified in the document is the *Expansion of Infrastructure and Tourist Facilities Essential for Tourism Development*. Under this title, three very important points directly related to private sector engagement were highlighted.

The First point is that *the private sector shall be encouraged to engage in the building and expanding of tourist facilities of appropriate standards at each tourist destination, taking into consideration tourist demand for accommodation, food, entertainment services, etc.* The second point highlighted was the necessity of *encouraging investors to establish facilities for rest and recreation at certain distances along the network of highways etc.* Thirdly, the document mentioned the importance of encouraging the participation of the private sector, taking international competition into account and with the aim of strengthening and expanding tour operation services.

On marketing, the policy gives due focus to marketing in order to attract more tourists and say less explicitly on tourism investment promotion/marketing.

2.10.2 Ethiopian Investment Legal Framework and Incentives

Investment laws such as investment proclamation No. 769/2012, Amendment Proclamation No. 849/2014, Investment regulation No. 270/2012, Amendment Regulation No. 312/2014, Investment directives- Directives on duty free import of motors vehicles no. 4/2005 (E.C), Ethiopian Investment Board and the Ethiopian Investment Commission Establishment Regulation No. 313/2014 had been in place to pave the way for investment in general.

Accordingly, attractive admission and regulatory incentive schemes has been introduced to welcome foreign investors. Foreign investors can invest on their own or in partnership with domestic investors in areas open for FDI. Even though foreign investor's share less than or equal to 49% restriction was introduced by recent Investment Regulation No. 474/2020, under previous investment law there was no restrictions on equity ownership in joint investment. Under previous as well current investment laws, investors are required to allocate/transfer minimum capital of USD 200,000 for a wholly foreign owned single investment project, USD 150,000 jointly with a domestic investor or USD 100,000 for technical consultancy if wholly owned or USD 50,000 jointly with a domestic investor. In case of expropriation for the sake of public interest, adequate compensation corresponding to the prevailing market value shall be paid in advance according to Ethiopian Investment Proclamation 1180/2020. There is also privilege to full repatriation of profits, dividends, principal and interest payments on external loan, etc. out of Ethiopia in convertible currency and the right to employ expatriate managers and experts. Ethiopia is signatory of Multilateral Investment Guarantee Agency & has concluded Bilateral Investment Promotion & Protection Treaties with 30 countries (Ethiopia Investment Guide, 2017)

Recently, amended Ethiopian Investment Proclamation 1180/2020 and the corresponding Ethiopian Investment Regulation No. 474/2020 were introduced aiming to improve the investment climate.

2.10.3 Investment Opportunity in Ethiopian Tourism Sector

Ethiopia is one of the oldest civilizations, the source of the mighty Nile River, and is endowed with a long-aged heritage and uninterrupted political independence. Hence Ethiopia commands a large and untapped potential for the tourism and hospitality business. In addition, Addis Ababa's significance as the political capital of Africa brings a high representation of international and regional organizations, including the seat of the African Union and the United Nations Economic Commission on Africa. Tourism is one of the strategic sectors identified as the major drivers of Ethiopian Economy (MoCT, 2013, EIC Portal 2021).

The increasing number of tourists and the evolving profile of today's travelers demand a host of new tourism offerings and infrastructure projects like MICE Facilities, Star rated tourist hotels and lodges, Entertainment and Shopping Centers, Tourist Information Shops, Tourist Transport and Travel Services, Tourism Medical Services, Food and Beverage Services, Leisure & Sports Education and Training Facilities (EIC Portal 2021).

Among the above list, investment opportunities that are open for foreign investors in the sector were grade one tour operation, star rated hotels, lodges and restaurants (Investment Guide to Ethiopia, 2017). But under current investment regulation no. 474/2020 tour operation is reserved for domestic investors while others are as they were before.

2.10.4 Key Motivational factors from Host Government perspective

2.10.4.1 Prioritization of the Tourism Sector

Review of different literature shows that Ethiopia is endowed with historical, cultural and nature based tourism resource. Cognizant of this fact, Ethiopian constitution under Article 29, 39, 41 and 91 proclaimed for protection and development of these resources. In the researcher's view, this has laid foundation for the current Ethiopian government decision to identify tourism sector development as one of the five strategic sectors

(Agriculture, Manufacturing, Mining, Tourism and ICT/digital economy) recognized as a driver of the country's economic development. Accordingly the government has put huge investment in developing new mega tourism products in the capital Addis Ababa and regional states in partnership with private sectors as a pilot projects in a public private partnership model. It is believed that this would pave the way for private sector to build confidence and invest independently. Moreover many efforts are underway in a renovation of the existing tourism products. Yet the country has a very large and untapped potential in the sector which offers an opportunity for domestic and foreign investors (MoCT, 2013; Ethiopia's Home Grown Economic Reform Program, 2019)

2.10.4.2 International Connectivity and UNESCO Registered Heritages

The other motivating factors that are worth mentioning are the connectivity that Ethiopia has with the world through Ethiopian Airlines as a hub connecting many continents with Africa. Currently Ethiopian Airline has 116 international and 23 domestic passengers' destinations. The availability of many UNESCO registered tourism resource also creates an opportunity for private sectors participation (MoCT, 2013 E.C.; UNECA, 2015; Ethiopian Airlines portal 2021).

2.10.4.3 Provision of Visa on Arrival

The provision of visa on arrival for all Africans by the Ethiopian government and the various regional integration initiatives underway are very crucial steps towards easing free movement which ultimately opens door for more private sectors to come in and invest in various sectors including tourism (IGAD 1996, AU 2015, AU 1991, AU 2018, IGAD 2020).

2.10.4.4 Hosting International Organizations

The fact that Ethiopia is the host of many international organizations and African Union Head Quarter provides Ethiopia with an opportunity to be considered as Conference and Business Tourism destination. For example Addis was ranked sixth among Africa's cities when it comes to attracting MICE tourism in 2011 (MoCT 2013 E.C).

In connection with this , the Thesis entitled, "Hotel sector in Ethiopia", by Ebisa and Andualem (2013) to investigate the overall performance of the hotels industry in Ethiopia, indicated that tourist accommodation is available as the major attraction. According to Ebisa and Andualem, investment in accommodation facilities informed by the increasing arrival is one major potential area for private sector participation in the Ethiopia tourism sector.

2.10.4.5 Provision of Various Incentives

An incentive of income Tax exemption up to five years has been made available for those who invest in the destinations such as the Bale and Simien mountains national parks; Erta Ale (Dalol, Hadar, Afdera and Asela Lake); Gerehalta mountains (wekro, Hawzen and Adigrat); Rift Valley Lakes (Abyata, Shalla, Abaya, and Chamo); and Wanchi crater lake and Afro alpine forest (Investment Guide to Ethiopia, 2017).

Moreover; duty free privileges on capital goods and spare-parts, duty free privileges on finishing construction materials (for hotel construction), duty free import of vehicles (for 3 new station wagon), and bus with minimum capacity of 30 passengers excluding foldable seats) are among the incentives according to Investment Guide to Ethiopia, 2017.

Most importantly the relative peace and stability in Ethiopian in the last two decades with the exception of recent instability contributed significantly.

2.10.5 Key Challenges in Ethiopian Tourism Sector

One of the three sets of variables playing key role in firm's decision making is a location advantage according to Dunning's Eclectic OLI Framework (1993). The factors constituting this advantage comprises a given country's tourism product endowment, foreign exchange rate, market size, ease of access to land and loan, ease of profit repatriation, exemption from personal income tax and custom duty, government service

efficiency, availability of basic infrastructure, easy facilitation of investment visa, and return on investment.

In this regard, despite ample opportunities to attract more foreign investors to the industry, there are key challenges that need to be addressed when it comes to Ethiopia. *The principal hard infrastructure bottlenecks with respect to tourism development in Ethiopia include low road density and related high transport costs, lodging infrastructure capacities especially in the regions, and domestic air transport capacity. Main soft infrastructure bottlenecks refer to a limited capacity of payment systems, especially credit card payment systems, including availability of ATMs in tourism sites. Additionally, low implementation capacity, in-adequate financial resource for development of tourism infrastructure and weak collaboration with stakeholders are among major challenges (MoCT & WB 2012, MoCT 2012 E.C, UNECA 2015).*

According to World Bank (2020), Ethiopia’s rank in doing business (DB) is below most (159th among 190 economies) of Sub-Saharan African (SSA) countries. This report showed that Twenty Eight SSA Countries performed better than Ethiopian while nineteen performed below Ethiopia. The country was behind most economies in some of the basic business indicators despite some improvements in a certain indicators compared to 2019. The following table shows how the country performed in some business indicators.

Table 1. Ethiopia’s Rank in Doing Business

| Topics | DB 2020 Rank | DB 2020 Score | DB 2019 Score | Change in Score (% points) |
|-----------------------------------|---------------------|----------------------|----------------------|-----------------------------------|
| Overall | 159 | 48.0 | 47.1 | + 0.9 |
| Starting a Business | 168 | 71.7 | 70.8 | +0.9 |
| Dealing with Construction Permits | 142 | 59.7 | 52.8 | +6.9 |
| Getting Electricity | 137 | 60.1 | 59.7 | +0.4 |

| | | | | |
|-------------------------------|-----|------|------|------|
| Registering Property | 142 | 50.9 | 49.7 | +1.2 |
| Getting Credit | 176 | 15.0 | 15.0 | .. |
| Protecting Minority Investors | 189 | 10.0 | 10.0 | .. |
| Paying Taxes | 132 | 63.3 | 63.3 | .. |
| Trading across Borders | 156 | 56.0 | 56.0 | .. |
| Enforcing Contracts | 67 | 62.8 | 62.8 | .. |
| Resolving Insolvency | 149 | 30.3 | 30.5 | -0.2 |

Source: world bank report 2020

As can be seen from the table even if there are few indicators (starting business, getting electricity and credit and protecting minority investors) that directly relates to the location advantage mentioned above, from overall Ethiopia's rank it can be said tourism sector is not immune from the problem.

CHAPTER THREE

3.1. Description of the Study area and Methodology of the Study

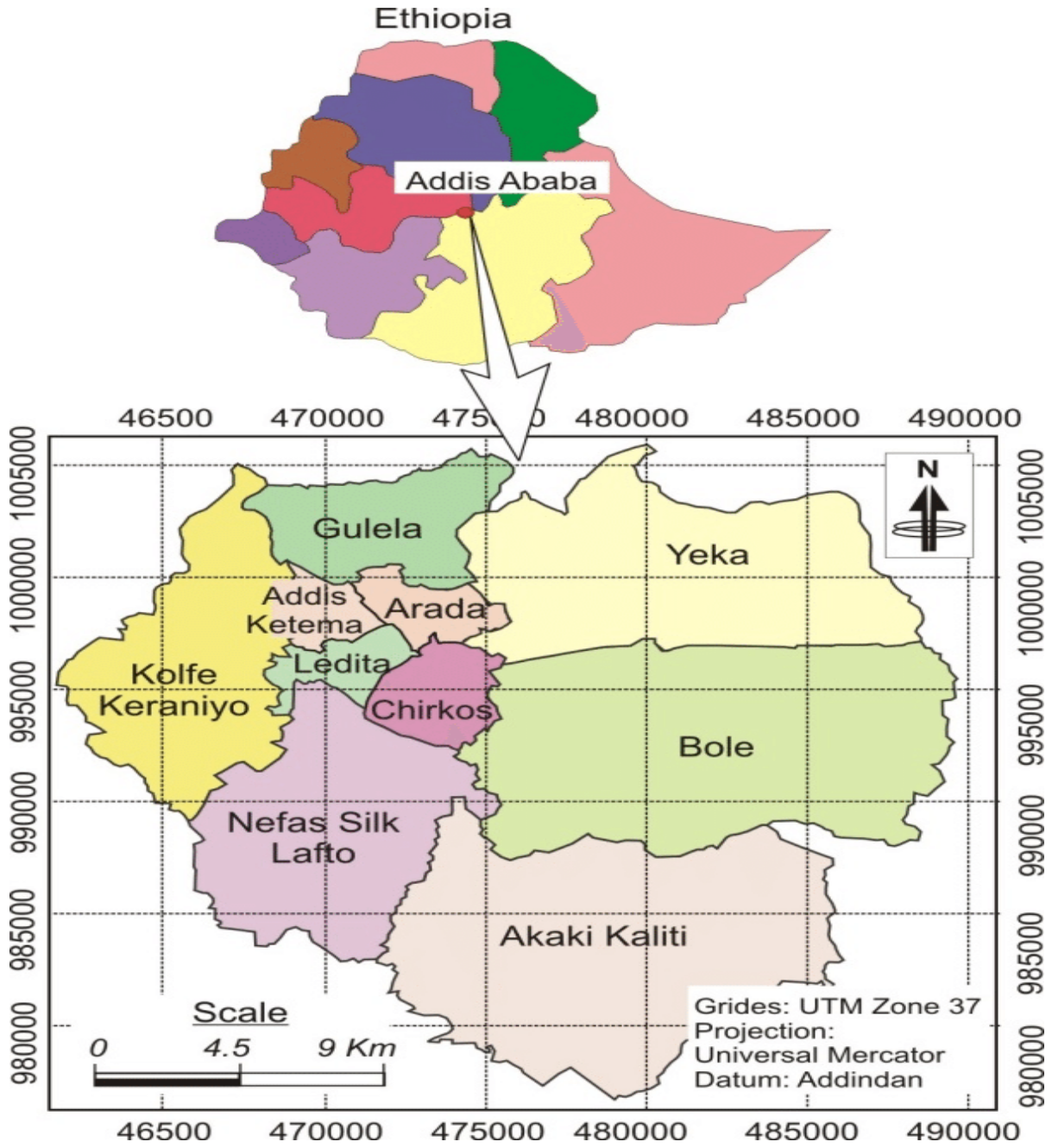
In terms of geography, this research covers investments from the Middle East in selected Ethiopian tourism sector: the Hotel, Tour Operation, Restaurant business and Lodge in Addis and its surroundings licensed starting from early 1990's -2020 in general taking in to account accessibility in terms of distance from Addis, cost and time.

Addis Ababa, the political and economic capital of Ethiopia, is located in the very central part of the country at (9°0' 19.4436" N latitude and 38° 45' 48.9996" E longitude) covering 540Km (Lammi Dinsa, 2019) and is a key center of transportation, logistics, and commerce.

There are Multiple Historical, Cultural and Natural attractions in the city which are old and newly developed recently.

Being a political capital of Africa, it hosts AU headquarters, the United Nation Economic Commission for Africa and many diplomatic missions. Ethiopian Airline is a hub connecting Africa with all continents. With a very close and strategic location, to ME the city and hence Ethiopia offers investors from the region with unexploited and promising potentials for those aiming to invest in the tourism sector. .

Figure 1. Map of Addis Ababa



Source:- Ethiopian Geospatial information Institute

3.2. Research Methodology

3.2.1. Research Approach

Given the nature of the research objective, qualitative research approach was adopted and descriptive method is used to analyze information gathered from individual informants in a purposively selected key relevant institutions and some companies in the sector to add on the information & knowledge that we had regarding investment from the ME in Ethiopian tourism sector.

3.2.2. Research Design

A survey research design was adopted and the data was collected through interview questions, questionnaires, interviews where necessary and telephone. The Interview questions were administered to 14 respondents from key government institutions while likert type questionnaires with 5 response categories were administered to seven companies within geographical scope of the study of which three were responded.

To assess the level of investment engagements, quantitative data regarding the number of licensed investors were collected from relevant sources, trend and their status identified from the data and finally their current status was researched for. To gather additional information regarding motivation factors and challenges and so on, purposive sampling technique was employed to include the responses of companies and key informants from selected key government institution.

