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**A Project Report On
The Effectiveness of the Ethiopian
Investment Policy**

The Case of Foreign Direct Investment (FDI)

**Submitted In Partial Fulfillment for a Masters Degree in
Business Administration**

**By:
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**Under The Supervision of:
Zewdie Shibrie(Dr.)**

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**Faculty of Business and Economics
Addis Ababa University**

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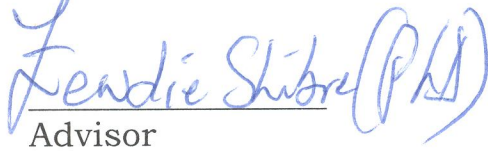
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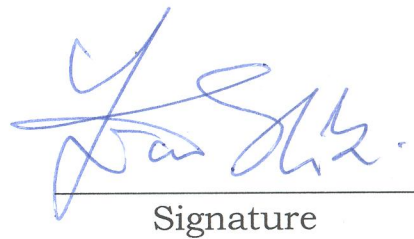
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Case Of FDI**

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DECLARATION

I, MELAT GETAHUN, declare that the study entitled “**The Effectiveness of the Ethiopian Investment Policy: the Case of Foreign Direct Investment (FDI)**”, undertaken by me in partial fulfillment of the requirements for the Degree of Master of Business Administration, is my original work. The study has not been submitted for gaining any Degree or Diploma in any college or university.

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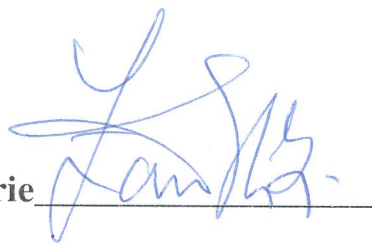
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CERTIFICATE

This is to certify that Wzt. **MELAT GETAHUN** has worked on project entitled “**The Effectiveness of the Ethiopian Investment Policy: the Case of Foreign Direct Investment (FDI)**” under my supervision. To my belief, the work undertaken by Wzt. Melat is original in nature and is suitable for submission in partial fulfillment of the requirements for the Degree of **Master of Business Administration**.

Dr. Zewdie Shibrie



Date:

March 27, 2007

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Billy, have I told you that you're the *BEST*?

Seife, you are my '*Sunshine*' thank you for being with me through thick and thin, you are a friend from heaven.

But most of all Dad, '*Neberti*'. Thanks for making everything possible. Every good thing in my life has happened because of you. Thank you.

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Abstract

This is a study that aims at evaluating the success of the Ethiopian investment policy in achieving its goals. Success in this study is measured in terms of the rate of execution of accredited investment projects and the resulting capital generated and jobs created. In this regard facts reveal below average success. However the composition of foreign investment projects which is dominated by the manufacturing sector is in line with the country's development program and can potentially allow the transfer of technology and managerial skills. The Ethiopian investment climate is characterized by fluctuating capital inflow and employment creation due to different social, political and economic factors that affect the operation of foreign investment projects in the country.

In an attempt to make a practical examination of the effectiveness of the investment policy the study has considered 3 foreign direct investment firms engaged in the three dominant sectors in which foreign investors are engaged namely agriculture, manufacturing, and construction. The core points of focus of the study in examining the effectiveness of the policy were issues related to technological transfer, employment generation, managerial skill development and ,salary and benefits. In addition to these, the study has attempted to see the possible effects of the foreign companies on local firms in encouraging business activities through creating backward and forward linkages. There was also an attempt to get a clear picture of the investment climate by incorporating views and facts from officials in the investment agency who are in charge of licensing promotion and following up of foreign investment ventures in Ethiopia.

Based on the findings of the study, there has been a controversial outcome as far as the transfer of appropriate technology is concerned, while the transfer of skills to employees as well as improvement in salary and benefits has been encouraging, there is minimal success in attaining the development of local businesses through linkages with the foreign companies as they purchase most of their inputs and sell most of their products in foreign markets resulting in a weak backward and forward linkage with local firms.

In putting the pieces together Ethiopia hasn't done its homework to enjoy the fruits of foreign direct investment, making it necessary for every stakeholder to do their level best to change the story.

List of Figures and Tables

List of Tables

	Page
Table 1 FDI for comparable countries	2
Table 3.1 Licensed Vs operational Domestic investment Projects by Sector.....	25
Table 3.2 The Percentage of licensed domestic investment projects that became operational.....	27
Table 3.3 Total licensed Vs operational investment ventures.....	29
Table 3.4 Number of licensed Vs operational FDI Projects.....	33
Table 3.5 Expected Vs actual Capital generated	36
Table 3.6 Expected Employment Vs Actual Employment Generated.....	37
Table 3.7 Sectoral distribution by number of projects and trend of FDI coming to Ethiopia and Year of Establishment.....	39
Table 3.8 Average Percentage Sectoral composition of FDI in Ethiopia for the year.....	40
Table 3.9 Trend for capital in flow for Operational Foreign Direct Investment Projects.....	45
Table 3.10 Average foreign investment capital by sector.....	47
Table 3.11 FDI as a percentage of GDP.....	48
Table 3.12 Number of years' experience of workers in foreign companies.....	49

	Page
Table 3.13 Employee composition based on past working experience.....	50
Table 3.14 Technology transfer issues in the views of worker and managers	51
Table 3.15 Assessment of knowledge gain and forms of training in sample foreign investment projects.....	53
Table: 3.16 Salary and other benefits as a result of working in a foreign firm.....	54

List of Figures

	Page
Figure 1 Percentage Share of Investment Capital.....	23
Figure 2 Licensed Vs operational Domestic Investment Projects by Sector	26
Figure 3 Total Number of Licensed and Operational Investment Projects in Ethiopia.....	31
Figure 4 Total Numbers of Expected Vs Actual Employment Generated.....	32
Figure 5 Licensed Vs Operational FDI Projects.....	35
Figure 6 Sectoral Composition of FDI Projects in Ethiopia	42
Figure 7 Trend of Employment Generation by Foreign Direct Investment Projects in Ethiopia	43
Figure 8 Trend of Foreign Capital Inflow in to Ethiopia	46
Figure 9 Salary and Benefit Improvement of Workers in Sample FDI Projects.....	55

