

MBA 157

A STUDY OF PROBLEMS OF FOREIGN
INVESTORS IN ETHIOPIA IN
FLORICULTURE SECTOR



IN PARTIAL FULFILLMENT FOR THE MASTERS DEGREE
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PREPARED BY
MEHRET TESFAY: GSR 9260/97

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ADVISOR: DR. G.K. MURTHY

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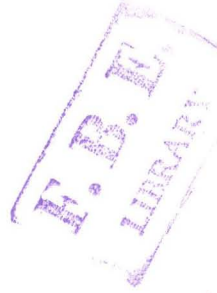
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Floriculture Sector**

By: **Mehret Tesfay**
FBE
MBA Program



Approved by Board of Examiners:

Prof. G. K. Mulugeta
Advisor

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Examiner

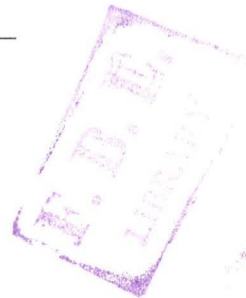
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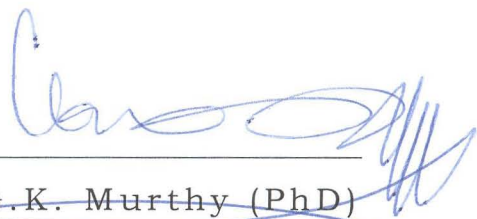
G.K. Murthy

Faculty of Business and Economics

Addis Ababa University.

Statement of Approval

This is to certify that **w/r Mehret Tesfay** has completed a research paper entitled "**A Study of Problems of Foreign Investors in Ethiopia in Floriculture Sector**" under my guidance. I also approve that his work is appropriate enough to be submitted in partial fulfillment of the degree in Masters of Business Administration.



G.K. Murthy (PhD)

Declaration

I hereby assert that this study entitled "***A Study of Problems of Foreign Investors in Ethiopia in Floriculture Sector***" is my own original work and has not been presented by anybody; for any degree or diploma in any other university and all materials used for the project work have been duly acknowledged.

Mehret Tesfay

Name of Candidate



Signature

22.03.07

Date

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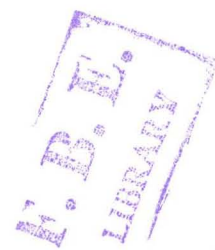
Abstract

The economy of Ethiopia is based on agriculture, which accounts for half of gross domestic product (GDP), 60% of exports, and 80% of total employment. Dependent on a few varieties of crops like coffee and oil seeds for its foreign exchange earnings and reliant on imported oil, Ethiopia lacks sufficient foreign exchange. Now days, business is changing fast in Ethiopia. About 10 years ago, there were virtually no foreign private companies in the country. Today, foreign investors are embraced, a gesture of the goodwill and openness of the current pro-business regime. Attracting foreign direct investment (FDI) is a major priority of the government. Ethiopia's comparative advantage lies primarily in its abundant, low-cost, disciplined and trainable labor force, the size of its domestic market, and the numerous river basins affording great potential for irrigation and hydropower generation. Ethiopia's climate and proximity to the Middle East, Europe and other markets provide opportunities for investment in cut flowers and high-value fruit and vegetable production. A number of cut flower and horticultural enterprises have started exporting successfully over the past few years. This study will see the prospects Ethiopia has to offer foreign investors on the floriculture field but will mainly focus on the problems, such as the quality of the infrastructure, especially means of transportation, electricity and telephone services as well as cumbersome administrative procedures. More emphasis is given on the assessment of the problems, which if not timely solved might hinder the country from being competitive on the global market of the sector which is dominated by Netherlands, Colombia and Ecuador as well as Kenya Zimbabwe and Zambia the African forerunners, which have realized tremendous achievements in the sector lately.

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Abbreviations

AGOA:	AFRICAN GROWTH OPPORTUNITY ACT
BIRR:	ETHIOPIAN BIRR
	DEVELOPMENT
EAL:	ETHIOPIAN AIR LINES
EHPEA:	ETHIOPIAN HORTICULTURE PRODUCERS AND
EIA:	ETHIOPIAN INVESTMENT AGENCY
	EXPORTERS ASSOCIATION
FDI:	FOREIGN DIRECT INVESTMENT
GDP:	GROSS DOMESTIC PRODUCT
IMF:	INTERNATIONAL MONETARY FUND
LDC:	LEAST DEVELOPED COUNTRIES
M & As:	MERGERS AND ACQUISITIONS
ODI:	OVERSEAS DEVELOPMENT INSTITUTION
TNC:	TRANSNATIONAL CORPORATION
UK:	UNITED KINGDOM
UN:	UNITED NATIONS
UNCTAD:	UNITED NATIONS CONFERENCE ON TRADE AND
USA:	UNITED STATES OF AMERICA
USD:	UNITED STATES DOLLAR
WB:	WORLD BANK
EIA:	ETHIOPIAN INVESTMENT AGENCY

CHAPTER ONE - INTRODUCTION

1.1 Background of the Study

Economic development is the focus of developing countries, which should go side by side with social, political and cultural growth of the people. Even though it is a fundamental fact that nations develop mostly from their internal movements, many countries take advantage of foreign investments and international trade relations.

Ethiopia is one of the developing countries with unexploited potential of growth in different sectors in general and particularly on agricultural products in order to alleviate the deep-rooted poverty and backwardness. As an agrarian state, its very nature imposes on agricultural way forward to development. About 85 % of the Ethiopian people is employed in agriculture and related activities. According to the Publication of Ministry of Information Press and Audiovisual Department (2005) the sector contributes about 50 % to the GDP and more than 85 % to the total export and competitive industrial development to earn more foreign exchange, with coffee alone accounting 60 % of total export earnings.

Furthermore, agriculture plays a crucial role in providing raw material inputs for the local industry. Endowed with wide ranging agro-ecological zones and diversified resources, Ethiopia grows all types of cereals, fibre crops, oil seeds, coffee, tea, flowers, fruits and vegetables. The potentially irrigable land is estimated at 10 million hectares, but so far, only 5 % has been utilized. Ethiopia has the largest livestock population in Africa, while fishery and forestry resources are also significant.

Considerable opportunities exist for new private investment in the production and processing of the above agricultural products.

Ethiopia's climate makes it suitable for the production of a broad range of fruits and vegetables, including temperate, tropical and sub-tropical crops. The largest citrus plantation in East Africa is found in Ethiopia. Cut flower and vegetable production are fast growing export businesses. Ethiopia has exported 16 million cut flowers to the world market in 2003 and 32 million in 2004 with Statice, Allium, Roses and Carnations as the major cut flower exports.

This paper tries to assess briefly the potentials Ethiopia can offer foreign investors in floriculture and specifically the challenges the emerging dedicated investors are facing in this sector, in order to boost its economy by strengthening its potential capabilities and by minimizing its weaknesses.

1.2 Statement of the problem

The floriculture sector has become very promising and attractive business in many countries globally and in countries like Kenya, Zimbabwe, and Zambia etc in Africa. Lately Ethiopia has entered into the global floriculture market. However, the issue to be resolved is how it will carry on its endeavor and maintain its position sustainably. In order to keep the existing investors and invite other foreign investors to this business Ethiopia should closely see its shortcomings and give enduring solutions.

Since this sector is at its infant stage, it will be very critical and timely to see into its shortcomings and challenges. Generally, problems concerning the internal and external environment of the sector will be

Industry, Ethiopian Customs Authority, Ethiopian Investment Agency and Ethiopian Air Lines.

Furthermore, secondary data from floriculture enterprises including the Ethiopian Horticulture Producers and Exporters Association and international sources like the World Bank, IMF and UNCTAD will be used. It will review available books on foreign investments in developing countries, on global markets and on floriculture investments and related books.

Primary data will be gathered by visiting selected floriculture enterprises and by observing the different activities carried out there. Interviews will be held with the responsible middle level officials of the selected enterprises and the Chairman of the Ethiopian Horticulture Producer-Exporters Association (EHPEA).

Additionally a questionnaire comprising of the main interrogative issues will be prepared and distributed to six (about 11 % of the 53 total number of the foreign investors who have started implementation (17) and (36) who are fully operational on the sector) selected owners of enterprises of the sector. The study will adopt more of qualitative descriptions and some quantitative calculations to analyze the gathered data.

1.5 Scope and Significance of the Study

Although the floriculture investment is not a new phenomenon in Ethiopia, it has flourished and gained more interest lately even though not many studies and researches are done on the subject, which might make my study challenging but interesting. I hope that this study will

considered. Particular emphasis will be given on issues relating to the infrastructure of the country, efficiency of the transport system, business promotion, quality improvement and packaging. On top of that, opportunities such as the proximity of the country to the global market, incentives and supports given by the government and the skill, number and wage of labor will be the main subjects this study will deal.

1.3 Objectives of the study

The main objective of this project is to give an overview of the key challenges and constraints foreign investors in the floriculture business are facing in achieving competitiveness. It will be clarified by assessing the policy and institutional environment facing this high value export product. Furthermore, the study will specifically try to shed light on issues concerning:

- Procedures and regulations of acquiring farm and export licenses;
- Investment and financing;
- Infrastructure and other facilities;
- Packaging and freight;
- Taxation;
- Incentives;
- Quality of products;
- Comparative advantages, etc

1.4 Methodology

This study will be using available secondary data from local Ethiopian sources and international publications, which will be collected from various reports and documents related to floriculture, directly from different ~~local~~ government offices like the Ministry of Trade and

contribute something to the sector and invite other serious researchers dig into more productive results.

With the help of the selected few significant foreign investors of the sector and the "Ethiopian Horticulture Producers and exporters Association", this study might reveal the actual situation of the sector and contribute its part in recommending feasible solutions.

Due to time and financial constraints, the study will be confined to selected, about 11 % of the 53 total number of the foreign investors who have started implementation and are fully operational on the sector. Therefore, the study cannot claim to be more than a preliminary analysis of the existing problems the foreign investors are facing in the sector.

1.6 Organization of the paper

This paper has five chapters with Chapter 1 outlining the background and the statement of the problem as well as the objectives, purpose, methodology, scope and limitations of the study, Chapter 2 reviews related literature. Chapter 3 concentrates on the historical background of foreign investment in Ethiopia in the floriculture sector and Subsequently, Chapter 4 reveals the analytical outcome of the survey conducted and will emphasize on the problems the investors are facing. Finally, chapter 5 recommends possible solutions for the raised problems.