3.2.3. Sampling Design

A raw data of a total population 45 investment projects licensed between 1992 and 2020 had been collected & grouped in three strata based on their investment areas, namely investments in the Hotel & Lodge, Tour Operation and Restaurants areas, and samples were purposively taken from each stratum at the very beginning.

Based on the objectives and the scope of the research in terms of thematic area it covers (i.e. hotel, tour operation, restaurant and lodge investments areas) originally the

researcher planned to employ stratified sampling design coupled with purposive sampling from each stratum specifically to know what factors drive tourism investment from the region.

But latter, it was practically confirmed that some of the investments identified based on raw data as a sample were not available/accessible. Hence, the researcher was forced to consider all available investments on the ground among those licensed during the specified period without stratification as a sample purposively to study what factors encouraged them to invest.

Table 2. Summary of Population and Sample

| Period of Investment | Area of Investment and no. of Investment | Total Population/ Licensed Investments | Sample Taken | Remark |
|-----------------------------|---|---|--|---|
| 1992 | <ul style="list-style-type: none"> • Hotel and Lodges (12) • Restaurant (18) • Tour Operation (15) | 45 | <p>9 (confirmed to exist)</p> <p>Among which 1 lodge in Beseka area was considered in the sample</p> | <ul style="list-style-type: none"> • The 10th investment is in Bahir Dar i.e. out of area of study. |

3.2.4. Data Source and Collection Instruments

3.2.4.1 Data Source

Both primary and secondary data source were utilized in this study. Ethiopian Investment Commission (EIC), Ministry of Culture and Tourism (MoCT), Ministry of Foreign Affairs (MoFA), Ministry of Trade and Industry (MoTI), Ethiopian Tourism

Organization/Tourism Ethiopian (ETO/TE) and some operational investment companies were the major source of primary data in this study. Table and charts were used to present data of investment engagement areas with their number and current status to provide more insight for the readers.

Primary data /quantitative & qualitative survey responses collected from purposively selected key government institution's key informant were analyzed content wise in comparison to one another and based on information obtained from investors where appropriate and possible.

Likewise, data regarding driving/motivating factors, challenges and perception/views regarding Ethiopian investment facilitation practices & the future investment from the ME and ME potential as investment source was collected from three willing companies using close-ended ordinal likert type survey questionnaires. This was complemented by observation where possible in some cases.

Secondary data was collected from both published and unpublished documents, books, articles, journals related to the research topic.

3.2.4.2 Data Collection Instrument

Mainly close ended survey questionnaires, mix of open and close-ended interview questions were prepared and employed. The survey questionnaires with 5 point likert scale were distributed to investors in the sector. Interview questions were dispatched to a total of 16 selected key informants- 5 from the Ministry of Culture and Tourism, 2 from Ethiopian Investment Commission, 3 from Tourism Ethiopia and 5 from Ministry of Foreign Affairs and one from MoTI, among which 14 were responded to different questions depending on the area of their specialization. The questions were designed to respond to the research objectives. Further interviews were done based up on their response where deemed necessary.

The survey questionnaires and Interview question were generally designed to provide information regarding;

- The views/perception of key informants as to whether they regard ME region as potential investment source in tourism sector or not;
- Trend of investment from the region so far;
- Investment engagement level, areas of investment & their current status ;
- Future plan to attract more investment;
- Attitude of investors from the region towards the ease of business and the future prospects of Ethiopian tourism sector potential;
- Challenges and the way out. The result will be presented below in the following chapter.

3.2.5 Method of Data Analysis

The study employed descriptive statistics to analyze survey data. Ordinal scale /5 point Likert scale/ was used to assess the major motivating factors, challenges and perception/view of investors regarding Ethiopian investment practices. The unit of analysis was companies/ representatives and key informants from purposively selected key government institutions.

Likert scales are quite popular and are widely used in different areas like psychology, sociology, health care, marketing, attitude, preference, customers' quality perceptions or expectations, and of subjective well-being in health care, etc (S.N. Chakrabartty 2019).

It is applied as one of the most fundamental and frequently used psychometric tools in educational and social sciences research. Simultaneously, it is also subjected to a lot of debate and controversies in regards with analysis and inclusion of points on the scale (Ankur Joshi 2015).

3.3 Research Ethics

To conduct this research, attempts were made to explain the objective, significance and contribution of the research. The subject also assured that the responses of informers would only be used for the purpose of the research and kept confidential. They were assured that their identity and that of their organization would remain anonymous. Principle of voluntary participation was applied, and no respondent was forced to respond to the interview and questionnaire. Written records of their response were kept for further confirmation and verification in most cases.

CHAPTER FOUR

4.1. Presentation of Data, Analysis and Discussion

This chapter presents the main results of the study with discussion. The data and the raw information were interpreted and presented in a meaningful manner as much as possible depending on the level of availability of the information. The gathering of data for this study began with the collection of licensed investment projects fully owned/through joint venture by Investors from the ME region from 1992-2020 in Ethiopian Tourism value chain (specifically in the hotel, lodges, restaurants and tour operation business) from Ethiopian Investment Commission. The details are presented below.

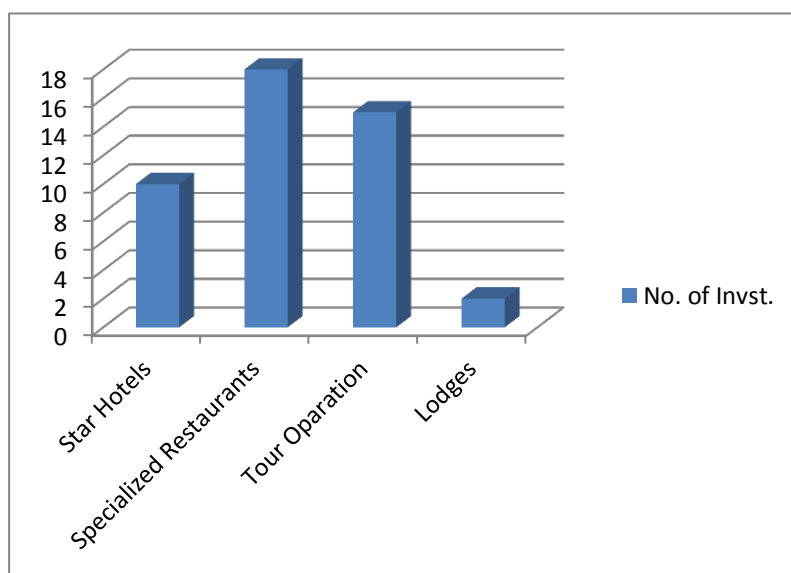
4.1.1. Total Number of Licensed Investments from the ME Region and the Trend

According to the latest data obtained from the Ethiopian Investment Commission, a total of 45 investment projects originated from the Middle East region were licensed to operate in Ethiopia in the hotels, restaurants, lodges and tour operation services between 1992 and 2020.

Figure 2. Licensed Investments by area of Investment (1992-2020)

| Investment category | No. of Licensed Investment |
|-------------------------|----------------------------|
| Star Rated Hotels | 10 (22.22%) |
| Specialized Restaurants | 18 (40%) |
| Tour Operation | 15 (33.33%) |
| Lodges | 2 (0.04%) |

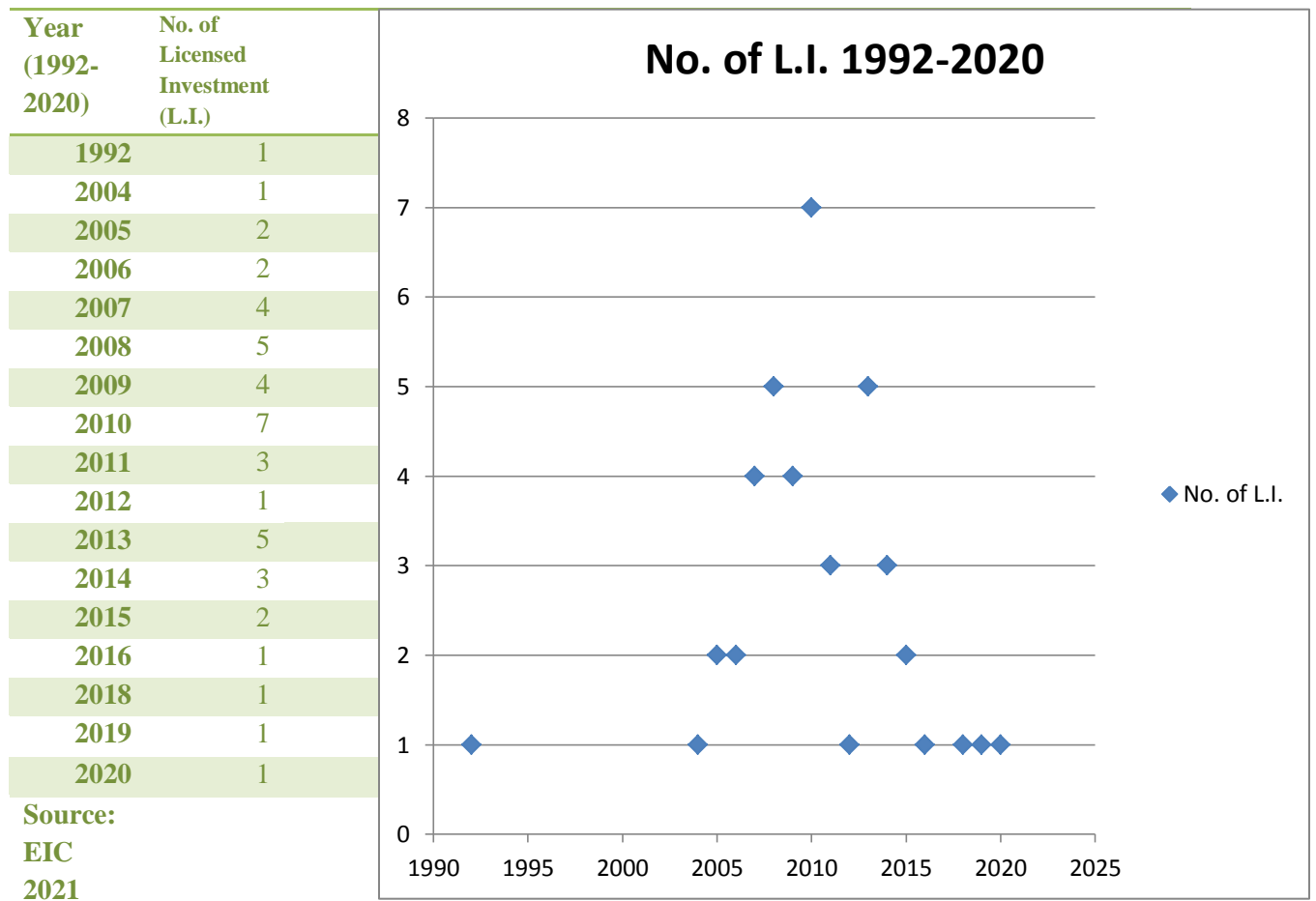
Source; EIC 2021,
MoTI 2021,
Addis Fortune Dec. 29,
2018 (Vol. 19, No
974)



As can be seen from the above data, and the bar chart, investments licensed in specialized restaurant is at the top while those licensed in tour operation and hotel are taking second and third rank respectively. This might be due to ease of starting business through renting of work place and relatively less skill and capital needed to actually start the business.

Looking at the trend, the investment from the region in the sector generally increases between the year 2007 and 2014 and then falls as it is illustrated below. The positive signal may be attributed to the relative peace and stability, economic growth and international reputation while the declining trend might be due to different challenges faced in due course of time, instability in Ethiopia and geopolitics in recent three/four years. The detail is shown on annex I & II.

Figure 3. Trend of Investment from ME in the Hotel, Restaurant, Tour Operation and Lodges



Source:
EIC
2021

4.1.2. The Status of Licensed Investments

4.1.2.1. Aggregate Status

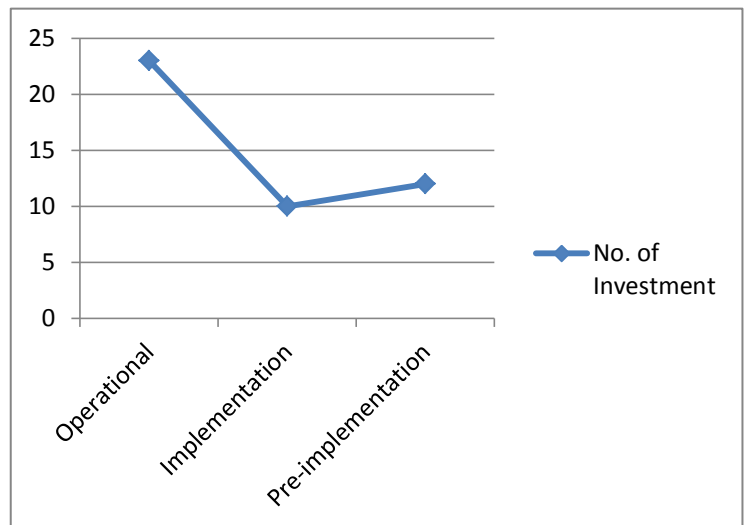
As the data indicated, among the total of 45 investments, 23 investment projects has been operational, 10 are at implementation stage and 12 are at pre-implementation stages.

Regarding the number of projects in each investment activities, the data indicates that 10 of them were licensed for three to five stars rated hotels, 2 for lodge construction, 18 for investment in a specialized restaurants and the rest 15 for investment in tour operation.

Figure 4. Aggregate Status of the Investments

| Status | No. of Investments |
|--------------------|--------------------|
| Operational | 23 |
| Implementation | 10 |
| Pre-implementation | 12 |

Source: EIC 2021



The aggregate status from the above table and graph shows good trend as 51% of licensed investment were operational outpacing those at implementation and pre-implementation stages.

4.1.2.2. Status of Investment by the Area of Investment

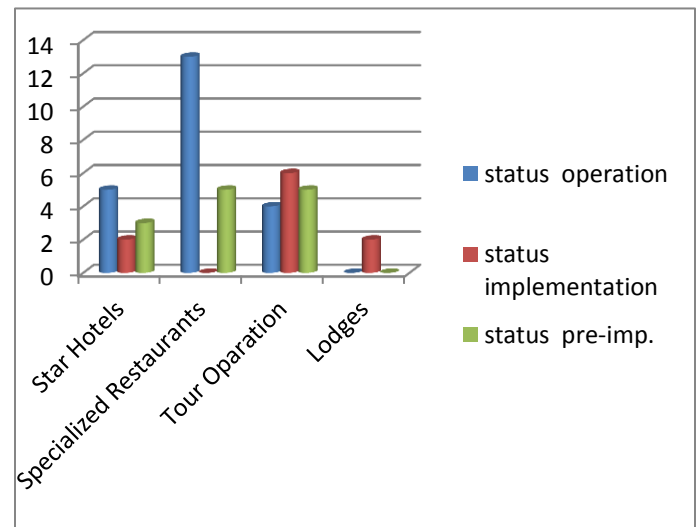
From those licensed in the hotel category, only five of them are operational according to the data and the rest five are at implementation and pre-implementation stages while the two lodges were reported to be at an implementation stage. On the other hand, among those licensed in Tour Operation, 4 were indicated as operational while 6 were at implementation and the rest 5 at pre-implementation stages.

When we look at those licensed to invest in specialized restaurants, the data showed that 13 have been operational while 5 were at pre-implementation.

Detail is in annex-iii & iv.