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Table of Contents

	Page
Acknowledgement.....	i
Abstract.....	ii
List of Tables	iii
List of Figures	v
Chapter 1.....	1
1.1 Introduction.....	1
1.2 Statement of the problem	2
1.3 Significance of the study.....	3
1.4 Objective of the study.....	3
1.5 Scope of the study.....	4
1.6 Research Methodology.....	4
Chapter 2: Literature Review	8
2.1 Historical development of FDI.....	10
2.1.1. Global	10
2.1.2 Ethiopia.....	11
2.2 Trends of FDI.....	12
2.2.1. Global.....	12
2.2.2. African.....	14
2.3 Theoretical arguments on the Pros and cons of FDI	14
2.4. Determinants of FDI in developing countries.....	17
2.5 Overview of FDI in Ethiopia.....	20
2.5.1 Investment policy regime of Ethiopia.....	20

	Page
2.5.2. Post reform FDI Performance.....	21
Chapter 3: Data Analysis.....	23
3.1. Composition of Investment Capital in Ethiopia by Type of Ownership.....	23
3.2 Measuring the Success of the Investment Policy of Ethiopia.....	24
3.2.1. Domestic investment.....	24
3.2.2 The Total National investment made	28
3.3. Foreign Direct Investment.....	33
3.3.1 Expected Vs operational projects.....	33
3.3.2. Expected Vs Actual Generated Capital	36
3.3.3 Employment Generation.....	37
3.4 Sectoral Distribution of FDI in Ethiopia	38
3.5 Trend of Employment Generation.....	43
3.6 Trend for capital in flow for Operational Foreign direct investment Projects.....	44
3.7 Cross country comparison.....	48
3.8 Study Findings.....	49
3.8.1 Employee profile.....	49
3.8.2 Technological transfer issues.....	50

	Page
3.8.3 Training and employee development issues.....	52
3.8.4 Salary and other benefit issues.....	54
3.9. Forward and backward linkages of the FDI	
projects.....	55
3.9.1 Backward Linkages.....	55
3.9.2 Forward Linkages.....	56
3.10 Government officials' description of the current	
investment climate of Ethiopia.....	56
4. Conclusion and Recommendation	59
4.1 Conclusion	59
4.2 Recommendation.....	60
 <i>Reference</i>	
<i>Annex A</i>	
<i>Annex B</i>	
<i>Annex C</i>	

Chapter 1

1.1 Introduction

Transforming the Ethiopian economy has been a challenge of all times. The major issue here is changing the basic structure of the economy from agrarian economy, which is susceptible to the vagaries of nature to a sustainable, reliable and non fluctuating economic base that ensures class mobility of the wider rural community of Ethiopia.

In this regard the first focus was on agriculture. The then governments have taken different measures which they believed would make agriculture a high performer and a swift way out of poverty. Among these the different agricultural package programs and other agricultural performance improvement measures are worth mentioning.

In spite of these efforts however, the Ethiopian agriculture has failed to feed the ever-growing population let alone to bring a major change in the lives of people, leaving food self sufficiency the long standing problem of the nation. As a result, trade was considered as a secondary resort which was believed to supplement agriculture in bringing major economic transformation. Based on this belief different efforts that ranged from the signing of regional and international trade agreements to the designing and implementation of different trade policy regimes under different governments especially starting from the Imperial era were made. Both the imperial and the Marxist governments tried to improve Ethiopia's balance of trade, the former by encouraging exports and the latter by curtailing imports. However, Ethiopia's foreign trade balance has basically been in deficit since 1953.

Hand in hand with the effort to encourage trade, came the need to integrate it with investment both from domestic and foreign sources. The focus on investment especially in the form of foreign direct investment was seen as a vital resort to narrow the gap between saving and investment. It was further believed to result sectoral transformation at the macro level and lead to the introduction of effective business management techniques and suitable and up-to-date techniques of operation through experience sharing and technological transfer to transform the country from its wide agricultural base to industry. To this effect, with the exception of the dergue regime, the imperial regime and Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) have been trying to mobilize both foreign and domestic savings through different policies and incentive packages. However the coming to power of the dergue regime interrupted

the outcomes from such an effort during the imperial era. In the post dergue period the ceased effort to encourage domestic and foreign direct investment gained a new momentum with the drafting of new investment proclamation to encourage private investment in 1992. Ever since, the policy has been amended repeatedly so as to make it as attractive to investors as possible. However, in spite of the efforts made by the government, the response from both domestic and foreign investors was not as enthusiastic as expected.

This suggests that success in mobilization of capital through investment requires more jobs to be done beyond the design and implementation of sound policy framework.

Thus there should be a through examination of the performance of Ethiopian investment policy when it comes to foreign direct investment and identification of factors that affect its success such as the microeconomic environment as well as educational and health policy of the country should be considered to achieve success in the area.

1.2 Statement of the Problem

Though the Ethiopian investment policy promises a conducive socio-economic, political and environmental conditions and diverse incentive packages, its success in attaining its mission is far below what is expected. This fact can easily be seen by comparing the lucre accruing to Ethiopia with that of other developing countries pursuing more or less the same investment policy and are at the same level of development as Ethiopia.

Table 1. FDI for Comparable Countries

Country	FDI(in million\$)1991-95	1996	FDI as a % of GNP
Ethiopia	6	5	0.084
Ghana	102	120	1.94
Kenya	54	121	2
Uganda	13	13	0.15
Low Income Countries	27,702	49,531	-
All LDCs (least developed countries)	6,642	118,960	2.05

Source: World Bank, Global Development Finance, 1998 cited in Berhanu et al, 1999

As far as the policy is concerned, it has been amended more than twice in the last 15 years since its first proclamation in 1992. However its success in attaining the desired results such as managerial skill development, effective technological transfers questionable. This fact calls for an effort to critically assess the different dimensions FDI and look for factors that can explain the lower degree of success in attracting FDI beyond the design and implementation of a sound investment policy.

1.3 Significance of the Study

This is a forward-looking study that treats the two most basic sectors of the economy with a strong forward and backward integration namely agricultural and industry. In addition, the study has taken a brief look at the construction sector that facilitates the generation and a smooth operation of FDI projects in the country through making infrastructure development possible.