CHAPTER TWO - REVIEW OF RELATED LITERATURE

Globalization has progressively changed most of our globe's relationships immensely, whether it is politically, economically or culturally, no one can deny the achieved changes. Despite this fact, still the gap between developed and developing countries seem to get wider with the exception of few outstanding countries. Many scholars have given their interesting view on this subject, which seems to be paradoxical but agree somewhere to a certain extent.

In defining globalization, the Global Policy Forum (2006) has written that, "Human societies across the globe have established progressively closer contacts over many centuries, but recently the pace has dramatically increased. Jet airplanes, cheap telephone service, email, computers, huge oceangoing vessels, instant capital flows, all these have made the world more inter dependent than ever ... as a result, laws, economies, and social movements are forming at the international level." Many politicians, academics, and journalists treat these trends as both inevitable and overall welcome. However, for billions of the world's people, business-driven globalization means "uprooting old ways of life and threatening livelihoods and cultures. The global social justice movement, itself a product of globalization, proposes an alternative path, more responsive to public needs..." and concludes that, "Intense political disputes will continue over globalization's meaning and its future direction".

The avenue to international investment include investing in firms in their own foreign markets (Direct Investment), purchasing the shares of

foreign firms trading in your country (Indirect Investment), investing in mutual funds and closed-end funds with a global orientation, buying the shares of multinational corporations, and entrusting funds to private money managers who specialize in international equities. (Hart & Block, 2003)

Khoury (1983) has clarified the difference between Portfolio Investment and Direct Investment. "Portfolio investment is investment in corporate and government securities which does not result in control over the operations of the entity whose securities are being acquired, while direct investment is where the buying firm acquires control over the operations of the acquired firm." He further emphasizes that the only difference between these types of investment is in the degree of control as in portfolio investment the investing firm neither seeks nor exercises control, although the implications for the securities markets are essentially the same. It must be noted, however, that portfolio investment is occasionally a prelude to direct investment, and that direct investment and portfolio investment generally exhibit a high level of interdependence.

2.1. Foreign Direct Investment

In Wikipedia, the free encyclopedia, Foreign Direct Investment (FDI) is defined as "a long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. The FDI relationship consists of a parent enterprise and a foreign affiliate, which together form a transnational corporation (TNC)". It emphasizes that in order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate and the UN defines control in this case as owning 10% or more

of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

Evolution of FDI

Reuber (1973) has affirmed that direct investment occurred on a relatively modest scale prior to World War I, mainly in the petroleum and resource-oriented industries as well as in manufacturing industries. In Wikipedia it is also stressed that "... In the years after the Second World War, global FDI was dominated by the United States, as much of the world recovered from the destruction brought by the conflict ... FDI has grown in importance in the global economy with FDI stocks now constituting over 20% of global GDP. In the last few years, the emerging market countries such as China and India have become the most favored destinations for FDI and investor confidence in these countries has soared". Wikipedia concluded with the FDI Confidence Index compiled by A.T. Kearney for 2005 that "China and India hold the first and second position respectively, whereas United States has slipped to the third position".

Types of FDI

Greenfield investment: Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.(Wikipedia) According to the UNCTAD World Investment Report (2006, p.15) Greenfield FDI refers to investment projects that entail the establishment of new production facilities such as offices, buildings, plants and factories, as well as the movement of intangible capital (mainly in services). ...it directly adds to production capacity in the host country and other things

remaining the same, contributes to capital formation and employment generation in the host country.

However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and use up resources (labor, intermediate goods, etc). Another downside of Greenfield investment is that profits from production do not feed back into the local economy, but instead to the multinational's home economy. This is in contrast to local industries whose profits flow back into the domestic economy to promote growth. (Wikipedia)

Mergers and Acquisitions (M & As): occur when a transfer of existing assets from local firms to foreign firms takes place, this is the primary type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Unlike Greenfield investment, acquisitions provide no long-term benefits to the local economy-- even in most deals the owners of the local firm are paid in stock from the acquiring firm, meaning that the money from the sale could never reach the local economy.(Wikipedia) However, (UNCTAD World Investment report 2006 p. 16) it is underlined, that even though FDI through M & As may not add directly to the total capital stock of a host country, it does add to foreign -owned capital stock and to international production...although most FDI through M & As does not represent a direct addition to the capital stock of countries, several factors must be taken into account in assessing its significance for capital formation and for development in host countries.

Horizontal foreign direct investment: is investment in the same industry abroad as a firm operates in at home.

Vertical foreign direct investment: Takes two forms, backward vertical FDI, where an industry abroad provides inputs for a firm's domestic production process and forward vertical FDI, in which an industry abroad sells the outputs of a firm's domestic production.

According to Wikipedia FDI can also be categorized based on the motive behind the investment from the perspective of the investing firm as resource seeking, market seeking or efficiency seeking.

Reuber (1973) classifies types of FDI as export-oriented investments, market-development investment and government-initiated investments.

Dunham in his article Globalization issues (<http://www.google.com>) has listed out the forms of international activity as:

- Exporting--selling abroad directly or through agents or distributors;
- Licensing--granting right to use intellectual property for royalty;
- Franchising--granting right to do business in prescribed manner with tight guidelines;
- Foreign direct investment--operations controlled by entity in foreign country;
- Wholly owned subsidiaries--company owned 100% by foreign firm;
- Strategic alliances--cooperative agreement between potential competitors;
- Joint ventures--joint parties contribute assets, have ownership & share risks;

- Acquisition--one company acquires another and
- Mergers--two companies choose to become one.

2.2. Significance of FDI

According to the report of UNCTAD of 2005, Average annual FDI flows to Africa doubled during the 1980s to \$2.2 billion compared to the 1970s but increased significantly to \$6.2 billion and \$13.8 billion respectively during the 1990s and 2000-2003. On a per capita basis, this translates into a more than fourfold increase compared to the 1980s. The gap between Africa and other developing regions widened significantly in the 1990s, which has made it aid dependent and very evident especially for Sub-Saharan Africa. Between 1970 and 2003, FDI accounted for just one-fifth of all capital flows to Africa, which has risen sharply averaging roughly one third of total capital inflows to Africa during 2000-2003. The same report clarifies further that over the past three decades, Africa's share of world output has also been declining, dropping decade by decade from 3.1 percent in 1970s to 1.8 percent in the period 2000-2003. Africa's share of world trade also fell over the period from a peak of around 6 percent in 1980 to around 2 percent in 2001 before recovering slightly to 2.2 percent in 2004.

Schmidt and Culpeper (2003) have addressed the issue that besides the addition to development resources in poor countries, FDI is believed to make other important contributions to growth and development. First, it can raise tax revenue, create employment, and open new markets for exports. Second, FDI can finance projects, which require a large initial investment, too large for the government or domestic financial system. Third, it can lift productivity and competitiveness by adding to the stock of capital equipment and introducing new technology. However, FDI

tends to reinforce existing patterns of economic structure, by concentrating in a single sector, usually resource extraction with few links to the rest of the economy. FDI responds to political, economic, and infrastructural features of developing countries. In addition to social and political stability, it is attracted by ready markets, high rates of return, inexpensive and skilled labour, and cheap local inputs. It is deterred by inadequate or expensive infrastructure and business, political, social, and general economic risk.

Overseas Development Institution (ODI), on its Briefing Paper (2002), has clarified on the issue whether FDI can contribute to the objectives of reducing poverty, by pointing out that it will depend on how the gains from FDI are distributed, among sectors, workers and households. The paper makes it clear that in principle, there is no direct link between FDI and poverty reduction – this does not include ‘socially responsible’ investment which may directly benefit the poor – but there are three possible indirect links.

1. If FDI contributes to export growth, productivity growth and finance for the balance of payments, it supports increases in national income that offer the potential to benefit the poor. In this case, FDI does not reduce poverty directly, but it helps to create an enabling economic environment.
2. If FDI increases employment, it may help some to move out of poverty. With the exception of FDI in textiles, a lot of FDI in manufacturing is likely to employ labour that is relatively skilled (in terms of the local market), and would not directly benefit the poor. Well-developed linkages with local suppliers may increase employment of various skill groups.

3. Foreign firms may pay higher wages than local firms pay for workers with similar qualifications. Because of the skill-bias of FDI this will not directly affect the poor and is likely to increase inequality of wage incomes, increasing the skilled/unskilled wage differential, and to increase urban/rural income differentials. However, by establishing a higher paid labour force and developing a better skilled labor force, it should increase incentives and effort and can generate dynamic benefits to the economy. Therefore, economic growth by itself cannot be considered as poverty reduction.

Limitations of FDI

Gichira (Accra Mail, 2003) has explicitly warned not to over rely on Foreign Direct Investments, as "they engage in corrupt practices, underpay workers and make them work under poor conditions. They also systematically evade tax. Meet the trans-nationals and their bid to control domestic and international markets through their direct investments." He argues further that even though FDI could bring about development on a long-term basis it is worth noting that in itself it is not a cure for poverty.

Gichira advises that, "FDI must be strategically directed to sectors that benefit the host country in both short and long run basis. It is common to find some trans-nationals engaging in activities that pollute the environment in developing countries, since they have found that these countries have low environmental protection policies/ standards. Similarly, African countries need well-defined and adequate labour protection policies to safeguard / protect the local companies' interests from these trans-nationals. Exploitative traits by foreign direct

investments have been experienced, whereby international companies undervalue local laborers. These need to be reviewed. Granted, it would in turn ensure favorable working environment where workers' rights, needs and welfare are aptly taken into account." However, he has not disguised that FDI brings about foreign exchange by increasing exports and thus add to the capital formation in host country. Free flow of FDIs regulates negative effects of competition between developing countries in trying to provide incentives to transnational corporations/ companies.

2.3. Foreign Direct Investment Drivers

The search for competitive advantages and above average returns have led to internationalization which are categorized as home country drivers and host country drivers or push and pull factors respectively. (UNCTAD, 2006)

Home Country Drivers (Push Factors)

Home country drivers, which refer to conditions that influence companies to move abroad, consists of four main types:

- **Market and trade conditions:** as many developing countries have a limited home market in terms of scale and opportunities to expand, which may be intensified by factors such as trade barriers, lack of international linkages with customers in the target market or home-based industrial customers moving their production overseas.
- **Costs of production** (including constraints in factor inputs). Here common factors implicated in driving firms overseas are labour costs as well as inflationary pressures.