Figure 5. Status of the Investment by Area of Engagement

| Investment category | status | | |
|-------------------------|-----------|----------------|----------|
| | operation | implementation | pre-imp. |
| Star Hotels | 5 | 2 | 3 |
| Specialized Restaurants | 13 | 0 | 5 |
| Tour Operation | 4 | 6 | 5 |
| Lodges | 0 | 2 | 0 |



Source;
EIC2021

Hence seeing at disaggregate status, 50% of hotels, 72% of specialized restaurants and 26.6% of tour operators were operational as the raw data indicated. This means the hotel and specialized restaurant investments were in a better position in terms realizing their projects on the ground.

4.1.3. Distribution of the Projects in Hotel, Restaurants and Lodges

4.1.3.1. Distribution of Investment by the Region

When we look at the geographical distribution of the projects licensed in hotel, restaurants and lodges, most of them are congested in the capital, Addis Ababa. Of the 30 projects, 25 have got their license to operate in Addis Ababa. As one can guess, this might be due to infrastructure, market, security and other factors. Oromia, Amhara, Benshagul Gumz and Harari regions have got 3, 1,1,1 respectively while one more investment project is reported to be Multiregional.

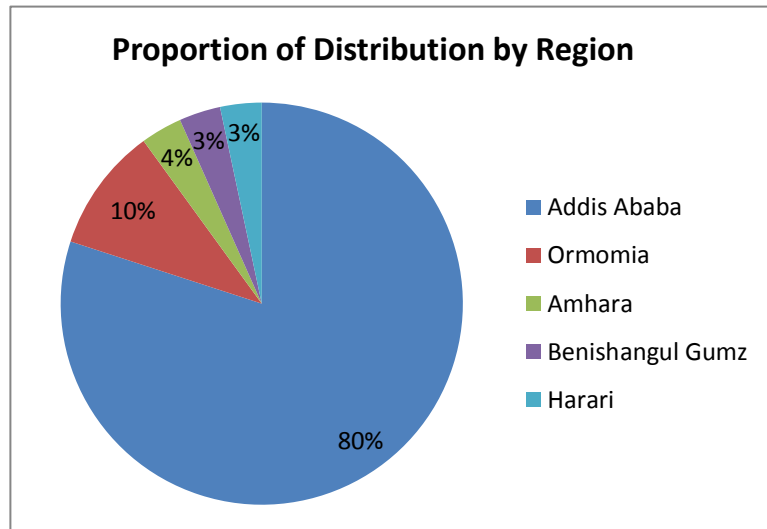
This shows that 80% of ME investments in Hotel, lodge and Restaurant were licensed to work concentrated in Addis Ababa followed by Oromia with 10% (See annex v for details).

The total investment capital of the projects was 372,217,000 Birr and it is reported that it has potential to create/created 1,190 permanent job and 643 temporary jobs.

Figure 6. Distributions of Licensed Investments in Hotel, Restaurants and Lodges

by Region of their Engagement
(1992 - 2020)

| Investment Distribution by Region in Ethiopia | No. of licensed Investment |
|---|----------------------------|
| Addis Ababa | 25 |
| Oromia | 2 |
| Amhara | 1 |
| Benishangul Gumz | 1 |
| Harari | 1 |



Source; EIC
2021

4.1.3.2. Distribution of the Projects by the Country of Origin and the Trend

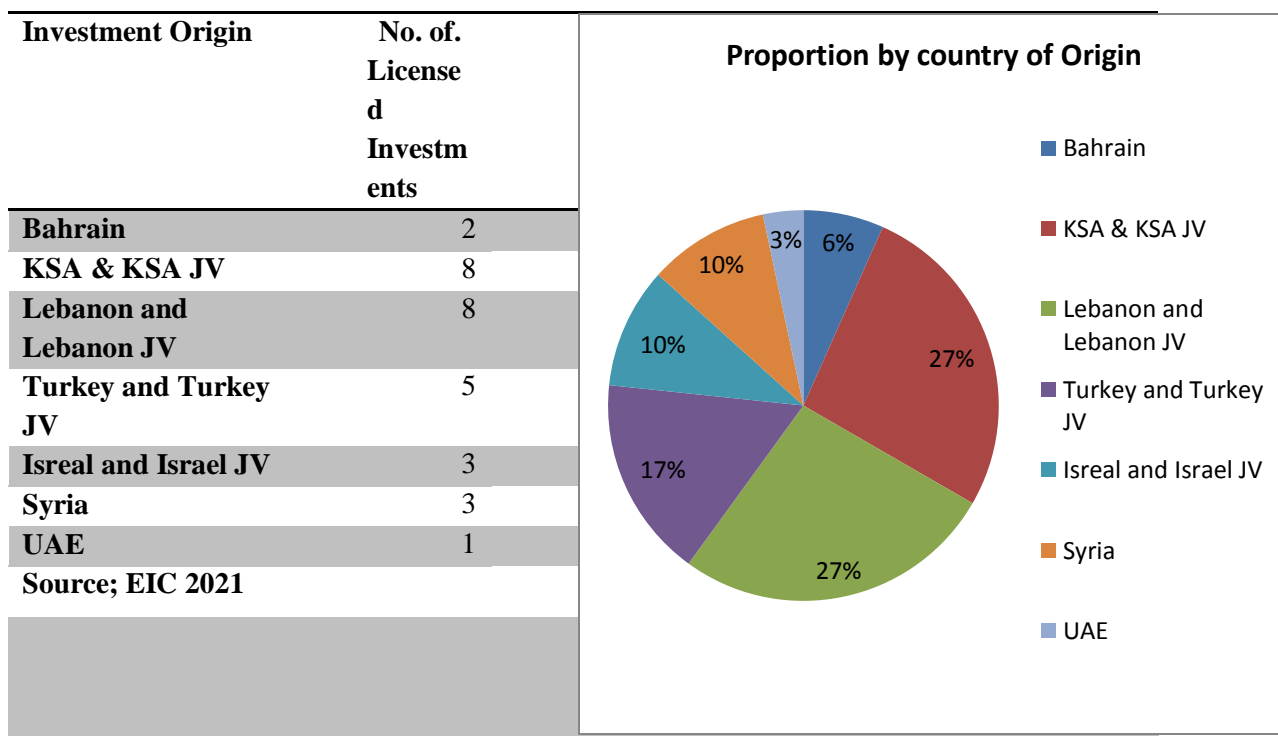
Looking at the distribution of the investments in the hotel, restaurant and lodges by the country of their origin, there is no much difference between those from major countries in terms of number of investment when we include projects owned by joint venture (JV).

For instance, projects wholly owned by KSA and in JV with KSA; wholly owned by Lebanon and in JV with Lebanon and wholly owned by Turkey and JV with Turkey are 8, 8 and 5 respectively according to the data. Then Israel, Syria, Bahrain followed by 3, 3, 2 respectively.

With regard to the trends over the years, it is almost flat except for the years 2006, 2007, 2008, 2009, 2010, 2011 and 2013 marked with arrivals of 2, 4, 3, 2, 3, 3 and 2 licensed projects respectively. Detail is shown on annex vi.

Figure 7. Distributions of Investments in the Hotel, Restaurants and Lodges

by country of Origin and the Proportion



Accordingly, as can be seen from the above pie chart, KSA & KSA JV and Lebanon and Lebanon JV projects were leading investments from the region with constituting 27% each followed by Turkey and Turkey JV making 17%.

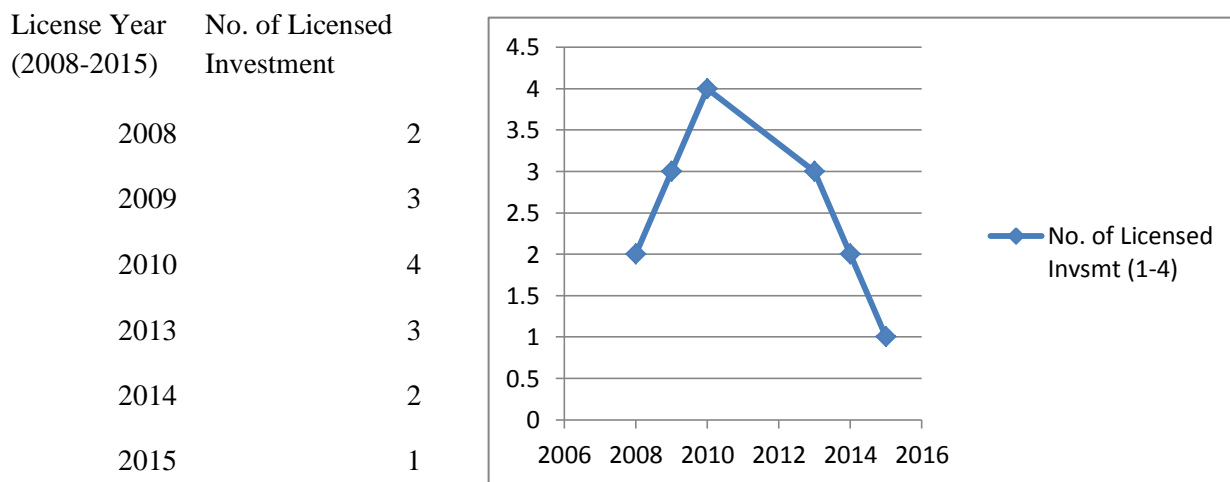
4.1.4. Investment Engagement in Tour operation

As it is highlighted in the previous section and can be seen from the following section, the total numbers of licensed investment projects in Tour operation from the Middle East from 2008 to 2015 were 15, making 33.33% of the total investment.

4.1.4.1. Trend of Licensed Investments in Tour Operation from the ME Countries

During the period this study covers (2008 -2015) even though there had been slight difference in the annual number of investment arrivals ranging from 1-4, the data indicated that the general trend had been negative. It started with 2 investment arrival in 2008 and ended by 1 in 2015. The peak year is 2010 with 4 arrivals. Why decline? Some of the reasons were unpredictability of regulations, private problems facing the owners of the projects in some incidents, and declining of the business as some replied, and other undiscovered problems.

Figure 8. Trend of Licensed Investments in Tour Operation from the ME

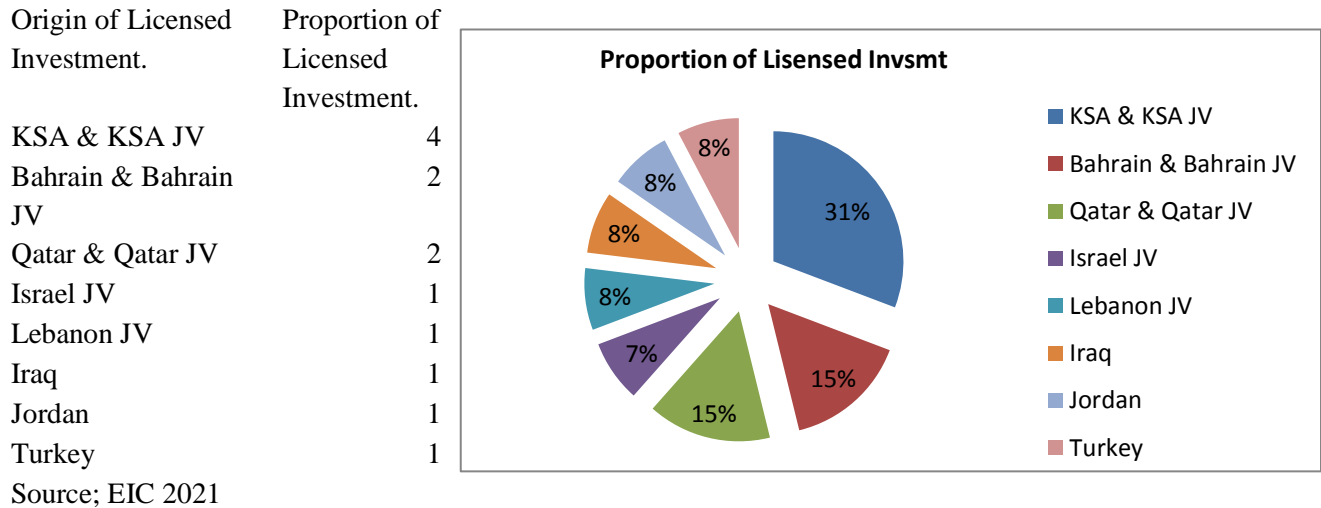


Source; EIC
2021

4.1.4.2. Investment Distribution by Country of Origin

Regarding the origin of the investments, they were originated from various countries such as Kingdom Saud Arabia, Qatar, Bahrain, Oman, Syria, Turkey, Lebanon, Iraq, Israel and Jordan in the form of full ownership and joint venture. The investments fully owned by investors originated from KSA and JV with KSA constitutes 31% followed by Bahrain and Bahrain JV, Qatar and Qatar JV making 15% each. See Annex-vii for more insight.

Figure 9. Number of Investments and Proportion by Country of Origin

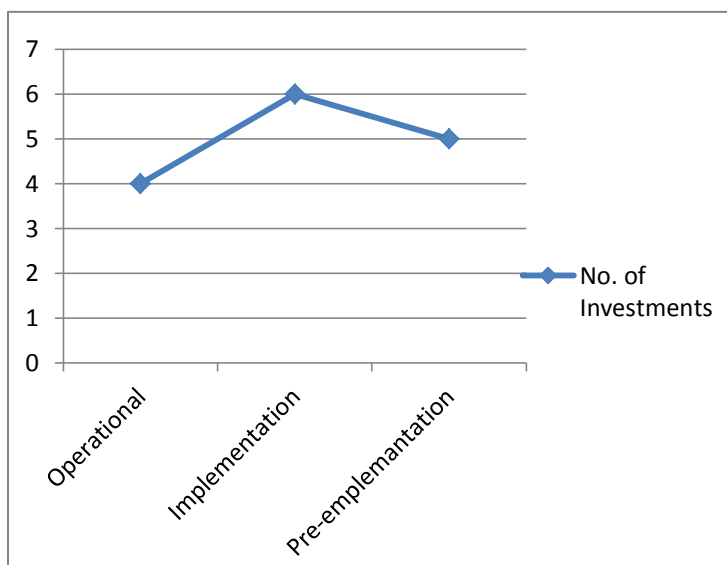


4.1.4.3. Status and Geographical Distribution of the Licensed Investments from the ME in Ethiopia

When we look at the geographical distribution of licensed investments in Ethiopia, 14 were licensed to operate from Addis Ababa of which 4 were reported to be at operational stage, 5 at implementation and the rest 5 at pre-implementation stages. Among these, 1 was licensed to operate at multiregional level which is reported to be at implementation stage.

Figure 10. The Status of the Investment Projects in Tour Operation

| Status | No. of Investments |
|--------------------|--------------------|
| Operational | 4 (26.6%) |
| Implementation | 6 (40%) |
| Pre-implementation | 5 (33.3%) |



Source; EIC 2021

Table 3. Distribution of tour operators by Region in Ethiopia, Capita and Job as reported

| Region of Investment | Total | Pre-Implementation | Implementation | Operation | Capital in '000' Birr | Perm Empl. | Temp Empl. |
|----------------------|-------------|--------------------|----------------|-------------|-----------------------|------------|------------|
| | No of Projs | No of Projs | No of Projs | No of Projs | | | |
| Addis Ababa | 14 | 5 | 5 | 4 | 7,404 | 35 | 32 |
| Multiregional | 1 | | 1 | | - | | |
| Grand Total | 15 | 5 | 6 | 4 | 7,404 | 35 | 32 |

Source; EIC 2021

4.1.5. Response from Key Informants

The researcher has made serious effort to reach out all the licensed projects through the telephone address obtained from the Ethiopian Investment Commission and the following feedback was obtained.