The focus of this study being on the effectiveness of the investment policy on these sectors in particular is believed to direct attention to the effective management of the different sectors as well as firm level activities related to these sectors.

The study has tried to answer the question whether the investment policy has succeeded in fetching the expected managerial skills technological transfer etc. And has looked for factors that affect the success of the policy for further consideration in building up a conducive investment environment.

Thus, the study would be significant both at the macro level where the country's development goal is concerned and at the micro level so as to achieve qualified personnel through experience sharing and obtaining least cost operation through the transfer of appropriate technology.

1.4 Objective of the Study

General Objective

The study attempts to examine the performance of the investment policy with regards to fetching benefits such as managerial skill development, marketing skill development, technological transfer, employment generation etc. And attempts to uncover the reasons behind such performance of foreign direct investment in Ethiopia with a special focus on the agriculture and industry sectors and a brief treatment of the construction sector.

Specific Objectives

- ✓ - To take a brief look at the performance of investment policy of the country as measured by project implementation rate, registered cash flow, employment generated and checking the sectoral composition of the FDI brought into the country to see if it fits with local conditions.
- To take sample FDI ventures operating in the country and analyze their success rate when it comes to effective technology and managerial skill transfer, encouragement to the establishment of local firms, and in improving the living conditions of their employees through the provision of better salaries and related benefits.
- To make a cross country comparison of FDI performance of Ethiopia with other developing countries which pursue the same investment policy, are at a relatively same level of development and which are considered successful in their endeavor to attract foreign direct investment.
- To pin point factors that should go hand-in-hand with a good policy for success in generating the expected volume of FDI to the country and make suggestions as to what needs to be done if Ethiopia is to improve its score in attracting FDI

1.5 Scope of the Study

At the sectoral level study has focused on the assessment of the agro-industrial foreign direct investment, by considering the two interdependent sectors of the economy with a high degree of forward and backward linkages. In this regard, special treatment was given to areas of flower production from the agriculture sector and tyre production from the industrial sector. Further, in the list of areas of consideration is the construction sector, which is believed to be the main sector that works hand-in-hand with the investment policy towards achieving a higher FDI by creating a conducive macro and micro economic environment to further attract FDI.

1.6 Research Methodology

Data Source

In gathering information both primary and secondary sources of data are used. The primary data is generated through the distribution of questionnaires, informal interview with the different stakeholders and through observation. On the other hand, secondary data is fetched from





different published materials such as journal articles, books, and periodic publications of the Ethiopian Investment Agency, World Bank, and the IMF.

Sample Population and Sampling Technique

The sample population of the study is the different stakeholders in the area of the foreign direct investment such as

- Foreign investors or managers of joint venture investments that together represent 479 operational foreign direct investment projects with a total outlay of 11,461 million Birr.
- Employees that comprise of 43,701 permanent and 40,453 temporary employees working in the different investment project between the period July 1992 and July 2006. These employees, especially the permanent ones, include workers at different levels of management top, middle front line managers.
- Government officials in charge of promoting, licensing, facilitating and following up the different activities of the investors.
- Firms making up the local supply chain of the different operational foreign direct investments.

Sampling Technique

I. Investment Ventures and Employees

1. First, the different areas of investment ventures were stratified following the classification adopted by the Ethiopian investment agency. The areas include Agriculture, hunting and forestry, Fishing, Mining and quarrying, Manufacturing, Construction, Education, Health and social work, Hotels and restaurants, Electricity, gas, steam and water supply Real estate, renting and business activities Transport, storage and communication, Wholesale, retail trade & repair service, Private households with employed persons, Financial intermediation, Extra-territorial organizations and bodies, Public administration and defense; compulsory social security Other community, social and personal service activities
2. Then 3 areas of investment were selected out of the list of 17 areas of investment identified by the agency. The 3 areas selected include Agriculture, Manufacturing and Construction sectors. In the selection process, purposive sampling technique is applied to identify sectors which are inherently significant to the Ethiopian economy both at the macro and micro level

and to incorporate activities sectors which have a far reaching implication to the development of local businesses and attracting further FDI.

3. At the 3rd stage 1 FDI venture was selected from each category through simple random sampling technique.
4. At the 4th stage each selected investment venture was stratified in to its major functional groups as top, middle level and front line of management and lower level employees.
5. A simple random sample and proportionate sampling of 10 employees was taken from each category made at the fourth stage.

II. Government Officials

When it comes to government officials, direct contact with the relevant staff in charge of promoting, licensing and following up investment projects was made.

III. Linking/ Supporting Firms

Firms supplying inputs to and delivering services to the FDI ventures identified through the FDI ventures selected were contacted.

Instruments of Data Collection

The primary data for the study was gathered mainly through questionnaires structured to answer the basic issues of concern of the study. The questionnaires were administered to the government delegates at the Ethiopian investment agency to assess the different bureaucratic procedures involved in licensing and the systems of attracting FDI beyond the "policy" and the incorporated incentive package. Questionnaires were used to identify areas of concern to the investors to touch up on some points that could supplement the policy in scoring encouraging figures in the essential dimensions of FDI. Further, questionnaires were used for information from the top level managers and middle level managers on issues such as the condition of managerial training at all levels and the level and nature of imported technology and trends in working techniques.

Interview and observation was used to further supplement the questionnaires in assessing the overall success of the investment policy in the area of managerial skill development for the front line managers and the skill spillover for the lower level employees.

Firms in the supply chain of the FDI ventures were dealt with through the combination of questionnaires, interview and observation to evaluate the improvements in product quality,

change or improvement in marketing techniques brought through the integration of operation with the foreign firms.

Method of Data Analysis

The study has used descriptive data analysis technique where percentages, graphs, averages, tables and pie charts are used to illustrate facts and study findings.

Chapter 2

Literature Review

Foreign direct investment (FDI) is 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). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate. 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 (Wikipedia,)¹.