- **Local business conditions:** global and local competitive pressures and
- **Home government policies.**

Host Country Drivers (Pull Factors)

The host country drivers mostly emulate the home country drivers:

- **Market pull factors:** The large markets of developed countries seem to be very attractive and are mostly accessible through different trade agreements e.g. AGOA (African Growth Opportunity Act)
- **Rising costs of production in home economies:** Low costs of labour and other natural resources and
- **Host government liberalization and privatization policies**

2.4. Influence of the Host Country's environment

At its simplest, as Reuber (1973) puts it, the issue of foreign investment for both the host and home countries largely boils down to two questions, one empirical and the other political and social. The empirical question is concerned with the total net economic benefits in terms of real income and employment that the host and home countries derive from foreign investment and how changes in policies are likely to affect these benefits.

The political-social question consists of two parts: is there a positive or a negative relationship between the economic benefits arising from foreign investment and the host and home countries' social and political interests? And if there is a negative relationship, how much economic

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benefit are the countries prepared to trade off to achieve more fully their political and social goals?

Many scholars have stated that foreign investors look for many inviting investment climate from host countries and a non-exhaustive list is given as follows:

- Stable society and politics;
- Good governance;
- Well managed economy (macro economic stability);
- Efficient, flexible and honest public service;
- High rates of return;
- Inexpensive and skilled labor;
- Adequate and inexpensive infrastructure;
- Market size
- Cheap local inputs, etc.

2.5. Effects of Foreign Involvement in the Host Country's Growth

Schmidt and Culpeper (2003) have reviewed patterns of private foreign investment since the beginning of the 1990s and shared knowledge about, and experience with its impact in poor countries. Moreover, they pointed out that the shift in emphasis from foreign aid to other forms of development financing is part of a basic change in attitudes toward development over the last decade. At the same time they raised questions and discussed, which makes their research paper very interesting, on issues like "can private foreign investment help poor countries finally escape the poverty trap? Will foreign investment largely replace foreign aid, or can they work together to magnify the impact on growth and development?"

At last like many other authors they concluded with their remark that "for the poorest developing countries, private foreign investment is not an end in itself but a means of supporting development objectives and the aim is not to maximize foreign investment, but to enable countries to grow out of poverty". Kumar and Pradhan (2002) also strengthened this idea by highlighting that "... a positive effect of FDI on the host country's growth is achieved along with other factors of production such as labor deployment, domestic capital and skill accumulation". The major host countries interests on FDI as explained by Reuber (1973) are:

Political and social concerns

Capital investment inflows should increase the size of the domestic stock of real capital resulting an increase in real output and redistribution of income away from local owners of capital in favor of labour and other non-capital-owning members of the community.

Economic Effects

The net economic benefits (Total benefits – total costs) = of Foreign Investment	=	Productivity of imported capital – (direct cost of imported capital) + (external benefits of imported capital – external costs of imported capital)
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Reuber (1973) has explained that the first two parts of this equation refer to the direct benefits and costs of foreign investments and are reflected in the calculations of individual investors. While external benefits and costs are effects that are not experienced by the private investor but by society as a whole; they depend on indirect spillover effects and do not enter into private investors' decisions.

He explains further that portfolio capital imports are economically profitable so long as the cost of such capitals is less than the domestic opportunity cost of capital reflecting the marginal productivity of capital and the marginal rate of time preference. To the extent that market prices and interest rates represent a reasonable approximation to the opportunity cost of capital, the market mechanism tends to ensure that portfolio capital imports are economically beneficial. The reasons given are that private borrowers will only borrow from abroad when the return on the project for which they seek foreign capital exceeds the cost of borrowing, and the cost of borrowing abroad is less than the cost of borrowing at home.

Taxes and Price Distortions

Tax benefits gained from direct investment according to Reuber (1973) depends mainly on the degree to which the investment has generated positive employment, output, and real income effects; and the extent to which the investment has increased the maldistribution of local resources. As well as the extent to which the tax revenues simply represent the repayment of subsidies received in one form or another by the investors from the host country, which arises because market prices fail to reflect adequately the opportunity cost of resources, thereby rendering market prices unreliable as a guide to the efficient allocation of resources.

Such price distortions are evident especially in developing countries because of over-valued exchange rates, highly restrictive import policies, large-scale government intervention in private markets via direct controls, taxes and subsidies, heavy unemployment and underemployment, and market structures that frequently do not appear to function very effectively.

According to the World Investment Report (2006) the main beneficial impacts are derived from the access to resources and markets that their foreign affiliates secure as a result of being part of the international production systems of the respective transnational corporations. But the report gives more value to foreign direct investments from developing countries to other developing countries than from developed countries to developing countries, with a key advantage of the greater employment-generating potential that the former may have due to its greater orientation towards labour-intensive industries and the likely use of simpler and more labour-intensive technologies by developing country transnational corporations, especially in manufacturing.

2.6. Summary

Nowadays, no country can be developed by alienating itself from the global interactions. Especially developing countries should know better of how to get benefit from globalization and attentively exploit the fertile ground to development offered by the developed countries to achieve the MDG.

Practically FDI is playing a vital role in obtaining direct basic development and minimizing poverty indirectly. Even though FDI has advantages, it has to be implemented with good leadership and control.

CHAPTER THREE - FDI IN THE FLORICULTURE

SECTOR IN ETHIOPIA

3.1. Profile of Ethiopia

Ethiopia is strategically located on the Horn of Africa at the crossroads between Africa, the Middle East and Asia. It has a population of 77.4 million people (2005), ranking the second most populous country in Africa after Nigeria.

Ethiopia enjoys a pleasant climate varying from cold to temperate and from sub-tropical to tropical. Much of the country, however, has a climate tempered by the high altitude, although it lies just within 150 north of the Equator. There are three principal climatic zones; namely tropical rainy region, having an altitude of over 2,500 meters above sea level; dry climatic region of hot low land lying below 1500 meters above sea level and warm temperate wet region lying between 1500-2500 meters above sea level.

There are two rainy seasons in the country: the "small" rains in February and March, and the "big" rains from June to September. Alpine vegetation marks the highlands, while the lowlands have woodlands, bush lands, savannah and semi-arid shrubs. About 45 % of Ethiopian's landmass is rated as being arable, but only 15% of this area is presently being cultivated. Only about one percent of the 10 million hectares of potentially irrigable land is being cultivated.

The people are ethnically, linguistically and culturally diverse. So, there are about eighty languages spoken in the country, which corresponds to the number of ethnic groups. These languages fall into four main

language families, namely Semetic, Cushitic, Omotic and Nilotic. Amharic is the working language of the Federal Government. English is the medium of instruction in secondary schools and higher education institutions, and it is widely used in business transactions, particularly in the banking and insurance sectors.

The details of the country's profile can be observed from the statistical data collected from UNCTAD's Statistical Profiles of the Least Developed Countries (LDC) during the year 2005, organized and displayed in a table for the purpose of readers' convenience.

Table 1: Profile of Ethiopia - 2005

Surface area ('000 km ²)	1,104.3	
Population (million), 2005	77.4	
Population growth rate (%), 2000-2005	2.4	
Main language	Amharic	
Currency	Birr	
GNI per capita (\$), 2004	110	
Percentage shares in GDP, 2003	Agriculture	41.8
	Industry	10.7
	Services	47.4
	Gross capital formation	20.5
	Gross domestic savings	1.0
	Exports of goods and services	17.1
	Imports of goods and services	36.5
Agricultural labour force (% of total labour force), 2004	81	
Life expectancy at birth (m/f), 2003	49/51	
HIV prevalence among adults (%), end-2003	4.4	
Under-5 mortality rate, 2003 (per 1,000 live births)	169	

Population undernourished (%), 2000-2002		46
Population using improved drinking water sources (% urban/rural), 2002		81/11
Adult literacy rate (% m/f), 2000		47/31
Transport	Road density (km/1,000 km ²), 2002	33.3
	Aircraft departures, 2003	27,200
Population with access to electricity (%), 2000		12
Telephone mainlines (per 1,000 people), 2003		6
Number of tourist arrivals, 2002		156,000
Exports of goods and services (\$ m), 2003		1,139.6
Imports of goods and services (\$ m), 2003		2,430.6
Main export sector (% of total exports of goods and services), 2003		Air transport 21.7
Main markets for exports of goods (%), 2004		Dev. countries 56.2
<i>Main destination: Africa (Djibouti)</i>		17.1 (13.1)
Main sources of imports of goods (%), 2004		Dev. countries 62.7
<i>Main origin: Middle East (Saudi Arabia)</i>		30.3 (25.1)
Foreign direct investment net inflows (\$ m), 2004		545.1
ODA net inflows (\$ m), 2004		1,823.1
Remittances from workers abroad (\$ m), 2003		46.0
External debt (\$ m), 2003		7,151.0
As % of GNI		108.4
Debt service as % of exports		7.9

Source: UNCTAD, Statistical Profiles of the LDC 2005

Trade and Investment

In order to strengthen and enhance institutional support for the export sector, the Ethiopian government has reorganized and revitalized existing institutions namely the Ethiopian Livestock Marketing Authority, the Ethiopian Leather and Leather Products Technology Institute, and the Ethiopian Export Promotion Agency. Export taxes and subsidies have been removed. Given the limited size of domestic market and the dependence on the import of intermediate and capital goods, the government has been taking various measures to expand the export capacity and increase its competitiveness in the global market.

Favourable policies, which focused on liberalization of prices and markets, removal of subsidies, reduction of tariffs and liberalization of external current account convertibility, have been designed and implemented supported by favorable fiscal and monetary policies.

Even though the Ethiopian export is growing fast (36.22% that of 2004/05 compared to the year before) due to the slightly higher growth of import (40.49 % during the year 2004/05 compared to the former year) the gap in the trade balance is still very wide. According to the 2005 annual report of the National Bank of Ethiopia "Fiscal year 2004/05 witnessed a turn-around in the overall balance of payments position of the country. It registered a deficit of USD 101.4 million in 2004/05 from a surplus of USD 226.7 and 306.5 million in the last two years, respectively."

The reasons given to this deficit is the deficit in the merchandise trade which more than offset the exhibited surplus in net services, unrequited transfers and non-monetary capital. In effect the international reserves of the country as at July 7, 2005 was sufficient to cover over 3.6 months of imports of goods and non-factor services of the following year. The top

five Ethiopian main export and import products, and main import as well as export partners are depicted as follows.