4.1.5.1. Response Regarding Licensed Projects in the Hotel, Lodges and Restaurant

In an effort to reach all the hotels, restaurants and lodges, the researcher was able to contact three hotels namely, Hyatt Regency, MIDROC owned hotels and John Abraham (through its representative). Survey questionnaires and a letter of cooperation from the University were delivered to the first two with a brief of the objective of the study and then close follow up has been made to get their response back.

But, despite close following up and efforts made in person to talk concerned person, Hyatt Regency Hotel's management finally responded that they stopped providing information for research purpose for a time being while John Abraham's representative responded that the owner sold the Hotel five or six years ago and went back home to Israel.

MIDROC (owning Sheraton Addis, New Hotel in AU Compound, and Blue Nile Resort Hotel) was approached in person through its general manager's representative. Then multiple follow up calls were made which got positive promise but the feedback is yet pending.

The rest in the hotel category were unavailable on the ground /couldn't be accessed (i.e. three hotel's telephone number is incorrect/mistaken, a call to one hotel responds that the number is unknown, a call to another is working but not responding totally & other one don't accept a call at all).

Under the restaurant category only three namely, Allebaney Restaburant, Istanbul Special Restaurant and Abdulkadir Abdulaziz Mokresh (a Syrian Restaurant), were the ones the

researcher was able to reach out. Among the long list, one Restaurant doesn't have telephone number at all, while all other are unavailable by the given telephone address (i.e. their telephone numbers are either incorrect, unknown number, out of service/not responding) as confirmed by repeated efforts.

In a further investigation based on the data from Ministry of Trade and Industry (MoTI), it was confirmed that only three restaurants (Allebaney Restaburant, Istanbul Special Restaurant, Pamukkale Turkish Special Restaurant) were registered with TIN Number by the Ministry. But again, Pamukkale Turkish Special Restaurant has been in operation between 2014 and 2018.

From this, it can be concluded that only three restaurants are operational currently while others has either terminated their business or their whereabouts is not known.

4.1.5.2. Response Regarding Licensed Projects in Tour Operation

A series of an attempt has been made to reach all the 15 tour operators. Accordingly, calls to four of them (Olea International Busines PLC, Roza Saeed Yousef, Faris Mohamed Ahmed Alhyari and Mohd Mesfer M H Al-Hajri) got a reply that the numbers are incorrect/mistaken while a call to two of them (Hasan Huseyin Vicdan andNatiq Khorsheed Rashid) replied with a message that the numbers are unknown at all.

A respondent from Edelam Tour PLC replied that she and her partner had closed/terminated implementing the project because of frequent change/unpredictability of regulation, for example, the one dealing with the import of cars and other things like security concern and trust related to drivers.

Another respondent (Zaki Tour PLC) replied that he had terminated the process of implementing the project 4/5 years ago because his partner from Saud Arabia was passed away. A call to a tour operator licensed under the name "Gulf Real Estate PLC" which was registered by EIC as it has been owned by joint venture between (Qatar, Sudan and Ethiopia) got a response that the company is domestic plc not owned by joint venture

with any other country. The rest's telephone numbers are off/not responding to repeated calls.

The researcher has made additional effort to confirm this data with relevant department in the MoCT and tried get their official work place. But according to the key informant from the Ministry, the names of 13 were not even available in the Ministry's data base. According to his data, only two of them known by the names "Ava Tour Operator" and "Gulf Real Estate PLC" are registered and available in the Ministry's data base.

In a further investigation, based on detail information obtained from Ministry of Trade and Industry (MoTI), the researcher was able to find out that only two tour operators (Ava tour operator and BMM General Business plc) are registered with TIN number but here again only Ava tour operator renewed its license until July 2021. BMM General Business plc (registered in 2011 by MoTI) didn't renew its trade license since 2020 and couldn't be reached by the address obtained from MoTI.

Moreover, according to MoTI's data, Olea International Business Plc which had been earlier registered as tour operator by EIC in 2009 has been registered as a company engaged in fixed property and Machinery renting since 2014 and hence cannot be more the subject of this study.

In general, a data from MoTI indicated that, only 6 (2 in hotel service, 2 in specialized restaurant and 2 in tour operation) were registered by the Ministry with TIN No. and no more information is available from the Ministry about the others.

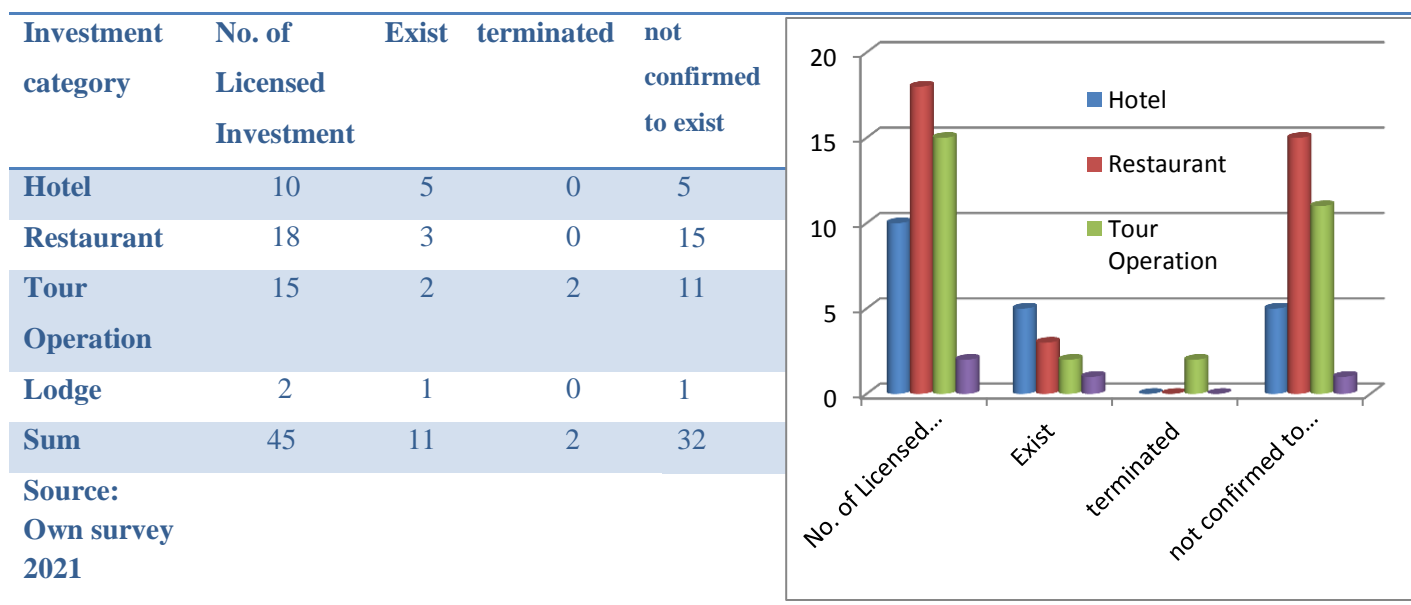
In general, based on cross check of above information and personal assessment, the researcher reached a conclusion that only two tour operators (Ava tour operator and BMM General Business plc) were legally registered with TIN number and hence have/had some level of engagement while rest were unsuccessful/terminated the process. Accordingly this fact is summarized in the following table.

Table 4. Summary of Current Status of the Investments on the Ground

| Investment category | Total number of licensed investment | confirmed no. of investment to exist | Confirmed no. of Terminate d projects | Licensed but not confirmed to exist by any entity. | Remark |
|---------------------|-------------------------------------|--------------------------------------|---------------------------------------|--|--|
| Hotels | 10 | 5 (50%) | - | 5 (50%) | 1(John Abraham)confirmed to exist but sold |
| Restaurants | 18 | 3 (16.66%) | - | 15 (83.33%) | - |
| Tour Operators | 15 | 2 (13.33%) | 2 (13.33%) | 11 (73.33%) | But among the 2 confirmed (Gulf Real Estate PLC) registered as foreign by EIC is domestic. So Ava tour and BMM General business plc are existing until 2020/2021. Again among all only 2 are known by Mo TI. |
| Lodges | 2 | 1 (50%) | - | 1 (50%) | - |

Source; Own Survey 2021

Figure 11. Graphical Illustration of the Current Status of Overall Investments on the Ground by Area of Investment



Based on triangulation of the data and information gathered from different sources, as summarized above, of 10 hotels, 18 restaurants, 15 tour operators and 2 Lodges licensed during the period this study covers, only 5 (50%), 3(16.66%), 2(13.33%) and 1(50%) are currently confirmed to exist respectively while the rest have terminated their plan/not confirmed to exist.

In conclusion of this section, the following table provides the summary of the general status of the investment over the period this study covers (1992-2020) as provided by the data from EIC and the current status on the ground based on the researchers own survey 2021.

Table 5. Summary of Investment Status Over 1992-2020 in Comparison to Status in 2021

| Status | 1992-2020 | 2021 |
|----------------|-----------|------|
| operation | 22 | 8 |
| implementation | 10 | 2 |
| pre-imp. | 13 | 0 |

Source; EIC data 2021 and Own Survey 2021

4.1.6 Presentation of Responses to Interview Question and Survey Questionnaires

Based on the interview questions and survey questionnaires framed to respond to the research objective, the following responses were obtained from key informants selected from key stakeholder institutions.

4.1.6.1. On Motivating Factors

4.1.6.1.1 Responses of Informants from Key Government Institutions

All the five key informants approached from the Ministry of Foreign Affairs highlighted points which they believe are the factors that motivated investors from the ME. FAR-01 mentioned the economic growth that Ethiopia registered in the last few decades and favorable government policy as a driving factors.

FAR-02 & FAR-03 mentioned geographical proximity; the presence of many UNESCO registered heritages, diverse tourism attraction, good weather, cultural, religious and ecotourism potentials, presence of incentive packages, presence of domestic and international market while FAR-04 & FAR-05 mentioned Ethiopian airlines connectivity, Islamic Heritages like Harar City, Al Najashi Mosques terming it as *Africa's Mecca*, and other historic places and sanctuaries as motivators.

Another key informant ICR-01 mentioned incentives like tax exemption, custom duty exemption, religious and cultural heritages and nature as the major ones.

Informant TER-01 highlighted the long standing diplomatic and people to people relation, geographical proximity, Ethiopia's attractive investment incentives, market size and interests by investors to invest in new destinations as major driving factors.

From Ministry of Culture and Tourism, five informants including a team leader and experts from relevant department mentioned that, the bilateral relationships- economic and political ties that exist between Ethiopia and the region in general and the religious relations, various investment opportunities in the Ethiopian tourism sector, the cultural

diversity, the religious diversity- tolerance & coexistence, Ethiopia's growing population with improving income, availability of untapped natural resource are among major motivating factors. Among them CTR-06 mentioned the custom duty exemption of capital goods like building materials for those investing in Hotel and cars for those investing in tour operation are key motivators among others.

In general as can be summarized from the survey responses above, from key government informant perspective, 11 (78.5%) respondents has mentioned factors that they think are majors, which can be grouped under Dunning's 1993- location advantage. These are the availability of various tourism products, Ethiopian Airline connectivity (infrastructure), market size (domestic and international), Ethiopia's proximity to ME, presence of incentive packages, good government policy, and religious and diplomatic ties with ME region.

Interestingly, no respondent mentioned ownership advantage and market internalization advantage which should be a point in focus while selecting potential companies and promoting investment in the sector.

4.1.6.1.2 Response from Companies/Investors

According to Dunning's (1999) Eclectic Paradigm/Framework which is widely applicable, the extent, pattern, and growth of value-adding activities undertaken by Transnational Corporations (TNCs) outside their home countries are dependent on the value of and interaction between variables- Ownership, Location and Internalization (OLI). Accordingly, the researcher tried to systematically organize the sub-variables under each of the above main variables and applied ordinal scale- Highly Encouraging, Encouraging, Undecided, Discouraging and Highly Discouraging- to survey the responses of investors in restaurant business to understand to what degree each variable encouraged/discouraged investor's decision.

Accordingly the following response was obtained from three investors engaged in restaurant service in Addis Ababa.

i) Relative Significance of Factors Making Ownership Advantage in Encouraging Decisions of Investors in Restaurant Business

The major sub-variables making ownership advantages are firm size, international experience, trade mark and brand image, knowledge of taste and requirements of customers, size and structure of home industry transaction, economies of scope and joint supply, economies of scale, extent and scope of access to training program and access to referral and reservation system.

a) Highly Encouraging and Encouraging factors

Among the above ownership-specific-advantages, trade mark and brand image, access to referral and reservation system, knowledge of taste and requirements of customers, and size and structure of home industry transaction highly encouraged one or two out of three investors. More specifically, knowledge of tastes and the requirement of the customers highly encouraged at least two of them.

On the other hand, size of the firm, international experience, trade mark and brand image, size and structure of home industry transaction and economy of scope and joint supply were encouraging to two out of three companies in restaurant business.

b) Undecided and Discouraging Factors

One company was undecided on whether international experience and access to referral and reservation system in general encouraged or discouraged its decision (i.e. the two sub-variables neither encouraged /discouraged decision). In addition two companies were undecided on whether the extent and scope of training program and economies of scale in general encouraged or discouraged their decision.

Note: Ownership Advantage Comprises: “Size of the firm, International experience, trade mark and brand image, extent and scope of training program, access to

referral and reservation system, knowledge of tastes and requirements of the customers, size and structure of home industry transaction, economies of scope and joint supply, economies of scale.” John H. Dunning and Sumit K. Kundu 1995. “The Internationalization of the Hotel Industry: Some New Findings from a Field Study.” *Management International Review*, Vol. 35 (2): pp. 101-133

Economies of scope are "efficiencies formed by variety, not volume" (free encyclopedia)

ii) Relative Significances of Factors Making Location Advantage and Market Internalization in Encouraging Decisions of Investors

The sub-variables making location–specific-advantages are tourism product endowment, exchange rate, destination market size, land access, easy access to loan, profit repatriation, income tax exemption, loss carry forward, personal income tax, custom duty exemption, government service efficiency, relative peace and security, availability of basic infrastructure, easy facilitation and access to investment visa, return on investment, while market internalization stand alone as third major variable.

a) Highly Encouraging and Encouraging Factors

Among the above sub –variables, destination market size, land access, custom duty exemption, return on investment, easy facilitation and access to investment visa, and relative peace and security highly encouraged one or two investors out of three in restaurant business in Addis. On the other hand, destination market size, availability of basic infrastructure and market internalization encouraged at least two investors out of three. More specifically, land access, custom duty exemption and easy facilitation of investment visa were the factors that highly encouraged the investors. Custom duty exemption, relative peace and security, and easy facilitation and access to investment visa were encouraging to one out of three.

Therefore, based on Dunning 1988 eclectic paradigm theory, investors coming from ME to invest in Ethiopian Tourism Sector are market and efficiency seeking.

b) Undecided , Discouraging and Highly Discouraging Factors

At least two out of the three companies were undecided on whether Ethiopia's tourism product endowment, exchange rate and government service efficiency in general encouraged or discouraged their decision.

On the other hand, exchange rate, personal income tax, profit repatriation, income tax exemption, and easy access to loan were discouraging/highly discouraging to at least one of the three companies.

Hence, bringing together the factors that were highlighted by key informants from government institutions mentioned earlier as major driving ones (summarized under location advantage) and the response from investors, it can be concluded that by-in-large, there is common understanding with regard to major factors motivating investors. But there are challenges in implementation of incentive packages which is most interesting factors to the investors.

Note:- Loss Carry Forward is a loss incurred during income tax exemption period which can be carried forward for certain time period after expiry.

Personal income tax is a personal income tax exemption for expatriate employee.