Foreign Direct Investment (FDI) now is the dominant form of resource flows to developing economies and the primary source of private capital for low-income countries, accounting for more than a quarter of aggregate net flows and exceeding total long-term debt flows. (Development Brief Number 14, 1993)² FDI is a large and growing source of equity investment that brings with it considerable benefits: technology transfer, management know-how, and export marketing access. Many developing countries will need to be more effective in attracting FDI flows if they are to close the technology gap with high-income countries, upgrade managerial skills, and develop their export markets. (Development Brief Number 14, 1993)

Types of FDI

Greenfield investment: direct investment in new facilities or the expansion of existing facilities. 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. 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 uses up resources (labor, intermediate goods, etc). Another downside of green field investment is that profits from production do not feed back into the local economy,

¹ the free encyclopedia cited in http://en.wikipedia.org/wiki/Foreign_direct_investment)

² in <http://www.worldbank.org/html/dec/Publications/Briefs/DB14.html>)

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.

Mergers and Acquisitions: 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 benefit 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. Nevertheless, mergers and acquisitions are a significant form of FDI and until around 1997, accounted for nearly 90% of the FDI flow into the United States.

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:

1) **Backward vertical FDI:** where an industry abroad provides inputs for a firm's domestic production process.

2) **Forward vertical FDI:** in which an industry abroad sells the outputs of a firm's domestic production (Wikipedia).

Types of FDI based on the motives of the investing firm

FDI can also be categorized based on the motive behind the investment from the perspective of the investing firm:

Resource Seeking: Investments, which seek to acquire factors of production that are more efficient than those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all (e.g. cheap labor and natural resources). This typifies FDI into developing countries, for example seeking natural resources in the Middle East and Africa, or cheap labor in Southeast Asia and Eastern Europe. (Wikipedia).

Market Seeking: Investments, which aim at either penetrating new markets or maintaining existing ones. FDI of this kind may also be employed as defensive strategy; it is argued that



businesses are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one. The foreign Mergers and Acquisitions in the 1980's can characterize this type of FDI by Accounting, Advertising and Law firms.

Efficiency Seeking: Investments, which firms hope, will increase their efficiency by exploiting the benefits of economies of scale and scope, and also those of common ownership. It is suggested that this type of FDI comes after either resource or market seeking investments have been realized, with the expectation that it further increases the profitability of the firm. Typically, this type of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets (e.g. the EU) (Wikipedia).

2.1 Historical Development of FDI

2.1.1. Global

Even though it is in the first decade of the 20th century that FDI emerged as a means of global capital flow in international scene, the real boom in the flows of FDI took place right after the end of the World War II (Harvey and Milios, 1999).

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 wrought by the conflict. The U.S. accounted for around three-quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon, no longer the exclusive preserve of OECD countries. (Wikipedia)

After gaining political independence in the 1960s, African countries—like most developing nations—were very skeptical about the virtues of free trade and investment. Consequently, in the 1970s and 1980s several countries in the region imposed trade restrictions and capital controls as part of a policy of import-substitution industrialization aimed at protecting domestic industries and conserving scarce foreign exchange reserves. There is now substantial evidence that this inward-looking development strategy discouraged trade as well as foreign direct investment (FDI) and had deleterious effects on economic growth and living conditions in the region (Rodrik, 1998 cited in Dupasquier et al, 2005).

The disappointing economic performance of African countries beginning in the late 1970s up till the mid 1990s, coupled with the globalization of activities in the world economy, has led to a regime shift in favor of outward-looking development strategies.

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. As per the FDI Confidence Index compiled by A.T. Kearney for 2005, China and India hold the first and second position respectively, whereas United States has slipped to the third position. (Wikipedia).

✓ 2.1.2 Ethiopia

Historically FDI started to put its fingerprint in the Ethiopian economy during the imperial era specifically in the 1950s. With in a market oriented economic system adopted during the emperors rule, and strong encouragement extended for foreign investors, there has been a substantial flow of FDI which has increased from an average yearly flow of Ethiopian \$15.1 million to \$53.83 million between 1950 and 1957(Michael, 2003).

The aftermath of the revolution that took place in 1974 however brought a change of policy that ruled out the role of the private sector. Accordingly the state took up the leading figure in economic development. Therefore the strategy of the government targeted at demolishing private investment, both domestic and foreign in particular. The outcome was that FDI inflows continuously fell down and even ceased at all in the years latter.

In addition, the Ethiopian gross domestic saving in general is so small that it cannot satisfy the country's demand for investment. In fact, in the past decades the Gross Domestic Saving (GDS) crippled down wards from regime to regime.

✶ The key to narrowing the gap between Ethiopia and other countries is to quicken the pace of economic growth which in turn depends on the amount of the country's national income that is saved and her ability to attract foreign savings (Berhanu and Befekadu, 1999).

Obviously this entails that the resource gap has to be narrowed in one way or another. In this context, therefore foreign direct investment becomes instrumental in easing the resource gap and effort should be put in place in boosting up the inflow of foreign capital. (Michael, 2003).

After the downfall of the socialist regime, a liberalized economic policy was adopted that aimed at raising the role of the private sector. To this effect, the Ethiopian government issued a new investment code in 1992, which was meant to robust and build up the private sector participation in the mobilization of resources and formation of capital as part of liberalization process after the

end of the military years during which the private sector was denounced. In other words, the objective of the proclamation was to encourage private investment, both domestic and foreign in particular. Especially, foreign investors were encouraged to participate in sectors which facilitate the transfer of technology, promote export, and resource based import substitution activities (Michael, 2003).

Following the policy change, private investment began to assume a sensible role in capital investment. Foreign investment in particular showed a significant increment after it was doomed by the previous regime (ibid, 2000).

2.2 Trends of FDI

2.2.1. Global

Over the past 25 years, FDI has grown on a global scale at a more rapid rate than trade, and both of these have grown considerably faster than world output (Kozul-Wright and Rowthorn, 1998). Economic theory predicts that, in the absence of market distortions, capital will flow from where its return on investment is lowest (i.e. where capital is most abundant) to where its return is highest (i.e. where it is most scarce), increasing world output and the global efficiency of resource use. Contrary to this prediction, FDI has been increasingly concentrated among developed countries (Brainard, 1993 cited in Milberg). At the same time, the heightened international mobility of capital, resulting from declining costs of communication and transportation and the development and liberalization of financial markets, has also meant that the international division of labour depends less on comparative advantage and more on firm decisions about the location of production.