Table 2: Main import and export products of Ethiopia - 2005

Main Import Export Products	% of total Exports	% of total Imports
All food items	62	21.5
Agricultural raw materials	25.9	0.7
Manufactured goods	11.4	64.0
Ores and metals	0.7	1.5
Energy and fuels	na	12.0
Unallocated	0.0	0.3
Total	100	100

Source: Facts and figures of land locked developing countries, UNCTAD 2006

Table 3: Main import and export partners of Ethiopia - 2005

Main Partners	% share of total Exports	% share of total Imports
EU	32.2	21.4
Djibouti	13.3	na
Saudi Arabia	6.9	23.4
Japan	6.7	na
USA	5.0	17.2
China	na	6.4
India	na	3.3
Others	35.9	28.3
Total	100	100

Source: Facts and figures of land locked developing countries, UNCTAD 2006

3.2. The role of governmental organizations

The Ethiopian Government is committed to encourage the private sector to play a prominent role in the economic development of the country. A foreign investor is allowed to invest in all areas of investment except those reserved for government, Ethiopian nationals and other domestic investors.

Areas of Investment Reserved for Domestic Investors

- retail trade and brokerage;
- wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their products locally produced);
- import trade (excluding LPG, bitumen and up on the approval of the Council of Ministers; materials used as inputs for export products);
- export trade of raw coffee, chat, oil seeds, pulses, hides and skins bought from the market and live sheep, goats and cattle not raised or fattened by the investor;
- construction companies excluding those designated as grade 1;
- tanning of hides and skins up to crust level;
- hotels other than those star-designated, motels, pensions, tea rooms, coffee shops, bars, night clubs and restaurants excluding international and specialized restaurants;
- travel agency, trade auxiliary and ticket selling services;
- car-hire and taxi-cabs transport services;
- commercial road transport and inland water transport services;
- bakery products and pastries for the domestic market;

- grinding mills;
- barber shops, beauty saloons, and provision of smith workshops and tailoring services except garment factories;
- building maintenance and repair and maintenance of vehicles;
- saw milling and timber making products;
- customs clearance services;
- museums, theaters and cinema hall operations;
- printing industries.

The following areas of investment are exclusively reserved for Ethiopian nationals:

- banking, insurance and micro credit and saving services;
- travel and shipping agency services;
- broadcasting services; and
- air transport services using aircraft with a seating capacity of up to 20 passengers.

Source: Ethiopian Business Development Services Network (EBDSN)

The major services provided for investors by public organizations are explained briefly as follows.

1. The Ethiopian Investment Agency (EIA)

The Ethiopian Investment Agency (EIA) is the principal government organ responsible for promoting, coordinating and facilitating foreign investment in Ethiopia. Regional Investment Offices (RIOs) have also been established to promote and handle local investments in their respective regions. There is a strong linkage between EIA and RIOs with respect to technical assistance, the exchange of information and provision of investment facilities.

The EIA has got the following tasks:

- Provides the necessary information and advisory services required by investors:
- Approves and issues investment permits to foreign investors;
- Provides registration services to newly incorporated business organizations;
- Issues trade and operating licenses to approved foreign investments;
- Notarizes memorandum of association and articles of association;
- Grades construction contractors;
- Approves and register technology transfer agreements;
- Registers export-oriented non-equity based foreign enterprise collaborations;
- Approves expatriate posts and issues work permits to foreign employees;
- Facilitates the acquisition of land by foreign investors in accordance with the relevant laws of the Federal and Regional Governments; and
- Renders other pre-and post investment approval services.

The EIA has simplified and modernized its services from time to time and has declared publicly that if all the necessary documents are received in full it can approve and give an investment permit with in five days.

Investment in Ethiopia can be formed either as sole proprietorship, business organizations incorporated in Ethiopia or abroad, public enterprises or cooperative societies formed in accordance with the relevant law. A foreign investor may team up with a domestic investor

or company for a joint investment, usually in the form of a partnership, or private limited company or share company. Under the Investment Proclamation No.280/2002, a minimum capital of USD 60,000 (except in consultancy services and publishing which is only USD 25,000 per project) is required from a foreign investor who intends to enter into a joint venture partnership with a domestic investor. There is no restriction at all in share ownership in a joint venture. The foreign partner can satisfy this minimum equity capital either in cash and/or in kind.

Company Registration

All foreign companies intending to invest in Ethiopia must be registered in accordance with the Commercial Code of Ethiopia. The EIA, representing the Ministry of Trade and Industry, carries out such company registration. Companies are required to submit draft memorandum and articles of association to the Agency. The Agency, after examining these documents, notarizes the memorandum and articles of association and subsequently issues a certificate of incorporation evidencing the registration of the company.

Access to Land

In Ethiopia, land is public property. Both rural and urban lands are made available to investors at competitive price on a lease-hold basis. Leaseholders have the right of use over urban land for periods ranging from 50 to 99 years. Lease right over land can be transferred together with on built facilities. Each Regional Government delivers, based on the Federal Law and its own laws, the required land to an investor within 60

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days after receiving an application for allocation of land for an approved investment. The Ethiopian Investment Agency, in cooperation with the concerned Regional Government entities, facilitates and follows up the allocation of land for approved foreign investments. Investors who intend to invest in export-oriented projects are given priority to acquire land at reduced lease price. (Source: Ethiopian Business Development Services Network, EBDSN)

2. The Ministry of Revenue and the National Bank of Ethiopia

They facilitate Investment Incentives for Local and Foreign Investors and the major ones are explained as follows.

Customs Duty Exemption

- A 100 percent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise, or for the expansion or upgrading of an existing enterprise, as well as spare parts with values up to 15 percent of the value of the imported capital goods;
- Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges;
- Exemptions from customs duties or other taxes levied on imports are granted for raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place.

- All goods and services destined for export are exempted from any export and other taxes levied on exports.

Income Tax Exemption

- Any income derived from an approved new manufacturing, agro-industrial or agricultural investment is exempted from the payment of income tax ranging from 2-8 years depending up on the area of investment, the volume of export and the location in which the investment is undertaken. In the case of the floriculture sector, the duration of exemption is 5 years.
- Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial or agricultural enterprise is exempted from income tax for a period of two years if it exports at least 50% of its products and increases, in value, its production by 25%.

Loss Carry forward

Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

Investment Guarantee and Protection

In Ethiopia both the Constitution and the Investment Code protect private property. Ethiopia is also a member of the *Multilateral International Guarantee Agency* (MIGA), which issues guarantees against non-commercial risks to enterprises that invest in signatory

Countries. Ethiopia provides the following guarantees to foreign investors.

Repatriation of Capital and Profits

Capital repatriation and remittance of dividends and interest is guaranteed to foreign investors under the Investment Proclamation. Any foreign investor has the right, in respect of an approved investment, to make the following remittances out of Ethiopia in convertible foreign currency at the prevailing rate of exchange on the date of remittance:

- Profit and dividends accruing from an investment;
- Principal and interest payment on external loans;
- Payments related to technology transfer or management agreements;
- Proceeds from sale or liquidation of an enterprise;
- Proceeds from the sale or transfer of shares or assets;
- Compensation paid to a foreign investor.

Guarantees against Expropriation

The constitution of the Federal Democratic Republic of Ethiopia gives protection to private property. The investment proclamation also provides investment guarantees against measures of expropriation and nationalization. Expropriation or nationalization may only occur either in the public interest or in compliance with the requirement of the law. Where such expropriations are made, the government guarantees to provide adequate compensation corresponding to the prevailing market value of the property and such payment shall be effected promptly.

Other Guarantees

Ethiopia is a member of the World Bank - affiliated Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against non-commercial risks to enterprises which invest in signatory countries. Ethiopia is at any time ready to conclude bilateral investment promotion and protection treaties with any country and is in fact currently concluding such agreements with a number of developed countries.

Ethiopia has also signed the World Bank treaty "the convention on settlement of investment disputes between states and nationals of other states (ICSID)".

One-Stop Shop Service

Foreign investors obtain pre-and post-approval services from the Ethiopian Investment Agency (EIA). In addition to facilitation and promotional services, the EIA offers the following services under the one-stop shop arrangement:

- issuance of Investment Permit in 4 hours
- issuance of Commercial Registration Certificate in 4 hours
- issuance of Business License in 4 hours
- issuance of Work Permit in 1 hour
- registration of Technology Transfer Agreement in 2 hours
- registration of export oriented non-equity based foreign collaboration in 1 hour
- Facilitation of the acquisition of land and utilities.

Loan Provision

The development bank of Ethiopia gives loan to investors in the floriculture sector. Investors can borrow an amount up to 70% of the investment cost.

3.3. Comparative advantage of the sector

UNCTAD in the World Investment Report of 2006 has computed FDI potential indices for several economies in the world for the period 2000 – 02. The index is an unweighted average of the normalized values of the following variables: the rate of growth of GDP; the share of exports in GDP; telephone lines per 1,000 inhabitants; commercial energy use per capita; share of R & D expenditures in gross national income; share of tertiary students in the population; and country risk.

Of the 35 African countries included in the sample, only 3 – Botswana, Libya, and South Africa – had very high FDI potential, and Botswana was the only country in the region with both high FDI performance and potential. Twelve African countries performed better than would be expected given their potential. The remaining 20 countries were classified as underperformers.

An investment guide to Ethiopia, published on March 2005 by UN and International Chamber of Commerce, has emphasized that FDI flow to Ethiopia has been increasing during the last ten years. Out of the total investment projects licensed during 1992 -2002, FDI's share was about 20%, which is expected to grow very high in relation to the steadily growing number of investments owned by foreign investors.

Table 4: Classification of African Countries by Performance and Potential (2000-2002)

	High FDI performance	Low FDI performance
High FDI potential	Front Runners	Below Potential
	Botswana	Libya, South Africa
Low FDI potential	Above potential	Under - performers
	Angola, Congo, Gambia, Mali, Morocco, Mozambique, Namibia, Sudan, Togo, Tunisia, Uganda, Tanzania	Algeria, Benin, Burkina Faso, Cameroon, Dem. Rep. of the Congo, Cote d'Ivoire, Ethiopia, Gabon, Ghana, Guinea, Kenya, Madagascar, Malawi, Niger, Nigeria, Rwanda, Senegal, Siera Leone, Zambia, Zimbabwe

Source: World Investment Report, UNCTAD, 2004

Despite the above mentioned classification of Ethiopia as under performer, Ethiopia remains an untapped and unexploited market for investors compared to neighboring countries like Sudan and Uganda. (UN, Investment Guide to Ethiopia -2004) On top of excellent natural conditions, Ethiopia's main advantage is its proximity to Europe and the Middle East, with competitive market share, which will be analyzed in the next chapter comparing to neighboring countries. Labor is also readily available, especially in rural areas, and lower costs, even if there is a lot to do to train the people.