Market Internalization Advantage refers to the “advantages of controlling and coordinating ownership and location-specific advantages with a TNC hierarchy rather than selling the right to use those advantages to domestic firms in the host country.” (Dwyer and Forsyth, 1994)

4.1.6.2 Response on Whether ME Viewed as Investment Potential

FAR-02 mentioned that Ethiopia and ME has compatible interest with untapped potential in tourism sector which can be an opportunity for the ME private sector while the third informant admitted the presence of potential but regretted that it is underutilized. FAR-04 from explained that there is a huge economic partnership opportunities between

Ethiopia and the ME. He justified this potential with the excess capital accumulation from fossil fuel that can be exploited by Ethiopia.

CTR-06 & 07 stated that even though there hasn't been enough attention to this region, there is a potential and resource to attract investors from the region and underscored that we need to work on it.

Additionally, CTR-09 mentioned geographical proximity, growing population of middle income earners and high income class in the ME can be good investment and tourist source for Ethiopia. But he said "much promotion and diverting the political and religious perceptions about each other should be considered" by concerned bodies. CTR-08 mentioned the presence of multiple conferences and business events in Addis Ababa as one of the available opportunity. He also mentioned the presence of most ME country Missions in Addis and that of Ethiopia in the ME as a plus to serve this purpose.

Asked whether the ME region can be significant in terms of investment source, TER-11 replied "Yes". But he said *UK, USA, Germany, France, Italy and Kingdom Saud Arabia (KSA) are the primary tourism market currently* and stressed that *there is a need to consolidate the existing and potential opportunity in to economic value among which investment in Tourism Sector is one.* According to his opinion *there is a need to organize events where Ethiopian and ME counter parts discuss B2B, joint venture and etc.* in this regard.

Therefore, from the point of view of key informants from government institutions, there is 100% agreement on the potential of Middle East among seven who responded to this specific question but they suggested the need to work hard.

Additionally, two statements were designed to know the perceptions/views of investors on the future of the business in which he/she is engaged in and the potential of ME as investment source for Ethiopian tourism sector. In this case, the respondent was provided with statements to which he/she reply using the ordinal likert scale options- Strongly

Agree, Agree, Undecided, Disagree and Strongly Disagree. Below is the feedback to the statements by three investors in restaurant service.

Table 6. Investors’ View on Ethiopian Investment Practices and on whether ME can be a Potential Investment Source for Ethiopian Tourism Sector

| Statement | Strongly agree | Agree | undecided | Disagree | Strongly disagree |
|--|----------------|-------|-----------|----------|-------------------|
| The overall Ethiopian investment incentives and facilitation practices in general are promising and its implication for the future is good. | | 3 | | | |
| The Middle East can be one of the major market segments for Ethiopian Tourism Sector and the sector will have a potential attract more investment if the current service and marketing practice is maintained. | 1 | 1 | 1 | | |

Source; Own Survey, 2021

To sum up, all the key respondents view the ME as potential market, but regretted the fact that there has been lack of attention and underutilization while suggesting the need to work on people to people relation to create opportunity for the people to know each other and work on promotion. Similarly investors have positive view/perception about the Ethiopian-ME investment potential in the sector and current incentive packages in general while indicating some challenges which will be touched upon below.

4.1.6.3 Response on Investment Trend from the ME

FAR-01 mentioned that there is an increasing investment especially in the last 10 years in the Hotel and Restaurant services.

FAR-02 explained that, in his view, it was below the expectation despite geographical proximity and other opportunity to enhance the investment engagement and tourist arrival from the region. He highlighted Ethiopia's UNESCO registered heritages, Al Nejashi Mosque, Harar City and other Islamic heritages, Ethiopian climate, natural resources and other tourism products which inspire investors and tourists from the region.

A third informant FAR-04 mentioned the presence of some investors from Saud Arabia and other Gulf States in the hotel industry but pointed that there is big gap comparing the potential and actual performance. He further mentioned the need for strong engagement and hard work to meet the expectation.

CTR-08 & CTR-10 stated that there is no recorded investment from the region in the sector, one said he don't have any idea on this point, while CTR-06 commented that there is a declining trend even in tourist arrival due to COVID-19 pandemic and the current instability in Ethiopia while a fourth respondent said that currently there are few arrivals for events and other official reasons.

TER-11 mentioned that there are limited number of investors and tourists from the ME, though there is a wealth, purchasing power and demand in the ME on the one hand and products that Ethiopia can offer as a destination on the other hand.

Regarding the trend, based on the data from EIC, it can be said generally declining. This may be justified by the instability in Ethiopia in the last few years and the COVID-19 pandemic and its impacts on the sectors specifically.

Here it is also important to note that there is a serious information gap and inconsistency among different stakeholders which can be explained by the lack of information at all in some instances, clashing figures/data, and inability to objectively evaluate the trend based

facts and numbers and hence conclusively say that the trend is positive or negative in many other incidents.

4.1.6.4 Response on Major Engagement Area of Investors from ME

FAR-01 mentioned that hotel and restaurant were major areas where investors from the ME have been engaged in. He stated that 29 companies from the ME invested 4,985,378,007 birr in the last ten years in these two areas and created 2,855 permanent and 738 temporary jobs. With regard to the number of companies/investment projects, this figure is nearly equivalent with the data (licensed projects) obtained from EIC.

A team leader from MoCT- CTR-06, and other two (CTR-08 and CTR-10) mentioned Tour operation, hotel, Lodges and Restaurants as areas of engagement in general, but CTR-06 referred Investment Commission and Ministry of Labor and Social Affairs for information on Capital invested and Job created. One informant stated he don't have information at all on this topic.

On the other hand, according to the latest data obtained from the Ethiopian Investment Commission, between 1992 and 2020, a total of 45 investment projects originated from the Middle East region were licensed in the Hotels, Restaurants, Lodges and Tour Operation services detail of which is indicated at the beginning of this chapter.

Those three investors confirmed to be operational in specialized restaurant are engaged specifically in provision of food, beverages, refreshment and entertainments.

Asked why the most of the reported companies are not available by the given address, CTR-06, CTR-07 & TER-11 responded that they might have terminated the process after obtaining license due to different reasons. The same reason was given by ICR-13, but advised further checkup with Ministry of Trade and Industry (MoTI).

But data from MTR-14 indicates that MIDROC owned Hotel investments, three restaurants, two tour operators and one company in renting of fixed property and machineries are the ones registered with TIN number and known by the Ministry.

Based on the above data and own assessment, few - five hotels, three restaurants, one tour operator and one lodge are currently existing.

4.1.6.5 Response on Key Challenges

FAR-01 mentioned delays in connections of utility services, regular interruption and fluctuation of power as major challenges but indicated that there is positive attitude despite all the challenges.

FAR-02 pointed that he don't have information regarding challenges identified, but thinks that COVID 19 is a major challenge facing all investors in the sector at the moment. He added that the attitude of the investors is positive and promising because investors understand the opportunity in the sector even though there are challenges.

FAR-03 listed lack of information on how to do business, speedy access to land and finance, frequent change in government policies, and in adequate attention given to the sector, bad bureaucracy, and lack of good governance at federal and regional level as the major challenges.

From another key stakeholder CTR-06 mentioned lack of necessary infrastructure in various regions and destinations and insecurity while CTR-08 stated weak attention given to the sector for a long time as challenges. Other two informants CTR-07 and CTR-10 responded that they have no idea on this point while the CTR-09 answered no challenge identified specific to the ME.

TER-11 mentioned limited promotional efforts, the image of Ethiopia, security issues for the last five years, geopolitics, and difficulty to get hard currency and profit repatriation, and absence of sovereign guarantee for investors.

With regard to the challenges, out three investors in the restaurant business one company rated profit repatriation worst, one rated access to loan & profit repatriation worse, while one another rated government service efficiency, corruption, local material input supply and trained manpower as bad. On the other hand, all the three rated access to foreign

currency as bad and two out of three said access to loan had been bad. Hence, profit repatriation, access to loan and access to foreign exchange were rated from worst to bad respectively. The detail of the rating is shown below.

Table 7. Investors’ Rating of the Challenges

| Challenges | Worst | worse | bad | Undecided | Expected/normal/affordable |
|-------------------------------|-------|-------|-----|-----------|----------------------------|
| Government Service Efficiency | | | 1 | | 2 |
| Corruption | | | 1 | 2 | |
| Energy availability | | | | | 3 |
| Water supply | | | | | 3 |
| Internet network | | | | | 3 |
| Telephone connection | | | | | 3 |
| Security | | | | 1 | 2 |
| Profit repatriation | 1 | 1 | | 1 | |
| Forex access | | | 3 | | |
| Loan | | 1 | 2 | | |
| Local Material input Supply | | | 1 | 1 | 1 |
| Trained manpower | | | 1 | 2 | |

Source; Own Survey, 2021

Summarizing informant’s responses regarding challenges, one can see from the response that there is a difference on what most concern the investors and those considered as challenges by most informants from government institutions. In this regard, of 7 informers responded to this specific question, only 3 (CTR-03, CTR-08 & TER-11) or

42.8% specifically or indirectly touched upon and shared the most concerns of the investors.

4.1.6.6 Proposed Measures to be taken by Gov't to address the Challenges

FAR-02 stressed the importance of well-planned and organized destination marketing, engaging tour operators from the region to include Ethiopia in their package, organizing familiarization trips for the tour operators, media organizations, Journalists, writers, film makers etc. He highlighted his ministry's take by mentioning facilitation of promotional activities, forums, initiating agreements to cooperate in the field, and engaging investors to invest in the sector.

FAR-03 mentioned that, in his opinion, as far as his ministry is concerned, there is a need for proper data compilation and creation of data base for ME investors to enhance their participation in the sector's investment activities. In this regard he raised the importance of learning best practices from other countries. He added that his ministry needs to develop/design policy implementation strategies and directives to implement the policy effectively and attract more investment in the sector. FAR-04 & FAR-05 highlighted the importance of commitment of stakeholders, marketing and branding and indicated limitation in this regards when it comes to ME region. They mentioned that the marketing and branding must take in to account the dominant Islam religion and in that respect branding should take consider Islamic heritages like Al Najashi Mosque, Harar City and other Islamic Heritage places.

CTR-08 and CTR-10 mentioned implementing the investment laws, opening market (free market), building infrastructure, promoting Public Private Partnership as major measures to overcome investment capital challenges, while CTR-06 mentioned deployment of special police for investment projects to address security issue by mentioning the case in Amhara region as a good example. CTR-07 stated that he don't have any idea while CTR-09 said the issue is not well considered and planed.

TER-11 highlighted the need for aggressive marketing and promotion activities, improving the image and security issues, introducing sovereign guarantee for investors interested in the sector, improving hard currency transfer and circulation and enhancing investment facilitation & ease of doing business. With regard to the marketing practice to date, he admitted that there have been very limited marketing efforts to attract ME investors and tourists as the main focus was on the traditional market. Asked about his organization's next 10 years plan to attract more investment from the ME region, he mentioned attracting tourism investment and tourists as primary role his office and highlighted development of national tourism investment hand book, different promotional materials in Arabic language, development of an attractive tourism investment incentives, organization of different tourism promotion side events along other events, participating on major Tourism Fairs and promotion of the new grand tourism projects like the new ones in Addis, Wanchi, Gorgora and Koysa as among planned activities.

TER-12 explained that his department which is in charge of tourism investment promotion is newly established and mentioned that currently the department is working on the development of national tourism investment profile, tourism investment promotion strategy and reviewing current practices, legal procedures and so on. He said ME market segment will be one of the target market.

4.1.6.7 Suggestions on Specific Approach in Relation to Horn-ME Geopolitics

FAR-01 raised the issue of having and maintaining *helpful and friendly attitude towards the ME region and ME investments by government officials*. He further raised the helpfulness of the *new investment proclamation, commercial code, and measures underway to open capital market*.

FAR-02 highlighted an effort underway by Tourism Ethiopia and other institutions to enhance East African tourism integration which would enable east African countries to receive more investment and tourist by promoting the region in an organized manner. He

further said that, once this regional initiative is in place, then *Ethiopian tourist destinations can be promoted by East African countries and this would create great opportunity for Ethiopia and other countries in the regions*. He also mentioned the importance of *all stakeholders (Public, private sectors, and civil societies) collaboration and close working relationships in planning, developing and promoting the destinations and building Ethiopian image and enhancing competitiveness*. In addition he mentioned the need for *establishing effective platform to engage all stakeholders and making products accessible through website*. FAR-04 informant mentioned the importance of *public intervention in infrastructure investment to improve (transportation, telecommunication, banking system) and easing custom procedures*.

In this regard, CTR-08 and CTR-10 highlighted the importance of *peaceful interest conflict resolution to create fertile ground for economic interdependence, ease doing business* and minimize negative impact if interest conflict happens while CTR-07 mentioned the importance of *collaboration between ETO, MoCT and others* to overcome negative impacts coming from geopolitics and maximizing benefit from the relation.

Another question asked was whether the MoCT have documentation of best practice and lesson learnt on tourism investment so far. To this question CTR-08 mentioned that there is lesson on “new tourism product creation investment” and “Job Creation for local community” whiles CTR-06 answered “NO”. CTR-07 and CTR-10 answered they have no idea.

CHAPTER FIVE

5.1 Overall Discussion and Summary

5.1.1. Discussion

Under this chapter, discussion of result of the assessment based on analysis of primary data and information from the responses of key government institution informers and investors will be presented in brief.

Regarding flow of investors & their engagement, in general 45 investment projects originated from the ME region were licensed in the Hotels, Restaurants, Lodges and Tour Operation services between 1992 and 2020.

Of these, 23 investment projects were reported to be operational, 10 to be at implementation stage and 12 to be in pre-implementation stages. Among these, again, 10 were licensed for three to five stars rated hotels, 2 for lodge construction, 18 for investment in a specialized restaurants and the rest 15 for investment in Tour operation.

Looking at the geographical distribution, among 30 projects licensed in Hotel, Restaurants and Lodges category, 23 have got their license to operate in Addis Ababa.

Regarding their current engagement status, among those licensed in the Hotel sector, only four hotels namely, Hyatt Regency Hotel, MIDROC (owning Sheraton Addis, New Hotel in AU Compound, and Blues Nile Resort Hotel plc) and John Abraham's Hotel were confirmed to exist through cross check and analysis of different data. Hence only 50% of all licensed Hotels currently exist with one sold among the five. Additionally, one lodge is at implementation stage. Surprisingly, among hotels, it is only MIDROC that is available in the list of data from MoTI (See Annex: x). The rest are not available in MoTI's data and no entity could indicate them or provide updated status except saying that they might have terminated the process after they have got investment permission.

Coming to specialized restaurant investment projects, only three namely, Allebaney Restaburant, Istanbul Special Restaurant and Abdulkadir Abdulaziz Mokresh Syrian Restaurant, were able to be reached out. The rest couldn't be reached out/are unavailable as confirmed by repeated telephone and counter cross checks with responses from key informant, data from MoCT and data from Ministry of Trade and Industry (MoTI).

In general, a data from MoTI shows that only 6 (2 companies in hotel, 2 in specialized restaurant and 2 in tour operation) were registered by the Ministry with TIN No. and no more information is available about the others.

Therefore, based on triangulation of the data and information gathered from different sources, of 10 hotels, 18 restaurants and 2 Lodes licensed during the period this study covers, only 5 (50%) of hotels, 3(16.66%) of restaurants and 1(50%) of lodge are currently confirmed to exist while the rest have terminated their plan/projects.

As can be seen above there are a clashing figure among information from different source which indicates lack of coordination among concerned stakeholders and lack of follow up.