Over the past 20 years, developing countries have experienced a shift in the composition of inward capital flows. Since the debt crises of the early 1980s reduced both the availability and the appeal of foreign bank loans as a source of capital for developing countries, foreign bank lending to developing countries has declined as a share of total developing country capital inflows, replaced by nonbank financial flows and especially by Inward Foreign Direct Investment (IFDI). While the bulk of FDI still takes place among developed countries, developing countries have slowly increased their share of world FDI from 29 per cent to 37 per cent from 1992 to 1997. The stock of world FDI that is located in developing countries rose from

23 per cent to 30 per cent between 1980 and 1996. But the expansion of FDI to developing countries has not been spread evenly across countries. The increase in the developing country share of the world FDI stock is due almost entirely to IFDI to China. In 1996, China accounted for 31.4 per cent of IFDI that flowed to developing countries. China seems to be a popular host of FDI because of both its low labor costs and its enormous domestic market (Feenstra, 1998 cited in Milberg). But the skewed distribution of investment among developing countries extends beyond China. The top 10 developing country recipients of IFDI – China, Brazil, Singapore, Mexico, Indonesia, Argentina, Malaysia, Poland, Chile and Peru – accounted for 75 per cent of total IFDI to developing countries. This degree of concentration has been largely unchanged for the past 10 years. There has been a shift in the sectoral composition of developing country IFDI, with investment in services now growing more rapidly than investment in manufacturing, which in turn had been growing more rapidly than investment in natural resource development. Two other recent developments are important for developing countries. One has been the shift in Japan's outward FDI orientation: Japanese expansion into the United States market in the late 1980s has been replaced in the 1990s by rapid outward FDI in East and South East Asia. Another dimension of the recent increase in IFDI to developing countries is its highly cyclical nature (World Bank, 1997).

Another feature of the rapid growth of FDI to developing countries in the 1990s is the "boom" in international mergers and acquisitions (M&A). Developing country cross-border M&A sales increased more than fivefold between 1990 and 1997, to over \$95 billion in sales. More than 90 per cent of these M&A investments were in South-East Asia and Latin America. In some cases, privatization has accounted for a large share of FDI inflows – upward of 25 per cent in some Latin American countries. When FDI is through acquisition of existing assets ("Brownfield" as opposed to "Greenfield" investment), the demand stimulus from IFDI is less than when it is investment in new productive assets. The extent of technology transfer is also more in question if entirely new productive capacity is not put in place, although in instances of privatization of major sectors, such as telecommunications in South Africa, a major infusion of new technology is typically part of the condition for the sale (ibid, 1997).

2.2.2. African

The sector in which a country receives FDI affects the extent to which it could realize its potential benefits. In East Asia, substantial FDI went into the secondary sector thereby contributing to the diversification of the export base and to higher and sustained growth. Africa, on the other hand, receives FDI mostly in the primary sector, and so the benefits to the region have not been as significant as in East Asia. In this regard, a key challenge facing Africa is how to attract more FDI in dynamic products and sectors with high income elasticity of demand.

On close examination, however, one finds that a number of “frontrunners” have emerged who have attracted above-average amounts of FDI -- even by the standards of developing countries as a whole -- not only in traditional sectors, such as mining and petroleum, but also in manufacturing and service industries. Most African countries have substantially improved their FDI framework, and a number of them have already attracted significant amounts of FDI, in absolute or relative terms, or both, from an increasing number of home countries, including developing countries. In addition, FDI in Africa is no longer concentrated in the traditional natural resources sector, but also manufacturing and services industries have received considerable amounts of FDI in recent years (UNCTAD 1999).

2.3 Theoretical Arguments on the Pros and Cons of FDI

Studies of the linkage between foreign direct investment and development have produced confusing and sometimes contradictory results. Some have shown that foreign direct investment (FDI) spurs economic growth in the host countries; others show no such effect. Some find spillover benefits to the host economy—that is, benefits not appropriated by investors or in the form of superior wages—while others do not discern these benefits.

For years, it has been unclear whether developing countries benefit from devoting substantial resources to attracting FDI. A government authority in a developing country might, for example, grant a subsidy to a foreign-invested project if it believed that the project would produce positive externalities or spillovers. These could include managerial and worker training, technological learning that is transferred outside the firm, an increase in supplier efficiency, and demonstration effects through which the success of one investor persuades others to invest in the host country. Yet it has proved extremely difficult to measure such effects.

While recent research tends to point to evidence that spillover benefits do exist, the effects are not universal. One study concludes that the diverse results are due to differences in the host country: varying levels of indigenous human resources, private-sector sophistication, competition, and host-country policies toward trade and investment.

Research has also produced mixed answers to the question of whether FDI fosters economic growth in host countries, depending on which country is studied and which methodology is employed. (Moran et al, 2005)³.

Pro FDI Views

IFDI is now viewed in many policy circles as making an unambiguously positive contribution to economic development, providing a non-volatile source of capital that requires neither a fixed interest payment nor a repayment of principal at a specified date. Moreover, it is said to bring “technological spillovers” that increase efficiency and provide export market access, thus having a net positive impact on the balance of payments, equivalent to the expansion of trade itself. Julius (1990), for example, writes that: “As with trade, increased international flows of FDI should be encouraged because they bring both global and national benefits.