The floriculture sector is amazingly flourishing compared to its infant age. The latest figure given by the Ethiopian Investment Agency is that the list of projects in Flower Production has reached 216 even though only half of them are in the pre-implementation stage and foreign investors owned 152 out of the total.

Table 5: List of Investment Projects in Flower Production

(Since 1992 – February 13, 2007; Capital Birr in Thousand)

Investment status	Data	Domestic	Foreign	Public	Grand Total
Implementation	No of projects	11	17		28
	Capital(000 Birr)	275381.48	544650.9		820032.38
	Perm Employees	1546	4760		6306
	Temp Employees	1997	4011		6008
Operation	No of project.	13	36		49
	Capital(000 Birr)	423744.18	1422838.42		1846582.6
	Perm Employees	1530	5189		6719
	Temp Employees	2112	10383		12495
Pre-implementation	No of project.	39	99	1	139
	Capital(000 Birr)	1097498.4	3961039.407	6500	5065037.807
	Perm Employees	4637	19363	13	24013
	Temp Employees	12690	12258	25	26073
Total No of Project		63	152	1	216
Total Capital		1796624.06	5928528.727	6500	7731652.787
Total No. of Perm. Employees		7713	29312	13	37038
Total No. of Temp. Employees		16799	27752	25	44576

Source: Ethiopian Investment Agency, unpublished statistical data

The Ethiopian horticulture producers have established an association, the Ethiopian Horticulture Producer-Exporters Association (EHPEA), on September 2002 with the purpose to promote sustainable growth of the export horticulture sector of Ethiopia. EHPEA encompasses the whole horticulture sector namely, vegetables, fruits and flowers and it is the only national association that facilitates horticulture export in the country. The association has 68 member companies that created jobs to more than 28,000 people. Its members constitute both domestic and foreign companies operating in the sector. The issue nowadays is might Ethiopia challenge Kenya, as a number of foreign investors are either flowing to Ethiopia abandoning Kenya or expanding their investments to Ethiopia as well. The problems which are hindering the sector to go above its existing move will be explained in the next chapter reinforced with actual data collected from the foreign investors and the association.

3.4. Summary

Ethiopia is positioned nearest to main current importers of the floriculture products, such as EU, Middle East and Africa and it has untouched reach resources and potentials to be exploited with the help of FDI.

Even though it is a late comer to the floriculture investment, Ethiopia has relative advantages in the major attracting environments, such as the amicable weather conditions, appealing policies and incentives, quality of its products, easily trainable skilled and unskilled labour force, etc. But as this sector is with high competition, the country has challenges in providing quality and efficient services.

CHAPTER IV-FDI IN FLORICULTURE SECTOR IN ETHIOPIA

As stated in chapter I and Table 5 of chapter III there are 152 foreign investors who have received investment permit from the Ethiopian Investment Agency out of which 99 investors are at pre implementation level, 36 have started to be operational and 17 are fully at implementation level. To make this study factual and representative the views of selected owners who are at implementation and operational level are collected and analyzed. This chapter will try to show the real situation of the floriculture business in Ethiopia to some extent based on these views obtained from practical observations, interviews and questionnaire results related to the premises mentioned in the previous chapters. Actual measurable facts of the existing situation are also included in order to be nearer to the reality as much as possible.

Prospects of Floriculture Development in Ethiopia

Table 6 shows the yearly developments registered in cut flower exports in quantity and value since 2000/01 up to the latest record of 2007.

Table 6: Ethiopian Cut Flower Exports

S.N.	Year	Quantity in Tons	Value in USD	% increase in value
1	2000/01	2.36	305.00	---
2	2001/02	0.21	159.00	(52)
3	2002/03	16.00	2,904.00	1826
4	2003/04	32.00	5,050.00	174
5	2004/05	83.00	12,645.00	250

6	2005/06	186.40	21,967.00	174
7	2006/07 first half year	151.00	21,667.00	197
Source: Export Promotion Agency, Unpublished data, March 7, 2007				

These figures emphasize that the sector has a good futurity to bring hard currency and create job opportunity for many, especially the marginalized members of the society and women. Therefore, it needs special attention of policy makers and the foreign missions that could play remarkable role in increasing its market share in the global market. The quality of the products are said to be very good in quality and competitive in the global market, except the post harvesting process which needs improvement, the sector can enhance its competitiveness and the investors could easily gain above average returns within 5 years after implementation.

Profiles of Respondents

The investors who filled the questionnaires are from Netherlands, Italy, Great Britain and Germany. Their farms are located in Sebeta, Holeta, Tefki, Sendafa, Awassa and Teji of South West Shoa, namely in Oromia and Southern Peoples Nations and Nationalities Regions. Their experiences in the field range between 11 months and 23 years, which brings very important know-how to the sector. The sizes of their farms vary from 20 hectares to 50 hectares each, which is reasonably big investment for the sector. All of them have targeted at producing flowers for export purpose and their products diverge between Roses,

Hypericum, Geranium, Solidago, Carnation, Herb and Lilly flowers that offer the country potential for variety of products in the global market.

Investment and FDI Component

The amount of their initial capital ranges from Birr 12 million to 62 million each and as demonstrated on Table 5 in chapter III the total capital of foreign investors of the sector is about 6 Billion Birr. According to the interview held with the Chairman of EHPEA, the foreign investors' financial structure is built with more than 70% of credit taken from Ethiopian financial institutions. This makes the issue of FDI flow into the country to certain extent questionable and it requires further investigation to conclude whether the expected foreign direct investment is fully generated with appropriate capital inflow apart from the technology and know how transfer.

The respondents have also mentioned that they have to pay interest rate charge of 6% and 7.5% in their home country while they are charged 9% in Ethiopia. This higher rate of interest did not seem to discourage them from taking credit from Ethiopian financial institutions as their financial structure is raised more from host country. However, the higher interest rate charge should be revisited whether it is being an obstacle for other foreign and local investors to enter the sector or not.

Employment

From the total number of respondents 66% revealed that 100% of their employees are from the local market, while the rest disclosed that more than 98% are local employees and the remaining are expatriates engaged in managerial and technical positions. The number of their employees range from 400 to 1000, which shows that the sector is

creating job opportunity and playing its role in minimizing the prevailing large number of unemployment in the country. As shown on Table 5 in chapter III, the total permanent employees working on the farms owned by foreign investors of the sector have reached to 26,312 while the temporary employees are 27,752. From the total number of employees, ² about 75% are women.

The employee remuneration is disappointingly very low compared to the wages paid for daily labourers through out the country. The payment for production workers in the floriculture sector ranges from Birr 7 to Birr 12 per day, while daily labourers in the construction sector earn about Birr 30 per day in the main towns of the country. Even though, this free market economy could be one of the attractions for foreign investors to come to Ethiopia, this issue is very crucial point to be addressed by responsible bodies as well as the EHPEA.

The Ethiopian Herald of March 14, 2007 has stated, that the Investment Promotion and Public Relations Department Director has confirmed that the average number of licensed foreign investment projects which stood at 40 five years ago has jumped to 500 between the years 2002 and 2006. Additionally the agency has so far issued licenses to 2,482 foreign investment projects since 1993 with a registered capital of 86.4 billion birr. This figure includes the capital (about Birr 6 Billion) and number of foreign investors (152) in the floriculture sector, mentioned in Table 5 in chapter III, which is by far very low, compared to the total figure.

Impacts of national policies and conditions ✓

Table 7 shows the extent of the influence of the national policies and conditions on the foreign investors to decide to enter in to the country and invest in the floriculture sector.

Table 7: The influence of National Policies and conditions

Particulars of influencing factors	Early stages in the decision process (out of 100)			Late stages in the decision process (out of 100)		
	Strongly positive	No effect	Strongly negative	Strongly positive	No effect	Strongly negative
Fears of political instability	20	80		20	80	
Fears of host country currency devaluation	20	80		20	80	
Expected restrictions on repatriation of profits	33	50	17	33	50	17
Restrictions on foreign ownership	33	67		33	67	
Domestic insurance against expropriation	16	84		16	84	
Tariff free entry of components	84	16		84	16	
Tariff free entry of equipment	100			100		
Incentives to export	100			100		
Tax holiday allowance	100			100		
Special depreciation	33	17		33	17	



allowance						
Availability of land and adequate infrastructure	84		16	66	17	17
Availability of labour, skilled and unskilled	66	17	17	84	16	
Low wage costs	84	16		84	16	
Absence of capital markets in the host country	33	67		33	67	
Current size of host country flower industry	50	33	17	50	50	

Source: Responses to question no. 6 in the questionnaire

The political and currency stability as well as domestic insurance against expropriation seem to be well taken and influence positively to the flow of foreign investors despite the Ethio-Eritrea conflict and the Islamic movement in Somalia.

The incentives like tariff free entry of components and equipments, incentives to export and tax holiday allowances are very much appreciated by all respondents.

The availability of land, adequate infrastructure, availability of skilled and unskilled labour as well as low wage costs are also positively contributing to the whole production process of the floriculture sector. At this point the chairman of the EHPEA has given more clarification that the infrastructure is for the time being no hindrance to the investors whose farms are within 50 kms radius of Addis Ababa and other relatively developed towns. He emphasized that the problem of infrastructure should get more attention by the government, if the

investment should penetrate outwards wherever there is potential for flower production.

In addition, he suggested that the government should make land ready for farms with appropriate specifications of altitude and not just provide any available free land. He also strictly stressed that the Environmental Protection Authority should enhance its capacity to a level of controlling the implementation of the projects for the start and gradually up to licensing of new farms. Clustering of farms in few areas is also commented by other investors interviewed as a threat to water and air pollution as well as scarcity to human resource and ground water.

Expected restriction on repatriation of profits has become a point of worry for certain foreign investors (17% of respondents). The other factors like restrictions on foreign ownership, special depreciation allowance, absence of capital markets in the host country and Current size of host country flower industry have either positively influenced or prevailed no effect at all.

Influence of Working Conditions ✓

The following table gives hint about the working conditions the foreign investors implement their daily activities and it can help assess the problems they are facing.