With regard to projects in tour operation, there were 15 licensed investments projects between 2008 and 2015. Of these, 14 were licensed to operate from Addis Ababa while 1 was licensed to operate at multiregional level. Among those in Addis, the data from EIC indicated that 4 were operational, 5 were at implementation and the 5 were at pre-implementation stages.

However, interestingly the names of only two (Ava Tour Operator and Gulf Real Estate PLC) among the 15 were available in the data base of MoCT. Again, through further effort the researcher got a response that Gulf Real Estate PLC is fully owned by an Ethiopian despite registered as foreign tour operator by EIC & MoCT.

On another account, according to data from MoTI only two tours operators (Ava Tour, BMM Beneral Business plc) are registered with TIN number. The researcher was able to

confirm that Ava tour operator exists but stopped the duty due to Covid-19 according to telephone response. The current status BMM is unknown as its business license since 2020 hasn't renewed and its telephone is not working. Olea International Business plc previously licensed as tour operator by EIC is currently registered by MoTI as a company engaged in renting of fixed properties and machineries since 2014. Ava Tours operation had renewed its trade license until July 2021.

Hence, in general, of 15 licensed tour operators (2008-2015) only 1 (0.06%) is currently available based on cross check of data and own assessment. Again, it is important to note that there is conflicting data among information from different source indicating lack of follow up, coordination and information exchange.

As far as the driving factors are concerned, according to key informants from key gov't institution, long standing historical and religious ties, geographical proximity to the ME, Ethiopian market size, presence diverse of tourism products which can be further developed, availability surplus capital in some ME countries, and provision of incentive packages are the major ones.

From investors' point of view, knowledge of tastes and requirement of the customers highly encouraged two of those in restaurant business, while size of their firm, international experience, trade mark and brand image, size and structure of home industry transaction and, economies of scope and joint supply are encouraging ownership advantages that motivated them.

Additionally, location advantages/incentive packages such as access to land, custom duty exemption and easy facilitation of investment visa were the factors that highly encouraged the investors in restaurant business while destination market size and availability of basic infrastructure are also encouraging to them. Market internalization is also among the encouraging factors for them.

Looking at the factors that considered as major motivating by key informers in government entities and those considered most important by investors, one can

understand that there is convergence of response specifically regarding incentive package. This means in addition to factors mentioned above under ownership advantage and market internalization that investors think most important, some of incentive packages highlighted above are also crucial to them. Investors are neutral on whether presence of diverse tourism product motivated them or not. From this it can be said investors coming to Ethiopian are market seeking and efficiency seeking.

On the other hand, when we see that only 22% of all licensed investments currently exist, one tends to conclude that most of investors were desperate with what they originally expected and encountered in practice on the ground and hence determined to terminate their projects. This would send negative signal to others planning to invest on the one hand, and on the other hand informs concerned stakeholder to see in to the matter and take corrective measures.

With regard to the potential of ME market segment as a source of investment and Tourist, key government informants in general had a view that the region can be a source, given historical and religious relations, and the wealth in the ME region- even though the region was not among priority market segments so far. From investor's point of view, ME and Ethiopia have an opportunity to be exploited because of the same reason highlighted above. So, in this regard there is 100% agreement on the potential among all respondents to this specific question.

Regarding the attitudes/views of investors from the ME, based on some key informants from relevant government institution and some investors, even though there are some challenges, there is positive attitude which can be mostly attributed to investors understanding of the future potential and experienced return on their investment. But this has to be further substantiated by further study. In fact this can be considered as a limitation of this study because of lack of information on most of the licensed projects as most are not available and due to unwillingness of some to provide information.

Regarding challenges and its implications, based on response from relevant entities key informants and some investors, the following are identified as key challenges and their implication on the future of the investment in the sector from the region.

From key government entity's informant perspective, delay in utility connection, regular power blackout and fluctuation, lack speedy access to land and finance, frequent change in government regulations, bad bureaucracy/lack of good governance, lack of necessary infrastructures at destinations, insecurity, limited promotional efforts, image of Ethiopia in the ME, impact of Nile geopolitics, difficulty to get hard currency and profit repatriation and absence of sovereign guarantee for investors interested in the sector among the challenges.

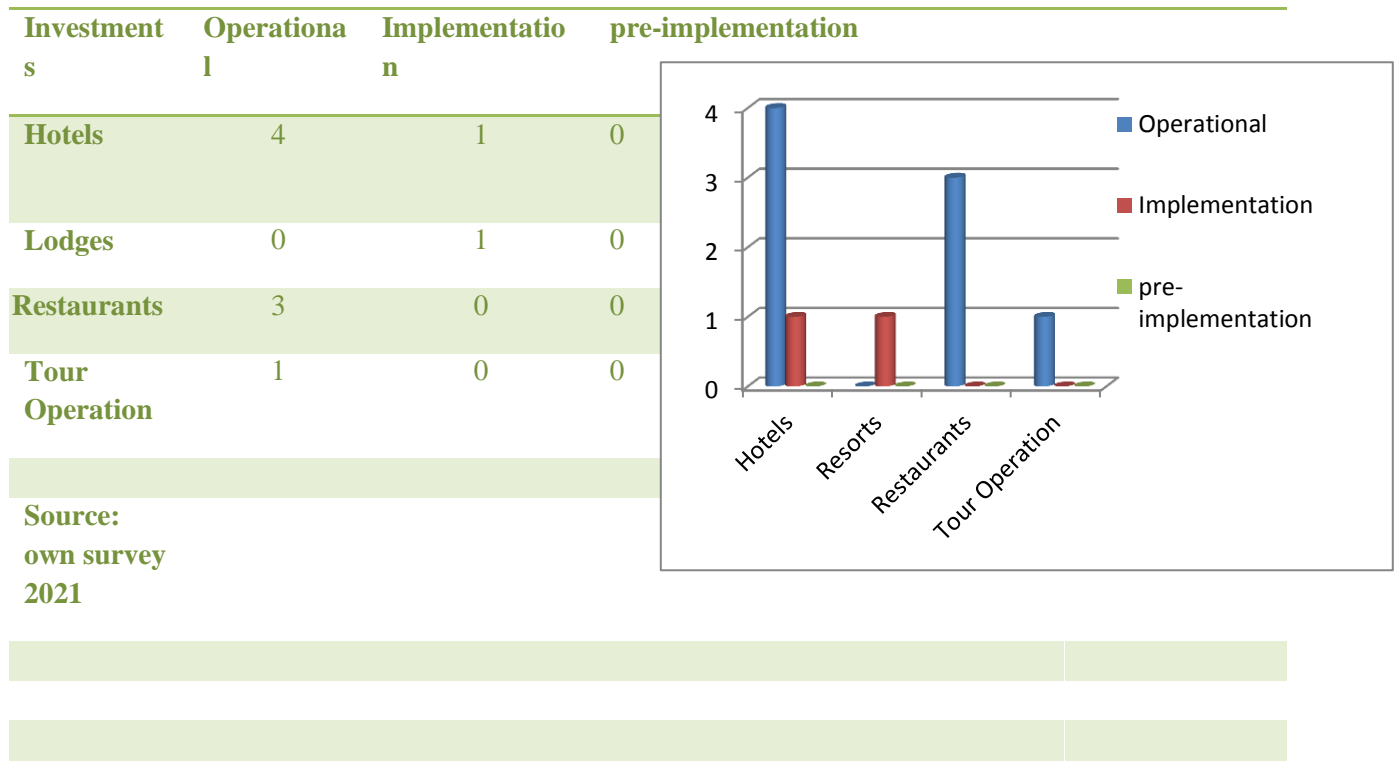
From investor's point of view, three investors in restaurant service rated profit repatriation, access to loan and foreign exchange from worst to bad respectively while majority of others challenges were considered as normal/affordable.

On the other hand, lack of attention, follow up gap, lack of opinion from the key informant and inconsistency/information gap were vividly observed among informers while responding to various questions.

For instance some investments like Abdulkadir Abdulaziz Mokresh Syrian Restaurant are operating but it is not in the data of MoTI. Likewise some has changed their business engagement area but no updated information among concerned stakeholders.

This market segment didn't get enough attention even though there is a potential. In some respect the researcher understood that there is even different response on the same question or no idea at all from some key informants of same institution which shows that there is either no plan or lack of orientation on what was/is planned.

Figure 12. Summary of Confirmed Investments Based on Own Survey and Analysis



Note:- the above graphical illustration of the current status of the investment is based on the assumption that all licensed investments whose current existence were unable to be confirmed were taken as non-existent because no entity were able to confirm their existence.

5.1.2 Summary

5.1.2.1 Introduction

This chapter provides the summary of the study, in line with the specific objectives indicated in chapter one of this thesis based on analysis of the information gathered from various sources.

5.1.2.1.1 Summary against Specific Objectives

SO-1: Areas of Investment Engagement by Investors from ME

In general 45 investment projects were licensed between the year 1992 and 2020 to operate in Hotels, Lodges, restaurants and tour operation.

But with regard to their current status, the researcher was able confirm existence of five Hotels in general (with one of them sold), three restaurants and one lodge. In this regard, the researcher noticed that there is serious information gap and inconsistency among the key stakeholders supposed to be on the top of the matter.

On the other hand, regarding those projects which the researcher couldn't accessed/reached out, none of the key informants approached could indicate the exact current work location or a tangible reason as to why they terminate the process if so, except hinting that they might have terminated the process after they have gotten license.

This led the researcher to the conclusion that there has been less/no follow up and support in most cases. In addition based on data and telephone address obtained from EIC & futile exercise that ended up with some success due to different reasons mentioned in the body of this study, the researcher is forced to conclude that the number of investment from the ME that currently exist in the sector are not that significant in terms of number.

In the researcher's opinion, most investors which took license but currently not available might have prompted to come to Ethiopia with intention to use/ abuse the incentives available in the sector from the very beginning and this might be one of the reasons for their termination. If this is the case, care must be taken during requirement of investors.

On the other hand, from follow up gap and lack of opinion from the informants and vividly seen inconsistency/information gap among the different informants while responding to various questions, it can be concluded that this market segment has not given enough attention even though there is a potential.

In some respect the researcher understood that there is even different response on the same question or no idea at all by some key respondents from the same institution which shows that there is either no plan or lack of orientation on what is planned.

SO-2: Factors Motivating Investment from Middle East

In general, Ethiopian market size, geographical proximity, the incentives packages, religious ties and people to people relation, Islamic religious heritages like Al Najashi Mosque and Harar City, Ethiopia's UNESCO registered heritages, diverse cultural and natural attractions and so on are major drivers from the point of view of all the key government informants.

From the point view of some investors;

- i. **Ownership advantages** such as knowledge of the tastes and requirement of the customers highly encouraged 66% of those in restaurant business, while size of their firm, international experience, trade mark and brand image, size and structure of home industry transaction and, economies of scope and joint supply are encouraging for more than 66% of them.
- ii. **Location advantages-** access to land, custom duty exemption and easy facilitation of investment visa were the factors that highly encouraged (2/3) 66% the investors in restaurant business while destination market size and availability of basic infrastructure are also encouraging for more than (2/3) 66% them.
- iii. **Market internalization** is also highly encouraging for (2/3) 66% of them and encouraging for rest of them.

But this shouldn't lead to a conclusion that all investors who entered the sector has been satisfied with the above drivers as majority (78%) of projects licensed in the period that this assessment covers (1992-2020) were most likely terminated the investment process and hence couldn't be reached out while few in the hotel industry were unwilling to provide feedback.

In this regard, further investigation is required in to this matter as it would have negative implication on the future of investment from the region in this sector.

In addition based on literature review, geopolitics vs. economic interest of the states which is inseparable when it comes to the ME in general is also a determinant factor in expecting investment from the region or not. In this regard investment in tourism sector cannot be immune from this fact & tradeoff between politics and economy. Hence, political will of the states in the region is very important.

SO-3: Attitude/views of Middle East Investors on the Ethiopian Investment Facilitation Practices and ME Potential as Investment Source

Regarding the attitudes/views, one has to have a serious look at the matter. Based on the views of some key informants from relevant government institution and some investors, even though there are some challenges, there is a positive view/attitude which can be mostly attributed to investors understanding of the future potential and the return on their investment that they have been experienced in the last decades before Covid-19 pandemic.

This shouldn't lead us to a final conclusion that the attitude is positive, as the majority of the licensed projects are non-existent on the ground and few couldn't be reached out so that their views are included.

In this context, it can be actually concluded that the attitude of majority would be negative, since most of the licensed investments have terminated their investment projects due to different reason and this in fact would have negative implication on the future of the sector specifically with regard to future expectation from the region.

SO-4: Challenges Encountered by the Investors

Key informants from key government stakeholders, in general, mentioned delay in utility connection, regular power blackout and fluctuation, lack speedy access to land and finance, frequent change in government regulations, bad bureaucracy/lack of good governance, lack of necessary infrastructures at destinations, insecurity, limited promotional efforts, image of Ethiopia in the ME, impact of Nile geopolitics, difficulty to

get hard currency and profit repatriation and absence of sovereign guarantee for investors interested in the sector as the main challenges.

From investor's point of view, three investors in restaurant service rated profit repatriation, access to loan and foreign exchange from worst to bad respectively while majority of other challenges were considered as normal/affordable.

In general looking at the responses regarding challenges, there is a difference on what most concern the investors and those considered as challenges by most informants from government institutions. In this regard, of 7 informants from government institution responded to this specific question, only 3 (CTR-03, CTR-08 & TER-11) or 42.8% specifically or indirectly touched upon and shared the most concerns of the investors.

In this line looking at the number of investment projects succeeded, or the success rate which is ($10/45 = 22\%$) in comparison to the number of licensed investments, one can safely conclude that the current incentives/motivating factors were able to retain only 22% of licensed investment projects which is below average. Hence, the implication would be negative.

On the other hand as highlighted in the literature review part, the other major challenge when it comes to investment from the ME region in general is the strong tradeoff between politics and economic interest. On top of this, misunderstanding emanating from limited knowledge of one another, and in some cases driven by religion based suspicion is also among the challenges that would affect the motivation of private sector from the region.

CHAPTER SIX

6.1 Conclusion and Recommendations

6.1.1 Conclusion

The major investment engagement areas of investors from the Middle East region in Ethiopian tourism sector are the Hotels, Lodges, restaurants and tour operation services. So far 45 projects are licensed between the year 1992 and 2020. But only few of them exist currently in the hotel, lodge, restaurants and tour operation.

In this connection the researcher has managed to confirm the existence of five hotels, three restaurants, one tour operator and one lodge at various stages of investment. Moreover the researcher established the fact that there is serious information gap and inconsistencies among the key stakeholders supposed to be on the top of the matter with regard to the engagement level as well as the current status/whereabouts of the majority of licensed investment projects.

Regarding factors driving investment from ME in to the sector, from government institution's individual informant perspective, location advantage variables like market size, geographical proximity, incentives packages, religious ties, Islamic religious heritages, UNESCO registered world heritages; diverse cultural and natural attractions are among the major ones.

From some investor's point view;

Among ownership advantages, knowledge of the tastes and requirement of the customers was a factor that highly encouraged them, while size of their firm, international experience, trade mark and brand image, size and structure of home industry transaction and, economies of scope and joint supply were drivers that encouraged them.

When it comes to location advantages, access to land, custom duty exemption and easy facilitation of investment visa were the factors that highly encouraged them while

destination market size and availability of basic infrastructure were also encouraging to them.

Market Internalization is also highly encouraging for (2/3) 66% of them and encouraging for rest of them.

But this shouldn't lead to a conclusion that all investors who entered the sector has been satisfied with the above drivers as majority (78%) of projects licensed in the period that this assessment covers (1992-2020) were most likely terminated the investment process and hence couldn't be reached out while few in the hotel industry were reluctant provide feedback.