They stimulate growth through more efficient production and they lower prices through greater Competition. And according to a recent Organization for Economic Co-operation and Development (OECD) study, “Like trade, foreign direct investment acts as a powerful spur to competition and innovation, encouraging domestic firms to reduce costs and enhance their competitiveness” (OECD, 1998,). Finally, since foreign direct investment (FDI), especially in the manufacturing sector, is often motivated by firms’ desire to have an internationally integrated and flexible production process, it is believed that developing countries that fail to attract foreign firms risk being shut out of these growing firm-level, internationally integrated, flexible production “networks”, i.e. being left out of the entire process of globalization of production, including international trade. That is, there is a growing perception of IFDI (along with exports) as the key to the door of economic development (Milberg, William)⁴

³ http://bookstore.iie.com/merchant.mvc?Screen=PROD&Product_Code=3810

⁴ <http://www.gimun.org/2006/documents/Foreign%20Direct%20Investment%20and%20Development,%20Balancing%20Costs%20and%20Benefits.pdf>

In sum, the main features of this view are⁵ that IFDI, if a host country creates an environment conducive to investment, can play an important role in its development efforts and its potential benefits include:

- *Employment generation and growth*
- *Supplementing domestic savings*
- *Integration into the global economy*
- *Raising skills of local manpower*
- *Transfer of modern technologies*
- *Enhanced efficiency*

Views against FDI

In arguing against the potential benefits of FDI theorists state that, historically, there were very few cases of successful industrialization in which IFDI has been a major driving force. There is a potentially large social cost to the competitive struggle to attract IFDI, and there is very mixed evidence on the degree to which the incentives offered as part of this competition succeed in attracting foreign firms. Thus while policies on IFDI should not be ignored, the policies most effective in “attracting” IFDI are not those relating directly to the foreign sector but those that promote domestic economic growth through investment, infrastructure and human capital development – to raise absorptive capacity – and domestic competition. Finally, the IFDI-based development strategy suffers from a fallacy of composition: if all countries successfully pursue the strategy simultaneously, global excess capacity is likely to develop that will only worsen developing countries’ terms of trade (Milberg, William)

In concluding these views Petras, (2005) in his article entitled "*Six Myths About the Benefits of Foreign Investment The Pretensions of Neoliberalism*" presents 6 myths about foreign direct investment by referring to practical experiences of developing nations engaged in FDI at different levels and sectors.⁶

⁵See Appendix A.1 for details

⁶ See Appendix A.2 for details

2.4. Determinants of FDI in Developing Countries

FDI as its name suggests, first involves ownership of the assets of a firm. Second, it involves the choice of a host country for these assets. The decision of where to invest will depend on cost conditions and the extent to which investment gives preferential access to the local market, and both of these considerations depend on trade restrictions and other policies in the host country (Feenstra, 1998).

Until recently, there was a strong consensus in the literature about why multinationals invest in specific locations. The view was that Multinational Corporation (MNCs) are mainly attracted by strong economic fundamentals in the host economies. The most important of these are market size and the level of real income, with skill levels in the host economy, the availability of infrastructure and other resources that facilitate efficient specialization of production, trade policies, and political and macroeconomic stability as other central determinants. This hierarchy of host country characteristics largely assumed that FDI was market seeking; it was recognized that foreign investors seeking an export base would be less focused on local market size and more concerned about the relative cost of production. Still, investment incentives were seen as relatively minor determinants of FDI decisions. While they might tilt the investment decision in favor of one of several otherwise similar investment locations, the effects were considered only marginal. However, the views on the importance of incentives have begun to change in recent years. (Blomström, & Kokko2003).

Nowadays, virtually all countries are actively seeking to attract FDI, because of the expected favorable effect on income generation from capital inflows, advanced technology, management skills and market know-how. It would be useful to review the key determinants and factors of FDI based on the theories of international investment (Cho, Joong-Wan)⁷

Attractiveness of the economic conditions in host countries; the policy framework towards the private sector, trade and industry, and FDI and its implementation by host governments; and the investment strategies of Multinational Enterprises (MNEs). The review of host country determinants is closely linked with the role of national policies and especially the liberalization of policies, a key factor in globalization, as FDI determinants. Location specific determinants have a crucial influence on a host country's inflow of FDI.

⁷ http://www.unescap.org/tid/publication/chap5_indpub2259.pdf.

Host Country Determinants of FDI⁸

Economic Conditions

- *Markets*: Size; income levels; urbanization; stability and growth prospects; access to regional markets; distribution and demand patterns.
- *Resources*: Natural resources; location.
- *Competitiveness*: Labor availability, cost, skills, trainability; managerial technical skills; access to inputs; physical infrastructure; supplier base; technology support.

Host Country Policies

- *Macro policies*: Management of crucial macro variables; ease of remittance; access to foreign exchange
- *Private sector*: Promotion of private ownership; clear and stable policies; easy entry/exit policies; efficient financial markets; other support.
- *Trade and industry*: Trade strategy; regional integration and access to markets; ownership controls; competition policies; support for SMEs.
- *FDI policies*: Ease of entry; ownership, incentives; access to inputs; transparent and stable policies.

MNE Strategies

- *Risk perception*: Perceptions of country risk, based on political factors, macro management, labor markets policy stability.
- *Location, sourcing, integration transfer*: Company strategies on location, sourcing of products/inputs, and integration of affiliates, strategic alliances, training, and technology transfer.

As a consequence of globalization and economic integration, one of the most important traditional FDI determinants, the size of national markets, has decreased in importance. At the same time, cost differences between locations, the quality of infrastructure, the ease of doing business and the availability of skills have become more important (UNCTAD 1996).

Traditional economic determinants, such as natural resources and national market size for manufacturing products sheltered from international competition by high tariffs or quotas, still

⁸ : Sanjaya Lall, *Attracting Foreign Investment: New Trends, Sources and Policies*, Economic Paper 31 (Commonwealth Secretariat, 1997 cited in Cho, Joong-Wan)

play an important role in attracting FDI by a number of developing and developed countries as well as economies in transition (Cho, Joong-Wan)

The economic determinants related to large markets, trade barriers and non-tradable services are still at work and account for a large share of worldwide FDI flows. Although FDI remains strongly driven by its traditional determinants, the relative importance of different locational determinants for competitiveness-enhancing FDI is shifting. While low-cost labor remains a locational advantage, the increasingly sought-after advantages are competitive combinations of wages, skills and productivity (UNCTAD 1998). With the creation of regional integration frameworks (e.g., ASEAN), access to the regional market supersedes access to national markets as an important FDI determinant. This also depends on how well the country is integrated into the regional bloc in terms of policy harmonization as well as physical accessibility, which gives policy determinants an increasing importance. For foreign investors, the host country policies on the repatriation of profits and capital and access to foreign exchange for the import of intermediaries, raw materials and technology are particularly important (Cho, Joong-Wan).