Table 8: The influence of objective conditions

Particulars of influencing objectives	Major problem	Minor problem	No problem
Availability of quality packaging industries	33 %	33 %	33 %
Accessibility of adequate road transportation			100 %
Efficiency of cargo flights	67 %		33 %

Access to adequate means of communication	33 %	33 %	33 %
Availability of good governance	17 %	16 %	67 %
Existing skill and number of labour force	17 %	50 %	33 %
Availability of credit facilities and efficient banking systems	17 %	16 %	67 %
Prevailing climate and natural resources		33 %	67 %

Source: Responses to question no. 7 in the questionnaire

The major problem area with 67% of the respondents as well as all of the investors interviewed is about the cargo service provided by the Ethiopian Airlines. The Ethiopian Airlines, which has launched its cargo service since 1946, currently has over 40 cargo destinations spread across Africa, Europe, Asia and the Middle East via its hub Addis Ababa. In addition to the utilization of the belly space of Ethiopian passenger fleet of B767-300 and B757-200 aircraft, Ethiopian cargo operates dedicated freighter aircraft on a charter and scheduled basis. They have special seasonal cargo rates as well as attractive incentive packages aimed at satisfying their individual cargo customers' needs.

The chairman of EHPEA absolutely agrees with what the Airlines claims to offer. Nevertheless, he has stressed that the problem with accommodating timely services for the perishable, sensitive and valuable product is a big problem, which needs immediate response. He mentioned that the stakeholders have presented to the government their demand for 747 and 787 cargo aircrafts or even for an airbus, which can airlift huge amount of tons at once, otherwise the country will lose a large amount of hard currency if other foreign airlines would be involved in the cargo flight business. In addition, he emphasized that the problem does not emanate only from the Airlines but also from the

producers who lack proper forecasting, planning and management of the schedule of their products to be exported.

The issue with the existing skill and number of labour force did not come up as a major problem, as 50% of the respondents have viewed it as a minor problem and 33% have treated it as an issue not worthy mentioning. The investors interviewed have also given clarification that the Ethiopian labour force can handle its tasks with appropriate trainings and the number is no problem except in the clustered areas to some extent.

Achievements on the road development ✓

Even though the road transportation access has scored 100% with out any problem due to their proximity to Addis Ababa, transportation is very vital for the development of a country. Especially as the products of the floriculture sector are very perishable and sensitive, their quick transfer is inevitable. That is why the Ethiopian Road development is important to be addressed here.

Table 9: Achievements of the road development ✓

Unit	1997	2002	2005
Asphalt road on good conditions	17%	35%	49%
Gravel road on good conditions	25%	30%	34%
Rural road on good conditions	21%	28%	36%
Road coverage on 100 km ²	24.1 km	30.3 km	33.6 km
Road coverage for 100 people	0.46 km	0.49 km	0.51 km
Above 5 kms distance off the road	79%	75%	73%
Average reach to the road	21.4 km	17 km	15.5 km

Source: Ethiopian Road Authority, June 2006

Table10: Conditions of road in 2005 compared to 1992

No.	Item	1992	2005	% increased
1	Length of road (kms)	18081	37018	105
2	Asphalt road (kms)	3542	4972	40
3	Road on good conditions	15	38	153
4	Road within 1000 km ²	16	32	100
5	Average distance from the road	30	15	100

Source: Ethiopian Road Authority, June 2006

From the two tables displayed above it is evident that the Ethiopian roads situation is achieving tangible and higher % of development. But, still the table makes it clear that a lot has to be done to offer foreign investors amicable means of transport.

Achievements on Telecommunication Facilities

The Ethiopian Telecommunications Corporation has also revealed on September 5, 2006 that the ordinary telephone service has widened its customers from 133,091 in 1991 to 974,193 in 2006 with 732% increase. Mobile telephone customers have also increased from 6740 in 1999 to 866,700 in 2006 with 12,859 % increase, and the number of internet users has grown up from 1042 in 1997 to 25,724 in 2006 with 2,469 % increase too. Even though, this development seems to be tremendous success, the actual situation of means of communications is not very satisfying compared to other developing countries and the investors interviewed have commented that it needs improvement and 33% of the respondents have labeled it as major problem too.

Governance

According to the results of Table 8 on page 43, the issue of good governance in general has scored 67% as free from problem, only 17% have raised it as major problem and the rest are indifferent. Some of the investors interviewed have stressed their worry that lack of good governance especially at lower level of administrations has become very damaging to the image of the country. They have even expressed that some of the officials at Kebele and Woreda level need strong awareness creating forums, as they lack knowledge of the objective hardships and challenges investors face in producing flowers. Flowers are mostly considered as goldmines with high profit.

In addition, they appreciated their nearness to the higher policy makers. They have established a National Foreign Investment Advisory Council whose sole mission is to attract direct foreign investment to Ethiopia, chaired by Girma Birru, the minister of Trade and Industry. However, they complained the inconsistency of these forums and that most of the issues raised on these forums are not getting the proposed solutions on time. Moreover, they have complained that the lease payment for the land they are using varies from region to region as well as from place to place as there is no uniformity of handling this issue. The payment ranges from Birr 135/year/ha to Birr 10,000/year/ha and even certain investors have been asked to pay Birr 35,000/year/ha by the rate of urban lease policy.

Credit Facilities

According to the responses to the questionnaire showed on Table 8 on page 43, availability of credit facilities and efficient banking systems are considered to have no problem at all by 67% of the respondents and

only 17% have considered them as major problems. Nevertheless, the results of the interviews have revealed that the producers have problem in paying their debt on time. On the other side the Business and Construction Bank, which is the major credit provider with 85% – 90% share of the total credit provided to foreign floriculture investors, lacks efficiency in processing and requires about 5 months instead of the one-month schedule stated on the plan of the bank.

Other Facilities

Prevailing climate and natural resources are also considered as no problem areas by 67% of the respondents and 33% considered them as minor problem as displayed on Table 8 on page 43. Indeed, they are not major problem to most of the interviewed too. However, they mentioned that they have worries from wind and fire catastrophes. Flood disaster has also been mentioned as one time problem in one farm. As the cut flowers do not require special packaging like vegetables, packaging is not a big issue among the floriculture investors.

Overall company policy

Table 11 magnifies the influence of the internal policy of the investors in deciding to come to Ethiopia and invest in the floriculture sector.

Table 11: Influence of internal policy on Investment Decisions

Influencing factors	Major influence	Some influence	No influence
Return on investment expected to be higher than could be obtained at other countries	60 %	20 %	20 %
Defense of markets from	20 %	----	80 %

other exporters			
Attractive growth prospects	80 %	---	20%
Threat of total blockage of exports	20 %	---	80 %
Desire for growth	80 %	20 %	---
Opportunity to exploit more effectively the advantages of a differentiated product abroad	80 %	----	20 %
Your domestic competitors invested here	20 %	----	80 %
Wage rates	80 %	----	20 %
Grant or support	80 %	20 %	---
Proximity to the global market	100 %	---	---

Source: Responses to question no. F1 in the questionnaire

The proximity of the country to the global market has scored 100% as a major attracting factor. Followed by the lower wage rates, the support given by the government, attractive growth prospects, the opportunity to exploit the advantages of differentiated products, and their internal desire to grow, which have scored 80% of the respondents as major influencers. Expectation of higher return on investment has also scored 60% as major influencer. The remaining factors have scored 20% each as major influencers. From the results of this table, we can understand that the potential the country has is not to be neglected and needs more publicity in the outer world.

After analyzing the objective condition of the country and the foreign investors, it will be very significant to show the growth of the floriculture sector, which is recording dynamic changes from time to time with about 1000 ha of area coverage with in short years.

Comparison between Competitors ✓

Ethiopia exports cut flower to more than 50 countries in the world with Netherlands, Germany, UK, USA, France, Israel, Belgium, Italy, Japan and Norway as the top ten importers in the current year 2006/07. Even though the nearest destinations are the Arab World and African countries, due to lack of proper market search and promotional work they have remained to be at the middle and the back of the list of importers. The tables, which depict the list of importers of Ethiopian cut flowers with the volume and value of export and percentage share of each country during the year 2005/06 and 2006/07, are attached as annex.

As the EU is the main importer of Ethiopian cut flowers the following table is given to help compare the Ethiopian position among its African competitors in the sector.

Table No. 12 EU-imports of cut flowers and foliage (in € million) ✓

	2002	2003	2004
Total EU imports	3,439	3,222	3,142
Extra EU	2,718	2,559	2,486
Africa	329	335	348
Of which:			
Kenya	194.1	208.4	234.9
Zimbabwe	64.6	57.2	40.7
Uganda	15.5	17.6	20.9
South Africa	10.1	12.9	15.8
Zambia	22.1	17.5	14.2
Ethiopia	1.2	3.3	5.2

Tanzania	8.3	6.2	5.0
Rest of Africa	9.2	9.3	8.8

Source: Eurostat, 2005

Table no. 12 depicts how our neighboring country Kenya with similar climatic and natural resources has controlled the European market. According to Kenya Flower Council, (KFC) an organization established in 1996 with the purpose of bringing together independent growers and exporters, the floriculture sector in Kenya is the number 2 foreign exchange earner after tea bringing in more than \$250million per annum and employing 100,000 people directly and more than 2 million indirectly. The sub sector has also recorded the highest growth in volume and value of cut flowers exported every year. It has had a growth rate of 35% annually in the last 15 years. The area under roses is expected to keep increasing every year.

The current Kenya Flower Council membership represents more than 70% of the flowers exports. While Kenya was not exporting the products in 1970, it is currently the leading exporter to the European Union, contributing 31% of all flower sales, followed by Columbia with 17% and Israel 16%. The main European Union markets are Holland, Germany, Switzerland, France, and the United Kingdom. The Kenyan flower industry has gone through a significant maturing since 1990. Kenya's export volume has continued to grow from 14,000 tons in 1990 to 39,000 tons in 2000 to 61,000 tons by 2003 and 81,217 tons in 2005. This is depictive of a significant growth in the volume of flower exports. The value of flower exports has risen from about 1 billion Kshs in 1990 to 7billion in 2000 to 16 billion Kshs in 2003 and to a record 22.8 billion shilling in 2005. (Kenya Flower Council, 2005)

(The buying rate of USD: Kenyan Shilling = 1:69.5000 and Birr: Kenyan Shilling = 1:0.1272; National Bank of Ethiopia; as at 20.03.2007)

Summary ✓

To attract practical flow of FDI in the floriculture sector and practical injections to the development of the country, by winning the strong competition from other exporting countries in the global market a planned and consistent commitment of the government, strength of the producers' association and other investors, quality of the infrastructure of the country and the labour force are the main areas that need particular focus.

To achieve those basic weapons to the needed level of standard the coordinated and efficient handling is very crucial mainly the question of leadership in the area of good governance and accessing market needs more attention, skill and commitment.