In this respect it is important to note that only 22% of those licensed investments were confirmed to exist through triangulation of data from different sources and hence it can be said that the current incentives factors could help to retain investments below average.

When it comes to the attitude/views of ME investors towards Ethiopian investment practices and whether they view ME as a potential investment source, from opinion of informants in key government entities and some investors with all limitation and challenges appreciated, the attitude is generally positive.

But as the above fact 22% retention explains itself, it cannot be concluded that all investors who entered the sector has been satisfied with the practice. Rather the unsuccessfulness/termination of 78% of the investment projects reflect that there has been serious issues to be looked into and hence the attitudes of majority those entered were most likely negative.

With regard to identification of the key challenges, in general, there were convergences of between feedbacks of informants from key government institutions and investors which mostly has to do with, regular power blackout and fluctuation, lack access to finance, difficulty to access hard currency and profit repatriation, frequent change in government regulations. But there is a difference on what most concern the investors and

those considered as challenges by most informants from government institutions. In this regard, of 7 informers responded to this specific question, only 3 (CTR-03, CTR-08 & TER-11) or 42.8% specifically or indirectly touched upon and shared the most concerns of the investors.

Specifically, difficulty in profit repatriation, access to loan and foreign currency are serious problems according to investor's opinion.

Generally, connecting the dots above, such as:-

- ✓ The fact that current level of investment engagement on ground is only 22% and 78% termination;
- ✓ Limitation in the attention given to the ME region, weak coordination among stakeholders & very loose follow up of the licensed investment;
- ✓ Limitation in the number of investors participated in this research which in turn contributed to limitation of making 100% conclusive decision about majority of unavailable investments;
- ✓ The fact that the attitude of the investors couldn't be concluded as positive based on response of informants in key government institutions and some investors;
- ✓ Existence of many challenges on the ground and so on....,

The researcher tended to conclude that the prospect to attract more investment to the sector from the region in the future is difficult if not impossible and hence it needs commitment, rethinking, refocusing, coordination and hard work.

6.1.4 Recommendations

- There must be coordination, similar understanding and perception regarding the ME and ME market segment among all key stakeholders and all workers in the respective institutions. Attention has to be given to this region and selective provision of visa on arrival to some countries having better investment potential and prospect has to be considered with necessary caution.
- There has to be strengthened and scheduled coordination platform comprising public, private and civil society for planning, implementation, regular review & monitoring, evaluation of progresses and information sharing.
- There has to be further and thorough study on why the majorities of licensed investment projects were not available or why they have terminated the process. This will serve as the base for making region specific SWOT analysis for a future planning.
- There has to be close follow up and support of EIC and MoCT for those investments at the pre-implementation, implementation, operation stages and monitoring and filing of status on regular bases.
- There has to be well planned, coordinated and focused promotion to the ME market taking in to account specificities like language, religion, geopolitics and various demands.
- There has to be regular revision incentive packages, improved access to Forex, loan, ease of profit repatriation and improvement of infrastructures and facilities at selected destination taking in to account specificities of the market segment.
- While striving to maintain the good perception and views, ministries like MoCT has to be at the forefront to strengthen people to people relations in collaboration with other relevant government institutions and civil society organizations like religious institutions and others to change the perception of one another to pave the way for more investment and tourist arrivals from the region.

- The success story of those investment projects proven to be productive has to be well documented and used for promotion. Similarly, the reason for failure of other projects which were not successful must be identified and lesson has to be taken so that corrective measures can be made and negative implication reversed.

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Annexes

Annex: I Data of trend of Licensed Middle East Countries Investment Projects In Hotel, Restaurants, Lodges

September 09, 1992 - August 10, 2020

| Year | Total | Pre-Implementation | | Implementation | | Operation | | |
|--------------------|-----------|--------------------|-------------|----------------|-------------|-----------------------|--------------|------------|
| | | No of Projs | No of Projs | No of Projs | No of Projs | Capital in '000' Birr | Perm Empl. | Temp Empl. |
| 1992 | 1 | | | | 1 | 144,900 | 480 | 0 |
| 2004 | 1 | | | | 1 | 864 | 4 | 6 |
| 2005 | 1 | | | | 1 | 5,100 | 64 | 72 |
| 2006 | 2 | | | 2 | | | | |
| 2007 | 4 | | | | 4 | 7,746 | 102 | 515 |
| 2008 | 3 | | 2 | | 1 | 161,877 | 100 | 5 |
| 2009 | 2 | | | 1 | 1 | 1,200 | 15 | 5 |
| 2010 | 3 | | 1 | 1 | 1 | 600 | 150 | 0 |
| 2011 | 3 | | | | 3 | 25,732 | 150 | 20 |
| 2012 | 1 | | | | 1 | 1,123 | 13 | 0 |
| 2013 | 2 | | 1 | | 1 | 4,129 | 40 | 0 |
| 2014 | 1 | | 1 | | | | | |
| 2015 | 1 | | 1 | | | | | |
| 2016 | 1 | | 1 | | | | | |
| 2018 | 1 | | | | 1 | 1,250 | 60 | 20 |
| 2019 | 1 | | 1 | | | | | |
| 2020 | 1 | | | | 1 | 17,696 | 12 | |
| Grand Total | 29 | | 8 | 4 | 17 | 372,217 | 1,190 | 643 |

Source: EIC (2021)

Annex: II Trend of Licensed Middle East Countries Investment Projects in Tour Operation

May 06, 2008 - May 29, 2015

| Year | Total | Pre- Implementation | Implementation | | Operation | | | |
|-------------|-------|------------------------|----------------|----------------|--------------------------------|---------------|---------------|----|
| | | | No of Projs | No of Projs | Capital in '000' Birr | Perm Empl. | Temp Empl. | |
| 2008 | 2 | | | | 2 | 5,000 | 25 | 25 |
| 2009 | 3 | | | 3 | | | | |
| 2010 | 4 | | | 2 | 2 | 2,404 | 10 | 7 |
| 2013 | 3 | 3 | | | | | | |
| 2014 | 2 | 2 | | | | | | |
| 2015 | 1 | | | 1 | | | | |
| Grand Total | 15 | 5 | 6 | 4 | | 7,404 | 35 | 32 |

Source: EIC (2021)

Annex: III Licensed investment projects in Hotel, Restaurant and Lodge, investment area and Status

September 09, 1992 - August 10, 2020

| No. | Date of permit | Name of investor | Country of origin | Investment activity | Region of Investment | Investment status |
|-----|----------------|--|-------------------------|--------------------------------------|--------------------------|-------------------|
| 1 | 9/9/1992 | MIDROC Ethiopia P.L.C. | Saud Arabia | Five Star Hotel | Addis Ababa | Operation |
| 2 | 8/5/2004 | Enash Private Limited Company | Lebnon | Specialized Restaurant/Arabic Dishes | Addis Ababa | Operation |
| 3 | 9/16/2005 | Mendi Corner Business PLC | Lebnon/Ethiopia | Arabian Restaurant | Addis Ababa | Operation |
| 4 | 7/31/2006 | Blue Nile Resort Hotel PLC | Saud Arabia | Five Star Hotel | Amhara | Implementat ion |
| 5 | 11/13/2006 | Sal Joel Saudi American Investment PLC | Saud Arabia/USA | Lodge | Oromia/ near Beseka Lake | Implementat ion |
| 6 | 4/27/2007 | Mezgau Belay | Isreal | Three Star Hotel | Addis Ababa | Operation |
| 7 | 10/24/2007 | Pamukkale Turkish Restaurant | Germany/Turkey/Ethiopia | Turkish Restaurant | Addis Ababa | Operation |

| | | | | | | | |
|----|------------|---|------------------------------|--|-------------|----------------|----------------------------|
| | | PLC | | | | | |
| 8 | 11/16/2007 | Lebanese Al Sultan Restaurant PLC | Jordan/Lebanon | Lebanese Restaurant | Specialized | Addis Ababa | Operation |
| 9 | 11/19/2007 | Ruhi Unbas | Turkey | Turkish Restaurant | Specialized | Addis Ababa | Operation |
| 10 | 2/26/2008 | Tareq Sabt Hotel PLC | Bahrain | Four Star Hotel | | Addis Ababa | Operation |
| 11 | 11/10/2008 | Five Season Hotel PLC | Saudi Arabia/Ethio pia | Four Star Hotel | | B. Gumz | Pre- implementat ion |
| 12 | 11/21/2008 | AK SAEED for trade and industry co.ltd (Ethiopian branch) | Saudi Arabia | Five Star Hotel | | Addis Ababa | Pre- implementat ion |
| 13 | 6/15/2009 | Al-Arz Lebanese Specialized Restaurant PLC | Lebanon | International Standard Lebanese Restaurant | Specialized | Addis Ababa | Operation |
| 14 | 4/19/2010 | John Abraham | Israel | Five Star Hotel | | Addis Ababa | Operation |
| 15 | 4/30/2010 | MIDROC Ethiopia Plc | Saud Arabia/ Ethiopia | Five Star Hotel | | Addis Ababa | Implementat ion |

| | | | | | | | |
|----|------------|---|----------------------|---|---------------------------------------|----------------|----------------------------|
| 16 | 9/30/2010 | Alothaimee n Abdulrahi m Mohamed | Saud Arabia | Star international arabian resturant | designated standard | Addis Ababa | Pre- implementat ion |
| 17 | 6/28/2011 | Pier Lotti Trading and Industry Plc (Melik Gazi Bulut GM) | Turkey | International Designated Specialized Restaurant | Standard Turkish | Addis Ababa | Operation |
| 18 | 7/21/2011 | Allebnany Resturant PLC /Mr. Ephram Kazharia Beaino gm/ | Lebanon/Ethi opia | International Star Specializer Restaurant | Standard Designated Arabian | Addis Ababa | Operation |
| 19 | 11/30/2011 | Ahmad Ali Bakri | Syria | Star International Specialized Restaurant | Designated Standard Arabic | Addis Ababa | Operation |
| 20 | | Istanbul Specialized Restaurant plc | Turkey/Ethio pia | Star International Turkish Restaurant | Designated Standard Specialized | Addis Ababa | Operation |
| 21 | 3/7/2013 | Pier Lotti Trading and Industry | Turkey/Ethio pia | Star International Turkish Restaurant/Expantion/ | Designated Standard Specialized | Addis Ababa | Pre- implementat ion |

| | | | | | | | |
|----|-----------|--|----------------------|---|------------|--------------------|----------------------------|
| | | | | | | | plc |
| 22 | 8/6/2013 | Hussein Ali Bakri | Syria | Star International Standard Arabic Specialized Restaurant | Designated | Addis Ababa | Operation |
| 23 | 5/15/2014 | Daneal Tesema | Isreal | Three Star Speacial Restaurant | Isreal | Addis Ababa | Pre- implementat ion |
| 24 | 10/5/2015 | Ramez Mohamed Noaman Alawadhi | Bahrain | Four Star Hotel | | Harar | Pre- implementat ion |
| 25 | 3/29/2016 | Tony Sukkar | Lebanon | International Standard star designated lebanese restaurant | | Addis Ababa | Pre- implementat ion |
| 26 | 7/27/2018 | Al Rawsheh Restaurant Plc | Lebanon/Ethi opia | International restaurant | | Addis Ababa | Operation |
| 27 | 8/22/2019 | Epharm Kazhaia Beaino | Lebanon | One star designated restaurant | | Addis Ababa | Pre- implementat ion |
| 28 | 8/10/2020 | Abdulkadir Abdulaziz Mokresh | Syria | Three Star Designated Restaurant | | Oromia | Operation |
| 29 | 8/24/2009 | Alruwaili, khalid Owaid S | Saud Arabia | Lodge | | Multi- regional | implementat ion |
| 30 | 2005 | Hyatt Regency | UAE | Five Star Hotel | | A.A. | Operational |

Source: EIC, 2021 & Addis Fortune 31 December 2018

Annex: IV Licensed ME Investment Projects in Tour Operation by country of origin, region of investment and status

| May 06, 2008 - May 29, 2015 | | | | | | |
|-----------------------------|----------------|----------------------------------|-------------------------|--------------------------------|----------------------|--------------------|
| No | Date of Permit | Name of Investor | Country of Origin | Investment Activity | Region of Investment | Investment Status |
| 1 | 12-May-08 | Ava Tour Operation PLC | Syria | Tour Operation | Addis Ababa | Operation |
| 2 | 09-Oct-08 | Khalfan Khalifa Masoud | Oman | Tour operation | Addis Ababa | Operation |
| 3 | 16-Jul-09 | BMM General Business PLC | Greece/Lebanon/Ethiopia | Tour Operation | Addis Ababa | Implementation |
| 4 | 24-Aug-09 | Alruwaili, khalid Owaïd S | Saudi Arabia | Tour Operation & Lodge Service | Multiregional | Implementation |
| 5 | 22-Oct-09 | Olea International Business PLC | Israel/Ethiopia | Tour Operation | Addis Ababa | Implementation |
| 6 | 12-Feb-10 | Roza Saeed Yousef | Saudi Arabia | Tour Operation | Addis Ababa | Operation |
| 7 | 03-Mar-10 | Alemzewed & Children Trading Plc | Bahrain/Ethiopia | Tour Operation | Addis Ababa | Operation |
| 8 | 04-May-10 | Gulf Real Estate Plc | Qatar/Sudan/Ethiopia | Tour Operation | Addis Ababa | Implementation |
| 9 | 15-Nov-10 | Edelam Tour PLC | Saudi Arabia/Ethiopia | Tour Operation | Addis Ababa | Implementation |
| 10 | 22-Jan-13 | Faris Mohammad Ahmad Alhyari | Jordan | Tour Operation /Grade One/ | Addis Ababa | Pre-Implementation |
| 11 | 25-Feb-13 | Mohd Mesfer M H Al-Hajri | Qatar | Tour Operation Grade one | Addis Ababa | Pre-Implementation |
| 12 | 10-May-13 | Hasan Huseyin Vicdan | Turkey | Tour Operation /Grade One/ | Addis Ababa | Pre-Implementation |
| 13 | 02-Jan-14 | Natiq Khorsheed Rashid | Iraq | Tour Opration(Grade One) | Addis Ababa | Pre-Implementation |
| 14 | 03-Sep-14 | Zaki Tour PLC | Saudi Arabia/Ethiopia | Tour operation (Grade one) | Addis Ababa | Pre-Implementation |
| 15 | 29-May-15 | Ramez Mohamed Noaman Alawadhi | Bahrain | Tour Operation (Grade one) | Addis Ababa | Implementation |

Source: EIC, 2021

Annex: V Licensed Investment Projects in Hotel, Restaurants, Lodges and Resorts by region of investment, capital and job creation

September 09, 1992 - August 10, 2020

| No. | Regions | total | Pre-imp | Impl. | Operation | | | remark | |
|--------------------|-------------|---------------|---------------|---------------|---------------|----------------------------------|--------------|------------|---|
| | | | | | No. of projs. | No. of projs. | Temp. empl. | | |
| | | No. of projs. | No. of projs. | No. of projs. | No. of projs. | Capital investment in “000” birr | Perm. Empl. | | |
| 1 | Addis Ababa | 25 | 6 | 1 | 18 | 354,521 | 1,178 | 643 | 24+ Hyatt Regency Hotel =25 added by own survey |
| 2 | Amhara | 1 | | 1 | | | | | |
| 3 | B. Gumz | 1 | 1 | | | | | | |
| 4 | Harari | 1 | 1 | | | | | | |
| 5 | Oromia | 2 | | 1 | 1 | 17,696 | 12 | | |
| Grand Total | | 29+1 | 8 | 3 | 18 | 372,217 | 1,190 | 643 | |