The pattern of recent FDI flows supports the conclusion that liberal policies on technology, which tend to go hand in hand with more liberal policies in general, serve to attract more and better foreign investments. Core FDI policies consist of rules and regulations governing the entry and operations of foreign investors, the standards of treatment accorded to them and functioning of the markets within which they operate (UNCTAD 1997 cited in Cho, Joong-Wan). Among the supplementary policies used to influence locational decisions, trade policy plays the most prominent role. Asian countries have used both FDI and trade policies to encourage MNEs to contribute to their export-oriented development strategies. Other related policies may include privatization policies and policies determined by international agreements, such as bilateral investment treaties (BITs). BITs augment the international dimension to national direct investment policies focused on insurance and protection and other broader issues. However, as in the case of BITs, it is precisely the function of the enabling framework to allow other determinants, especially economic determinants, to assert their influence.

2.5. Overview of FDI in Ethiopia

2.5.1 Investment policy Regime of Ethiopia

Post Reform Policy Description

In May 1992, the government issued a detailed proclamation on investment and established an Investment Authority accountable to the Board of Investment. This proclamation was further revised in June 1996. Ethiopia's investment code provides incentives for development-related investments, reduces capital entry requirements for joint ventures, permits the duty free entry of capital goods (except computers and vehicles), opens the real estate sector to expatriate investors, extends the losses carried forward provision, cuts the capital gains tax from 40 to 10 percent, and gives priority to investors in obtaining land for lease.

The investment code identifies certain sectors that are reserved for the government retains the exclusive right to generate and supply electricity, other than from hydropower, above 25 megawatts. Other investment areas exclusively reserved for the government include air transport service using aircraft with a seating capacity of more than 20 passengers or with a cargo capacity greater than 2700 kilograms, rail transport services, and telecommunication services, including the Internet, only in partnership with the government.

The investment areas reserved for Ethiopian nationals include banking and insurance, the generation and supply of electricity other than hydropower up to 25 megawatts, air transport services with seating capacity up to 20 passengers or cargo capacity up to 2700 kilograms, and forwarding and shipping agency services.

Ethiopia reserves many businesses in the service and trade sectors for domestic investors. These areas include: broadcasting, retail and wholesale trade (except in petroleum and locally produced goods), import trade, export trade of local agricultural products, small and medium-scale construction, bars and nightclubs, small hotels and restaurants, travel agencies, car and taxi services, bakery products, grinding mills, barber shops and beauty salons, goldsmith shops, tailoring services, building and vehicle maintenance services, saw milling, customs clearance, museums and theaters, and printing.

Foreign firms are welcome to invest in privatization efforts of the Ethiopian government, although in some instances it promotes joint ventures with Ethiopian private concerns rather than

outright sales. Foreign firms participate through consultancy services preparatory to privatization or through tendering on advertised privatization opportunities.

2.5.2. Post Reform FDI Performance

Market-oriented policy reforms in Ethiopia over the past decade have placed a major emphasis on attracting foreign direct investment (FDI) as a means of achieving rapid economic growth. FDI can help the transformation of the present economy to a modern economy in a number of ways. It can supplement domestic savings by facilitating resource transfers to Ethiopia to raise the level of investment. Equally important, it will be an efficient conduit for the transfer of technical and management know-how, so essential for a modern economy. It can also serve as an instrument to foster market access in industrial country markets. However, Ethiopia receives much less FDI than other Sub-Saharan African countries. Sub-Saharan Africa accounted for only about 0.57 percent of world FDI flows. Of this meager resource coming to Africa, Ethiopia had a share of about 0.74 percent of Sub-Saharan Africa (and 0.004 of the world). Yet, many sectors can benefit from FDI including textiles and garments, horticulture, tourism, leather products and light industry. Such investments can allow the country to obtain greater benefits from Everything but Arms (EBA) and Africa Growth Opportunity Act (AGOA) than at present (*DITS, 2004*).

To sum, the main characteristics of FDI in Ethiopia are as follows:

- Larger in size compared to domestic investment.
- Large industrial component compared to other sectors.
- More capital intensive than domestic investment.
- Concentrated in three regions.
- Produces mostly for the domestic market.

In addition, FDI is concentrated (approximately 98 percent) in the three regions of Addis Ababa, Oromia and Amhara. In terms of sector-wise distribution, industry accounted for about 46 percent of the total licensed FDI projects. Agriculture, real estate and construction 38 sectors accounted for the major part of the rest, with 19.5 percent, 18.1 percent and 10.1 percent respectively (*DITS, 2004*).

FDI and Export Expansion

FDI inflows to Ethiopia are low by Sub Saharan Africa standards, and more importantly export-oriented FDI projects have been few and far between. Of the fifty-nine foreign or joint venture investments that became operational between 1992 and 2001 in the agriculture, industry and service sectors, few were directed primarily to export markets.

These industries are highly import-intensive and about 87 percent of the raw material demand were met from imports. However, this fact in itself is not a problem if the FDI is in value adding activities, for which the country has a comparative advantage, produces for the world market and is able to compete well. Improvement in the incentive environment arising from trade and regulatory reforms should help to attract FDI to appropriate sectors.

In other words the FDI regime is being liberalized but perhaps too slowly to convince foreign investors of the changing investment environment (*DTIS*, 2004).

Constraints on the Performance of FDI in Ethiopia

Ethiopia's record in attracting FDI has been poor. More than four-fifths of the projects that have received licenses have not been implemented. This lackluster record reflects several constraints including the same constraints that operate on the domestic private sector and that arise from a negative perception of FDI in the country, including in some parts of the government. Equally, foreign investors have perceptions conditioned by the past poor record of the Dergue regime policies, famines and poor infrastructure compared to other sub-Saharan countries.