CHAPTER V - CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Ethiopia is attracting more FDI by improving its policies, developing its infrastructure, providing the necessary incentives and promoting its potentials in all sectors of development. As a result, it is recording steady growth in its economy. It has also issued licenses to 2,482 foreign investment projects since 1993 with a registered capital of 86.4 billion birr which has to be encouraged and given special attention. Ethiopia, as a late comer to the floriculture sector, has registered formidable results in gaining more attention from foreign direct investors and more market share in the global market of cut flowers with 6 Billion Birr foreign investment in the sector and 21,667,000 USD value of export of cut flowers within the last six months only.

The sector is in general well established with the necessary well-defined policies, incentives, infrastructure, human resource and capital to implement its goals. Nevertheless, there are crucial problems, which have to be tackled in order to boost the sector by exploiting its potential to a maximum level and standard. Mainly issues of good governance, infrastructural development, development of market share and capacity building of all stakeholders as well as coherent and coordinated move of the government, producers, labour force and the general public has become very critical to be addressed with sense of urgency. The possible essential solutions are recommended as follows.

5.2 Recommendations

Based on the Analysis made in the previous chapter and in relation to what is explained in the literatures as well as after the reviewing of the actual objective reality on the ground the following recommendations are suggested. The recommendations are presented according to the priority of their magnitude and importance to the solutions of the problems foreign investors in the floriculture sector are facing. These recommendations could be of little help to instigate and internalize the solutions by appreciating the existing reality in open discussions among the responsible stakeholders involved in the sector.

1. Good Governance: Several major actions have been taken which could positively develop this sector. But all the remaining problems could be influenced by giving prompt solution to the problems encountered in this area.
 - The concerned stakeholders of the sector should have strong and decisive power in effecting solutions to problems that emanate from time to time on consistent and timely basis. The already started forum should be strengthened as a system and incorporate and represent all concerned bodies that can effect positive change to the sector.
 - The administrative bodies starting from Kebele to higher level officials should be well informed and knowledgeable about the policies and strategies the government has set and should have clear mind and well researched plans of how to implement the policies in a consistent and uniform manner wherever it is implemented in all regions and administrative areas. They should have well defined services in matters allocating appropriate land, fair lease rates, etc.

- Environmental precautions should be given serious attentions right from the beginning. Therefore the Environmental Protection Authority should enhance its capacities and be well equipped to install the necessary controlling and checking mechanisms. They should takeover the assignment of licensing and controlling of farms from the external foreign auditors as well as give strong follow up of the implementation of the ethical code of the producers and international codes and agreements.
- Financial institutions, which are involved in giving the necessary financial services, should have clear and defined strategies and policies as well as clearly defined and transparent implementation mechanisms. They should be very concerned whether the expected FDI and the created hard currency are flowing properly into the country or not. They should give consistent follow up on issues that lag on both sides. Arrears should be collected on timely basis and the foreign financial relations should be done smoothly.
- Within the scope of free market economy, the government should be concerned about the well being and appropriate pay of the labour force, which is participating in creating value in the sector. It should be given also special attention concerning the skill and ethical behavior of the labour force.
- Special attention should also be given to the capacity building of the producers in matters of properly managing their investment. They should be able to use up-to-date technology, make necessary research to develop the sector, coordinate their activities in a professional and profitable manner by using

the scarce resources like cargo flights efficiently and effectively.

- The existing problem of cargo flight shortage should get the necessary attention by the government, as the product of this sector is very perishable and sensitive. This issue should also concern the government highly because it has strong competition from international flights and is the source of huge amount of hard currency to the country.

2. Infrastructure development: The infrastructure development of the country is showing very encouraging results and the projects which have started implementation have got relatively good attention in getting access to means of communications, power and road. But if this sector is to be expanded to all potential parts of the country additional care and attention should be given to the development of infrastructure with strict sense of urgency.

Airports of the main towns should be upgraded up to an international level so that all products should not be exported via Addis Ababa Airport only.

3. Market Search: Enhancing market share of the cut flower in the global and other local as well as regional markets should be the main marketing strategy to be followed in this sector.

- All Ethiopians should be aware of the benefits Ethiopia is gaining from the sector, financially or image wise and they have to be ambassadors in popularizing the product in their environment and the outer world.
- The Ethiopian foreign missions should also give prior attention to market search and introducing of this product by organizing and participating in exhibitions. In addition to developing, the existing

market share in Europe and USA special attention should be given to penetrate in to the markets of the Middle East, Far East and Africa.

- The Ministry of Trade and Industry should continue to strengthen the already channeled way of promoting the sector through its wings, the Investment Agency, Trade Promotion Agency and bilateral relations. They should target at attracting market for the existing products and draw more FDI to the sector.
- The EHPEA should ensure that producers comply with standards with regard to social, environmental and good agricultural practices according to their code of practice.

It should bring together independent producers and exporters under one roof to ensure implementation of acceptable local and international standards, by strengthening its organizational capability to a level of being competitive in the global market. In addition to the individual efforts of getting market share, the association should also play its part in attracting more markets and promoting its products by lobbying Governments worldwide on behalf of the industry. Side by side, the quality and variety of the products should be maintained and developed further.

This study has tried to magnify the achievements and potentials the country can offer at the same time the shortcomings and constraints, which have to be dealt with the above-explained non-exhaustive recommendations.

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Annex I:-Flower Export by Destination for 1998 Eth.

Budget Year

Weight in Stem

Value in USD

COUNTRY	WEIGHT	VALUE	%SHARE
NETHERLANDS	117,534,405	10,426,862	47.47
GERMANY	39,663,697	6,656,471	30.30
UNITED STATES OF AMERICA	1,191,290	802,722	3.65
UNITED KINGDOM	3,994,956	694,899	3.16
ITALY	3,368,335	661,121	3.01
BELGIUM	7,904,845	657,805	2.99
ISRAEL	3,701,357	448,775	2.04
UNITED ARAB EMIRATES	1,429,783	269,699	1.23
SWEDEN	960,825	238,088	1.08
NORWAY	1,573,631	202,834	0.92
FRANCE	357,710	169,730	0.77
RUSSIA	1,657,460	144,309	0.66
SAUDI ARABIA	925,090	144,269	0.66
POLAND	179,700	87,164	0.40
JAPAN	125,080	61,313	0.28
KENYA	122,340	60,732	0.28
PORTUGAL	206,600	59,859	0.27
BRAZIL	548,967	55,212	0.25
ROMANIA	320,361	20,568	0.09
YEMEN	153,400	17,857	0.08
ZAMBIA	71,240	14,662	0.07
HUNGARY	27,180	14,297	0.07
LEBANON	90,610	9,996	0.05
COSTA RICA	1,760	6,865	0.03
FINLAND	22,860	6,033	0.03
ARMENIA	60,340	5,339	0.02
ZIMBABWE	24,660	5,015	0.02
GREECE	3,420	2,924	0.01
HAITI	24,020	2,784	0.01
SLOVENIA	1,680	2,505	0.01
BULGARIA	2,340	2,273	0.01
BOUVET ISLAND	58,560	2,263	0.01
SOUTH AFRICA	25,920	2,022	0.01
REUNION	31,840	1,881	0.01
BOSNIA	11,500	1,373	0.01
UGANDA	25,000	1,176	0.01
DJIBOUTI	3,620	1,129	0.01
SUDAN	10,020	1,038	0.005
CROATIA	8,500	985	0.004
CAYMAN ISLAND	1,060	931	0.004

Annex I:-Flower Export by Destination for 1998 Eth.

Budget Year

Weight in Stem

Value in USD

COUNTRY	WEIGHT	VALUE	%SHARE
NETHERLANDS	117,534,405	10,426,862	47.47
GERMANY	39,663,697	6,656,471	30.30
UNITED STATES OF AMERICA	1,191,290	802,722	3.65
UNITED KINGDOM	3,994,956	694,899	3.16
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BELGIUM	7,904,845	657,805	2.99
ISRAEL	3,701,357	448,775	2.04
UNITED ARAB EMIRATES	1,429,783	269,699	1.23
SWEDEN	960,825	238,088	1.08
NORWAY	1,573,631	202,834	0.92
FRANCE	357,710	169,730	0.77
RUSSIA	1,657,460	144,309	0.66
SAUDI ARABIA	925,090	144,269	0.66
POLAND	179,700	87,164	0.40
JAPAN	125,080	61,313	0.28
KENYA	122,340	60,732	0.28
PORTUGAL	206,600	59,859	0.27
BRAZIL	548,967	55,212	0.25
ROMANIA	320,361	20,568	0.09
YEMEN	153,400	17,857	0.08
ZAMBIA	71,240	14,662	0.07
HUNGARY	27,180	14,297	0.07
LEBANON	90,610	9,996	0.05
COSTA RICA	1,760	6,865	0.03
FINLAND	22,860	6,033	0.03
ARMENIA	60,340	5,339	0.02
ZIMBABWE	24,660	5,015	0.02
GREECE	3,420	2,924	0.01
HAITI	24,020	2,784	0.01
SLOVENIA	1,680	2,505	0.01
BULGARIA	2,340	2,273	0.01
BOUVET ISLAND	58,560	2,263	0.01
SOUTH AFRICA	25,920	2,022	0.01
REUNION	31,840	1,881	0.01
BOSNIA	11,500	1,373	0.01
UGANDA	25,000	1,176	0.01
DJIBOUTI	3,620	1,129	0.01
SUDAN	10,020	1,038	0.005
CROATIA	8,500	985	0.004
CAYMAN ISLAND	1,060	931	0.004

CYPRUS	540	531	0.002
QATAR	3,200	288	0.001
CONGO	1,290	198	0.001
CHINA	400	9	0.00004
UNSPECIFIED	1,500	95	0.0004
TOTAL SUM	186,432,892	21,966,899	100.00

Annex II-Flower Export by Destination for the First Half of 1999 Eth. Budget Year