Source: EIC (2021)

Annex: VI Licensed Investment Projects in Hotel, Restaurants, Lodges and Resorts By Country of Origin

September 09, 1992 - August 10, 2020

| Country of Origin | Total | Pre-Implementation | | Implementation | | Operation | | |
|-------------------------|-----------|--------------------|-------------|----------------|-------------|-----------------------|--------------|------------|
| | | No of Projs | No of Projs | No of Projs | No of Projs | Capital in '000' Birr | Perm Empl. | Temp Empl. |
| Bahrain | 2 | | 1 | | 1 | 161,877 | 100 | 5 |
| Germany/Turkey/Ethiopia | 1 | | | | 1 | 1,000 | 7 | 10 |
| Israel | 3 | | 1 | | 2 | 5,341 | 200 | 500 |
| Jordan/Lebanon | 1 | | | | 1 | 1,005 | 35 | 0 |
| Lebanon | 4 | | 2 | | 2 | 2,064 | 19 | 11 |
| Lebanon/Ethiopia | 3 | | | | 3 | 6,362 | 169 | 42 |
| Saudi Arabia | 5 | | 2 | 2 | 1 | 144,900 | 480 | 0 |
| Saudi Arabia/Ethiopia | 2 | | 1 | 1 | | 4,000 | 60 | 50 |
| Saudi Arabia/USA | 1 | | | | 1 | | | |
| Syria | 2 | | | | 2 | 5,849 | 70 | 10 |
| Syrian | 1 | | | | 1 | 17,696 | 12 | |
| Turkey | 2 | | | | 2 | 21,000 | 25 | 15 |
| Turkey/Ethiopia | 2 | | 1 | | 1 | 1,123 | 13 | 0 |
| UAE | 1 | | | | 1 | | | |
| Grand Total | 30 | | 8 | 4 | 18 | 372,217 | 1,190 | 643 |

Source: EIC, 2021

Annex: VII *Licensed* Investment Projects in Tour Operation by Country of Origin

May 06, 2008 - May 29, 2015

| Country of Origin | Total | Pre- Implementation | Implementation | Operation | | | | |
|-------------------------|-----------|------------------------|----------------|-----------------|----------------|----------------|-------------------|--------------------------------|
| | | | | No of Projs. | No of Projs | No of Projs | No of Projs | Capital in '000' Birr |
| Bahrain | 1 | | 1 | | | | | |
| Bahrain/Ethiopia | 1 | | | | 1 | 1,000 | 4 | 2 |
| Greece/Lebanon/Ethiopia | 1 | | 1 | | | | | |
| Iraq | 1 | | 1 | | | | | |
| Israel/Ethiopia | 1 | | | | 1 | | | |
| Jordan | 1 | | 1 | | | | | |
| Oman | 1 | | | | 1 | 3,000 | 15 | 5 |
| Qatar | 1 | | 1 | | | | | |
| Qatar/Sudan/Ethiopia | 1 | | | | 1 | | | |
| Saudi Arabia | 2 | | | 1 | 1 | 1,404 | 6 | 5 |
| Saudi Arabia/Ethiopia | 2 | | 1 | 1 | | | | |
| Syria | 1 | | | | 1 | 2,000 | 10 | 20 |
| Turkey | 1 | | 1 | | | | | |
| Grand Total | 15 | | 5 | 6 | 4 | 7,404 | 35 | 32 |

Source: EIC, 2021

Annex: VIII Licensed Investment Projects in Tour Operation by region of investment, capital and job opportunity

May 06, 2008 - May 29, 2015

| Region of Investment | Total | Pre-Implementation | Implementation | Operation | | | | |
|----------------------|-------------|--------------------|----------------|-------------|-----------------------|------------|------------|--|
| | No of Projs | No of Projs | No of Projs | No of Projs | Capital in '000' Birr | Perm Empl. | Temp Empl. | |
| Addis Ababa | 14 | 5 | 5 | 4 | 7,404 | 35 | 32 | |
| Multiregional | 1 | | 1 | | | | | |
| Grand Total | 15 | 5 | 6 | 4 | 7,404 | 35 | 32 | |

Source: EIC, 2021

Survey Questionnaires to Companies

General Instruction

Dear informant, the following survey questionnaires are meant in general to investigate/identify the major investment motivating factors and investment engagement of investors from the Middle East (ME) region in Ethiopian Tourism sector and it is for academic purpose. It will also help to inform relevant sector’s decision towards improving service delivery to meet the expectations of investors in the sector. Your contribution is much valuable to that end. Anonymity/privacy of the informant will be respected based if the informant requests to do so. Please attempt the following questions accordingly.

Name of the company-----Location -----

Investment area/sector-----Year of engagement-----

Investment capital in (\$)-----total number of employee-----Male-----Female-----

Q1. Please choose how you were encouraged by the following investment incentives/motivating factors to invest in Ethiopia.

| No. | Incentives/ Factors | Motivating | Highly encouraging | Undecided | Highly discouraging |
|-----|---|------------|-----------------------|-----------|------------------------|
| 1 | Ownership advantage ¹ | | | | |
| 1.1 | Size of the firm, | | | | |
| 1.2 | International experience | | | | |
| 1.3 | trade mark and brand image | | | | |
| 1.4 | extent and scope of training program | | | | |
| 1.5 | access to referral and reservation system | | | | |
| 1.6 | knowledge of tastes and requirements of the customers | | | | |

| | |
|------|---|
| 1.7 | size and structure of home industry transaction |
| 1.8 | economies of scope and joint supply, |
| 1.9 | economies of scale |
| 2 | Location advantage |
| 2.1 | Tourism Product endowment |
| 2.2 | Exchange Rate |
| 2.3 | Destination Market size |
| 2.4 | Land access |
| 2.5 | Easy access to loan |
| 2.6 | Profit Repatriation |
| 2.7 | Income tax exemption |
| 2.8 | Loss carry forward ² |
| 2.9 | Personal income tax ³ |
| 2.10 | Custom duty exemption |
| 2.11 | Government Service efficiency |
| 2.12 | Relative security and peace |
| 2.13 | Availability of basic infrastructure |
| 2.13 | Easy facilitation and access to investment Visa |
| 2.14 | Return on Investment |
| 2.15 | Quality of life in the host country |
| 3 | Market internalization advantage ⁴ |

¹ “Size of the firm, International experience, trade mark and brand image, extent and scope of training program, access to referral and reservation system, knowledge of tastes and requirements of the customers, size and structure of home industry transaction, economies of scope and joint supply, economies of scale.” John H. Dunning and Sumit K. Kundu 1995. “The Internationalization of the Hotel Industry: Some New Findings from a Field Study.” *Management International Review*, Vol. 35 (2): pp. 101-133

²Loss carry forward¹ is a loss incurred during income tax exemption period which can be carried forward for certain time period after expiry.

³Personal income tax is a personal income tax exemption for expatriate employee.

⁴Refers to the “advantages of controlling and coordinating ownership and location-specific advantages with a TNC hierarchy rather than selling the right to use those advantages to domestic firms in the host country.” (Dwyer and Forsyth, 1994)

Q2. Please mark the business activities (among listed below) in which you are engaged in by saying yes or no in the second column.

| List of business activities /services | Yes/No |
|---------------------------------------|--------|
| Room service | |
| Customer Transport | |
| Food and beverage | |
| Entertainment | |
| Swimming, gym and other sports | |
| Souvenir shopping | |
| Tour guide | |
| Tourism information | |
| Ticketing | |

Q3. Please choose how you evaluate the following challenges that your company might have faced in its day to day activities.

| Challenges | Worst | worse | bad | undecided | Expected/normal/affordable |
|-------------------------------|-------|-------|-----|-----------|----------------------------|
| Government Service Efficiency | | | | | |
| Corruption | | | | | |
| Energy availability | | | | | |
| Water supply | | | | | |
| Internet network | | | | | |
| Telephone connection | | | | | |
| Security | | | | | |
| Profit repatriation | | | | | |
| Forex access | | | | | |
| Loan | | | | | |
| Local Material input Supply | | | | | |
| Trained manpower | | | | | |

Q4. Pls. choose among the following options after reading the statements

1.1. The overall Ethiopian investment incentives and facilitation practices in general are promising and its implication for the future is good?

- a) Strongly disagree b) Disagree c) Undecided d) Agree e) Strongly agree

1.2. The Middle East can be the one of the major market segments for Ethiopian Tourism sector and to the will be a potential attract more investment if the current service and marketing practice is maintained.

- a) Strongly disagree b) Disagree c) Undecided d) Agree e) Strongly agree

Interview Questions

Ministry of Culture and Tourism

Dear informant, the following survey questions are meant in general to investigate/identify the major investment motivating factors and investment engagement of business tourists from the Middle East (ME) region in Ethiopian Tourism sector (Hotels, Resorts, Restaurants, Lodges, Tour Operation) and it is for academic purpose. It will also help to inform relevant sector's decision towards improving service delivery to meet the expectations of investors interested in the sector. Your contribution is much valuable to that end. Anonymity/privacy of the informant will be respected based if the informant requests to do so. Please attempt the following questions accordingly.

Name of the respondent----- Age -----sex---- Responsibility-----

1) Ethiopia and the ME region has long standing religious, historical and diplomatic ties.

Moreover ME region is in close geographical proximity and the economic relation between Ethiopia and the region is growing.

Q1.1. what this long standing relations means in terms the region's capability as tourism investment and market source for Ethiopian tourism sector?

Q1.2. How do you evaluate the Tourism investment trend and tourist arrivals from the region in the past years.

Q1.3. what are the Major areas of their engagement in Ethiopian Tourism sectors?

Q1.4. what is the Ministry's plan/strategy/incentive packages to attract more investment in the sector and tourist from the region in its 10 years strategic plan.

Q1.5. Did the Ministry owns the documentation on the best practices on tourism investment so far? If so what are those best lessons?

Q1.6. How far is the contribution of the tourism investment from the region to the employment, GDP, service enhancement, image building etc.?

2) What are the major motivating factors for the investors from the ME to invest in Ethiopian tourism sector?

3) What are the major challenges identified so far that the investors from the region have encountered and how do you describe the attitudes of those who invested (+/-) and its possible implication on the future development of the sector?

4) What are the major steps taken or planned to be taken to address the challenges?

5) Is there any distinct approach specific to this market segment taking in to account the Horn – Middle East geopolitics? Who must do what to overcome negative impacts emanating the geopolitics?

Interview Questions

Ethiopian Investment Commission

Dear informant, the following survey questions are meant in general to investigate/identify the major investment motivating factors and investment engagement of investors from the Middle East (ME) region in Ethiopian Tourism sector and it is for academic purpose. It will also help to inform relevant sector’s decision towards improving service delivery to meet the expectations of investors interested in the sector. Your contribution is much valuable to that end. Anonymity/privacy of the informant will be respected based if the informant requests to do so. Please attempt the following questions accordingly.

Name of the respondent----- Age ----sex---- Responsibility-----

1. Ethiopia and the ME region has long standing religious, historical and diplomatic ties.

Moreover ME region is in close geographical proximity and the economic relation between Ethiopian and the region is growing.

a) What this long standing relation means in terms the region’s capability as investment and market source for Ethiopian tourism sector?

b) How do you evaluate the investment trend and tourist arrivals from the region in the past years?

c) What are the Major areas of their engagement in Tourism sectors?

d) What is the commission’s plan/strategy to attract more investment in the sector and tourist from the region in its 10 years strategic plan?

2. What are the major motivating factors for the investors from the ME to invest in Ethiopian tourism sector?

3. What are the major challenges identified so far that the investors from the region have encountered and how do you describe the attitudes of those who invested (+/-) and its possible implication on the future development of the sector?

4. What are the major steps taken or planned to be taken to address the challenges?

Interview Questions

Tourism Ethiopia

Dear informant, the following survey questions are meant in general to investigate/identify the major investment motivating factors and investment engagement of investors from the Middle East (ME) region in Ethiopian Tourism sector and it is for academic purpose. It will also help to inform relevant sector's decision towards improving service delivery to meet the expectations of investors interested in the sector. Your contribution is much valuable to that end. Anonymity/privacy of the informant will be respected based if the informant requests to do so. Please attempt the following questions accordingly.

Name of the respondent----- Age -----sex---- Responsibility-----

1. Ethiopia and the ME region has long standing religious, historical and diplomatic ties. Moreover ME region is in close geographical proximity and the economic relation between Ethiopian and the region is growing.

- a) What this long standing relation means in terms the region's potential as further investment and market source for Ethiopian tourism sector?

- b) How do you evaluate the investment trend and tourist arrivals from the region in the past years?

- c) What is the organization's plan/strategy to attract more investment in the sector and tourist from the region in its 10 years strategic plan?

d) How do you evaluate Ethiopia’s marketing practice of tourism products to this market segment and what do you think needs to be improved?

2. What are the major motivating factors for the investors from the ME to invest in Ethiopian tourism sector?

3. What are the major challenges identified so far that the investors from the region have encountered and how do describe its possible implication on the future development of the sector?

4. What are the major steps taken or planned to be taken to address the challenges?

Interview Questions

Ministry of Foreign Affairs

Dear informant, the following survey questions are meant in general to investigate/identify the major investment motivating factors and investment engagement, challenges of investors from the Middle East (ME) region in Ethiopian Tourism sector (Hotels, Resorts, Restaurants, Lodges, Tour Operation) and it is aimed for academic purpose. It will also help to inform relevant sector's decision towards improving service delivery to meet the expectations of investors interested in the sector. Your contribution is much valuable to that end. Please attempt the following questions accordingly.

Name of the respondent----- Age -----sex---- Responsibility-----

1. Ethiopia and the ME region has long standing religious, historical and diplomatic ties. Moreover ME region is in close geographical proximity and the economic relation b/n Ethiopia and the region is growing.

1.1. What this long standing relation means in terms the region's potential as a further investment and market source for the sector?

1.2. How do you evaluate the investment trend from the ME in general in Ethiopian tourism sector and the tourist arrivals from the ME region in the past years?

1.3. What are the Major areas of their engagement in Tourism sectors?

2. What are the major motivating factors for the investors in Ethiopian tourism sector from Middle East in general?

3. What are the major challenges identified so far that the investors in the sector from the region have encountered and how do you describe the attitudes of those who invested as a result (+/-) and its possible implication on the future development of the sector?

4. What measures do you propose to be taken from Ethiopian side to address the challenges and enhance the investment tie and tourist arrivals and what would be the Ministry's role in that regard?

5. Is there any distinct approach specific to this market segment taking in to account the Horn-ME geopolitics? Who must do what to overcome negative impacts emanating the geopolitics?

Codes of interview questions respondents

FAR-01: Director for Investment promotion in the Ministry of Foreign Affairs.
FAR-02: Senior expert of Tourism promotion in the Ministry of Foreign Affairs.
FAR-03: Senior expert of Investment promotion in the Ministry of Foreign Affairs.
FAR-04: Senior expert of in Business Directorate in the Ministry of Foreign Affairs.
FAR-05: Junior expert of Tourism promotion in the Ministry of Foreign Affairs.
CTR-06: Team Leader of Tourism Promotion in the MoCT.
CTR-07: Senior expert in the Tourism Promotion division in the MoCT.
CTR-08: Expert in the Tourism Promotion division in the MoCT.
CTR-09: Expert in the Tourism Promotion division in the MoCT.
CTR-10: Expert in the Tourism Promotion division in the MoCT.
TER-11: Director for Tourism Investment Promotion in TE.
TER-12: Expert in Tourism Investment Promotion Division in TE
ICR-13: Expert in charge of investment project support
MTR-14: Senior expert in charge of foreign investment data & trade license.