Weight in
Stem
Value in
USD

COUNTRY	WEIGHT	VALUE	% SHARE	UNIT PRICE
NETHERLANDS	104,992,912	11,353,071	52.40	0.11
GERMANY	22,073,548	6,202,081	28.62	0.28
UNITED KINGDOM	5,941,504	973,008	4.49	0.16
UNITED STATES OF AMERICA	4,012,160	920,232	4.25	0.23
FRANCE	1,993,280	404,152	1.87	0.20
ISRAEL	2,526,948	315,683	1.46	0.12
BELGIUM	2,181,338	287,537	1.33	0.13
ITALY	317,710	170,079	0.78	0.54
JAPAN	928,850	169,342	0.78	0.18
NORWAY	1,155,050	155,720	0.72	0.13
UNITED ARAB EMIRATES	1,086,940	113,682	0.52	0.10
CANADA	800,400	94,815	0.44	0.12
KENYA	102,110	70,312	0.32	0.69
SWEDEN	356,583	68,794	0.32	0.19
SAUDI ARABIA	424,935	58,032	0.27	0.14
HUNGARY	168,320	43,118	0.20	0.26

DJIBOUTI	202,231	34,890	0.16	0.17
NIGER	105,200	29,648	0.14	0.28
CYPRUS	244,500	27,468	0.13	0.11
POLAND	219,120	21,510	0.10	0.10
SOUTH AFRICA	173,560	20,021	0.09	0.12
RUSSIA	157,585	19,846	0.09	0.13
SLOVENIA	37,040	12,163	0.06	0.33
SPAIN	10,080	9,473	0.04	0.94
TANZANIA	16,000	9,244	0.04	0.58
QATAR	82,528	6,175	0.03	0.07
GEORGIA	114,080	5,922	0.03	0.05
SWITZERLAND	4,480	5,671	0.03	1.27
SWAZILAND	60,000	5,515	0.03	0.09
ZIMBABWE	18,500	4,760	0.02	0.26
PORTUGAL	4,540	3,708	0.02	0.82
SENEGAL	35,840	3,670	0.02	0.10
CHINA	2,880	3,081	0.01	1.07
LEBANON	29,780	2,972	0.01	0.10
ICELAND	23,000	2,300	0.01	0.10
CAMERON	6,000	2,294	0.01	0.38
YEMEN	9,500	2,289	0.01	0.24
BRAZIL	26,000	2,280	0.01	0.09
EL SALVADOR	2,520	2,222	0.01	0.88
UGANDA	11,880	1,926	0.01	0.16
FINLAND	30,900	1,854	0.01	0.06
INDIA	15,000	1,500	0.01	0.10
TURKEY	1,600	1,363	0.01	0.85
REUNION	6,060	1,339		0.22

			0.01	
GREECE	1,260	1,062	0.005	0.84
NAURU	7,050	843	0.004	0.12
HONDURAS	360	427	0.002	1.19
SUDAN	3,860	402	0.002	0.10
CZECH REPUBLIC	360	72	0.0003	0.20
ANGOLA	780	47	0.0002	0.06
NEW ZEALAND	350	30	0.0001	0.09
UNSPECIFIED	193,680	19,684	0.09	0.10
TOTAL SUM	150,920,692	21,667,331	100.00	0.14

Annex III Sample Questionnaire

MBA Project

This questionnaire is constructed with the intention of obtaining information about the actual situation of the floriculture industry in Ethiopia and the potentials and challenges that foreign investors in Ethiopia are facing. Furthermore, the information gathered will be strictly used for educational purpose only and will not be used for any other official purpose. We thank you in advance for filling this questionnaire.

Please fill in the tables, tick the relevant answers on the boxes provided and use another sheet of paper if the space provided for your explanations and comments requested are not enough. Thank you.

A. Background of Investor/investors

1.	Personal Status of Investor I	Personal Status of partners (if any)
	Name:	
	Nationality:	
	Address in Ethiopia:	
	Educational level:	
2.	Professional status of Investors	

Countries of investment:
How long have you been in the flower industry?
Location of flower investment in Ethiopia:
Size/area of flower investment in Ethiopia:
How long did it take to get an investment license? hours weeks days months

B. Origination and Purpose of Project

1. Brief description of project:

Products produced or proposed to produce

- 1.
- 2.
- 3.

Markets: Export Inland sales Both

2. Forms of protection or incentive the investment received from Ethiopia, the host country:

- a) Imposition of tariff to hinder imports of products planned for as agricultural inputs rate ___%.
- b) Imposition of import quotas or other devices to restrict imports of products planned for agriculture. Yes No
- c) Import tariff reductions on
 - I. Equipment From ___% (normal) to ___%
 - II. Components From ___% (normal) to ___%
 - III. Raw materials From ___% (normal) to ___%
- d) Tax holiday: corporate income tax reduced
From ___% to ___% for ___ years.
- e) Accelerated depreciation allowances Yes No
- f) Needed infrastructure to be provided by host country. (E.g. means of transportation, power, water, etc.) Yes No
If yes, describe briefly.

g) Other incentives required to encourage investors. Please specify.

3. What are the suggested forms of protection?

4. Did Ethiopia provide any guarantees in relation to currency convertibility or expropriation of the investment?

Yes No

If yes, would you have set up without them?

Yes No Uncertain

If no, did you seek some? Of what kind?

C. Ownership Structure:

1. How was ownership distributed between participants in the project?
2. Specify any major changes that have occurred over the life of the project in the distribution of profits between the investing firm and the host country partner. (Exclude general changes in tax rates).

Average length of time between changes ____ years.

Direction of changes – To benefit of firm

To benefit of host country

3. Specify any major changes that have occurred over the life of the project in the improvement of employment benefits.

D. Benefits to host country:

1. Please estimate domestic currency equivalent expenditures on the following factors in the host country in 2006 (or 2005). (state currency rates)

Amount

- a) Raw materials and supplies
- b) Wage and salary costs
- c) All direct (income) taxes
- d) All indirect taxes (specify main components)
- e) Other social benefits
- f) Comments:

2. If import requirements are substantial, is this because local suppliers are:
 - a) Not available?
 - b) Not competitive?
 - c) Not up to quality specifications?
 - d) Other (specify)

3. Have any local suppliers come into being as a result, direct or indirect, of your activities?

Number of local suppliers _____

Estimate their aggregate total annual sales, if possible _____
4. Have any local distributors or sales organizations come into being as a result of your activities?

Number _____

Estimate aggregate value added _____
5. Have you taken any positive steps, other than those covered above, to encourage local entrepreneurship?

Please specify _____

6. Were any technological adaptations made for Ethiopian environment due to your presence?
 - a) Product type
 - b) Production equipment
 - c) Production techniques

Nature:

Cost: Birr

Reasons for adaptation:

- a) Scaling down to lower volume
- b) Capitalizing on low cost labour
- c) Lack of local skilled labour

7. What was the estimated training cost associated with the installation of these systems, and by whom was it borne?

Cost: Birr

Borne by:

8. Did you engage in training supplier firms? If so, discuss the extent of this activity and estimate its cost.

9. Did you engage extensively in host country market development via
- a) Establishment and training of independent distributors
 - b) Development and training of the users of your output (e.g. Retailers, consumers, etc.)
 - c) Operation of your own sales force

Please outline briefly the nature of your market development activities and their average cost since inception of the project.

10. What percentage of the total workforce were local nationals?

	At the beginning	At present
Production workers		
Foremen and supervisors		
Clerical and accounting		
Sales and marketing		
Management and engineering		
Total workforce		

11. What was your general wage policy for local nationals?

- a) Management and professionals: b) blue collar workers

Going wage rate

Higher degree + %

Lower degree - %

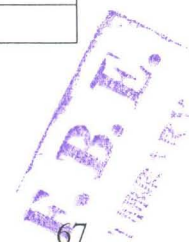
going wage rate

higher degree + %

lower degree - %

12. Were corporate exports from the host country changed as a result of the project? Yes No

	Exports prior to investment (Birr)	Exports after project fully operative	Expected direction of future changes
Same product type			
seedlings			
Others			



E. The investment decision process

1. What was the initial financial structure of the project in Birr?

Total capital _____	: Fixed assets _____	: Working capital _____
	Debt	Equity
Raised in host country _____	_____	_____
Raised in own country _____	_____	_____
Total _____	_____	_____

Interest rate charged on debt capital a) Raised in host country _____ %
 b) Raised in own country _____ %

Comments:

2. What was your best estimate of the length of time required to repatriate an amount equivalent to the investment in this project
 a. When it was originally projected, and b) from 2006 on?

- a. _____ years from 20____
 b. _____ years from 2006

3. What internal payback period was originally projected? What was the actual payback period, or what do you now expect it to be? (Internal payback is equivalent to looking at the economics of the investment through the eyes of a local partner)

Original estimate _____ years	actual (or current estimate) _____ years
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4. Has the project's return on investment reached expectations to date?

	Projected		Actual	
	2005	2006	2005	2006
Earnings before income tax percentage of total equity				
Earnings after income tax as percentage of total equity				

Main reason for differences between actual and projected rates: (If any)

5. Amongst the host county investment regulations that were applied to this project, were any measures missing which you would have liked to see in force?

a. If so, please specify

b. Did you negotiate for it/them?

Yes No , Successfully? Yes No

Were there any measures present, which were a hindrance to the investment decisions? Yes No

If yes, please specify and indicate how you did cope with it/them.

6. To what extent did the following national policies and conditions influence your decision to enter Ethiopia?

	Early stages in the decision process			Late stages in the decision process		
	Strongly positive	No effect	Strongly negative	Strongly positive	No effect	Strongly negative
Fears of political instability						
Fears of host country currency devaluation						
Prevailing or expected restrictions on repatriation of profits						
Restrictions on foreign ownership						

Domestic insurance against expropriation						
Tariff free entry of components						
Tariff free entry of equipment						
Incentives to export						
Tax holiday allowance						
Special depreciation allowance						
Availability of land and adequate infrastructure						
Availability of labour, skilled and unskilled						
Low wage costs						
Absence of capital markets in the host country						
Current size of host country flower industry						

If any of the above factors was critical in making your investment decision, please so indicate.

7. To what extent did the following objective conditions influence your activities in Ethiopia?

	Major problem	Minor problem	No problem
Availability of quality packaging industries			
Accessibility of adequate road transportation			
Efficiency of cargo flights			
Access to adequate means of communication			
Availability of good governance			
Existing skill and number of labour force			
Availability of credit facilities and efficient banking systems			
Prevailing climate and natural resources			

F. General data on overall company policy

1. To what extent did the following factors influence your corporate policies in favor of investing in Ethiopia?

	Major influence	Some influence	No influence
Return on investment expected to be higher than could be obtained at other countries			
Defense of markets from other exporters			
Attractive growth prospects			
Threat of total blockage of exports			
Desire for growth			
Opportunity to exploit more effectively the advantages of a differentiated product abroad			
Your domestic competitors invested here			
Wage rates			
Grant or support			
Proximity to the global market			

If you have anything to add:

Thank you