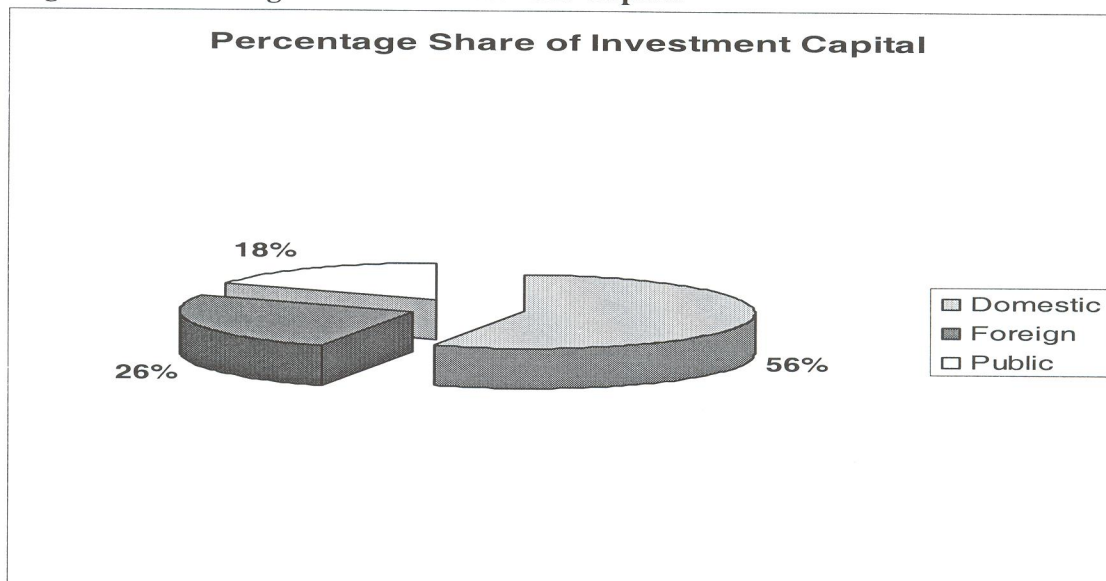
The main impediments to a larger FDI have been ascribed to poor infrastructure facilities such as irrigation schemes, roads, communication and power supply, inhospitable climate in some lowland areas and problems related to acquisition of land. Most FDI projects are oriented towards the local market and this follows from the nature of the investment regime (*DITS*, 2004).

Chapter 3: Data Analysis

3.1. Composition of Investment Capital in Ethiopia by Type Of Ownership

Following the policy change in Ethiopia the proportion of privately owned businesses has grown in volume compared to publicly owned enterprises. This is mainly due to the investment policy that encourages private investment by attracting investors both from local and foreign sources through different incentive packages.

Figure 1: Percentage Share of Investment Capital



Source: Ethiopian Investment Agency

Domestic investment has its sources from investments made by Ethiopian nationals or foreign nationals permanently residing in Ethiopia and opted for local treatment, while *foreign investment* is investment made by foreigners investing in Ethiopia and Ethiopians permanently residing in foreign countries and getting a foreign investor treatment. *Public investments* are investments made by the government

As the above figure shows the relative proportion of domestic investment constituting 56% of the total investment capital in the country is larger than the proportion of capital invested in both foreign and publicly owned enterprises which respectively comprise of 26% and 18% the total investment made in the country. This is mainly due to the relative ease of fetching investment

capital from domestic sources than the foreign sources. This is because raising capital from abroad requires a substantial amount of fund especially allocated for promotion and building the necessary infrastructure to enable the country become an attractive and conducive place to investment in. Another interesting fact that can be observed from the figure is the difference between the relative size of foreign capital and publicly owned capital. The investment made by domestic and foreign investors are respectively 38% and 8% higher than the investment capital owned by the government showing that there is a significant shift towards privatization and the difference between the capital from foreign source and the publicly owned capital is encouraging and an evidence to the gradual increase of FDI in the country.

3.2 Measuring the Success of the Investment Policy of Ethiopia

Measuring the success of a certain course of action enables one to take a brief view of how things have been going on and take corrective measures in cases where actual performance fails to match planned outcomes. Accordingly it is important to view the success of the investment policy to make some corrective measures in case of failure at different stages of policy implementation process.

One of the measures of assessing the success of the Ethiopian investment policy is the implementation rate of licensed investment projects. To this effect this study makes a comparison between both domestic and foreign licensed investment projects and those that have become operational. Comparison is made between the number of licensed projects and those that became operational both from domestic and foreign sources, the expected and actually invested capital and the final comparison is made between expected and actual employment generated through the implementation of the licensed investment projects.

3.2.1. Domestic Investment

Table 3.1 and Figure 2 make a comparison between the total domestic investment ventures licensed and those that commenced operation. As can be seen there is a remarkable gap between the number of licensed investment ventures and those that started operation. The main reasons for this are the problems with the provision of land, and the procedures one has to go through to facilitate the commencement of operation.

Table 3.1. Licensed Vs operational Domestic investment Projects by Sector (July 1992 - July 2006)

Sector	Licensed domestic investment projects				Operational domestic investment projects			
	No. of Projects	Capital in Million Birr	Employment		No. of Projects	Capital in Million Birr l	Employment	
			Perm.	Temp.			Perm.	Temp.
Agriculture and forestry	3,258	13,860	114,203	959,339	1,271	3,975	33,159	308,370
Fishing	7	15	639	360	2	4	501	-
Mining and quarrying	96	843	4,913	1,413	22	318	1,447	254
Manufacturing	4,668	49,737	238,231	132,339	703	5,314	35,211	7,077
Construction	997	10,924	60,222	85,096	48	1,674	9,797	1,987
Education	979	7,049	52,206	12,950	160	1,859	6,858	1,060
Health	384	2,724	18,516	3,687	49	252	1,761	578
Hotels and restaurants	1,029	4,754	33,659	13,586	134	384	3,594	708
Electricity, gas, steam and water supply	11	192	122	223				
Real estate, renting and business activities	4,406	28,612	71,803	62,387	465	3,288	6,626	2,177
Transport, storage and communication	268	3,462	10,498	1,716	30	1,105	5,437	85
Wholesale, retail trade & repair service	311	1,407	8,564	2,099	44	616	1,096	118
Other community, social and personal service activities	221	1,678	8,565	3,951	13	32	323	25
Grand Total	16,635	125,257	622,141	1,279,146	2,941	18,821	105,810	322,439

Source: Ethiopian investment agency

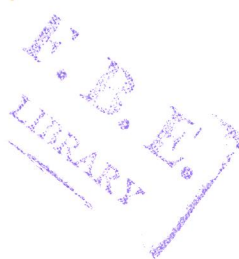
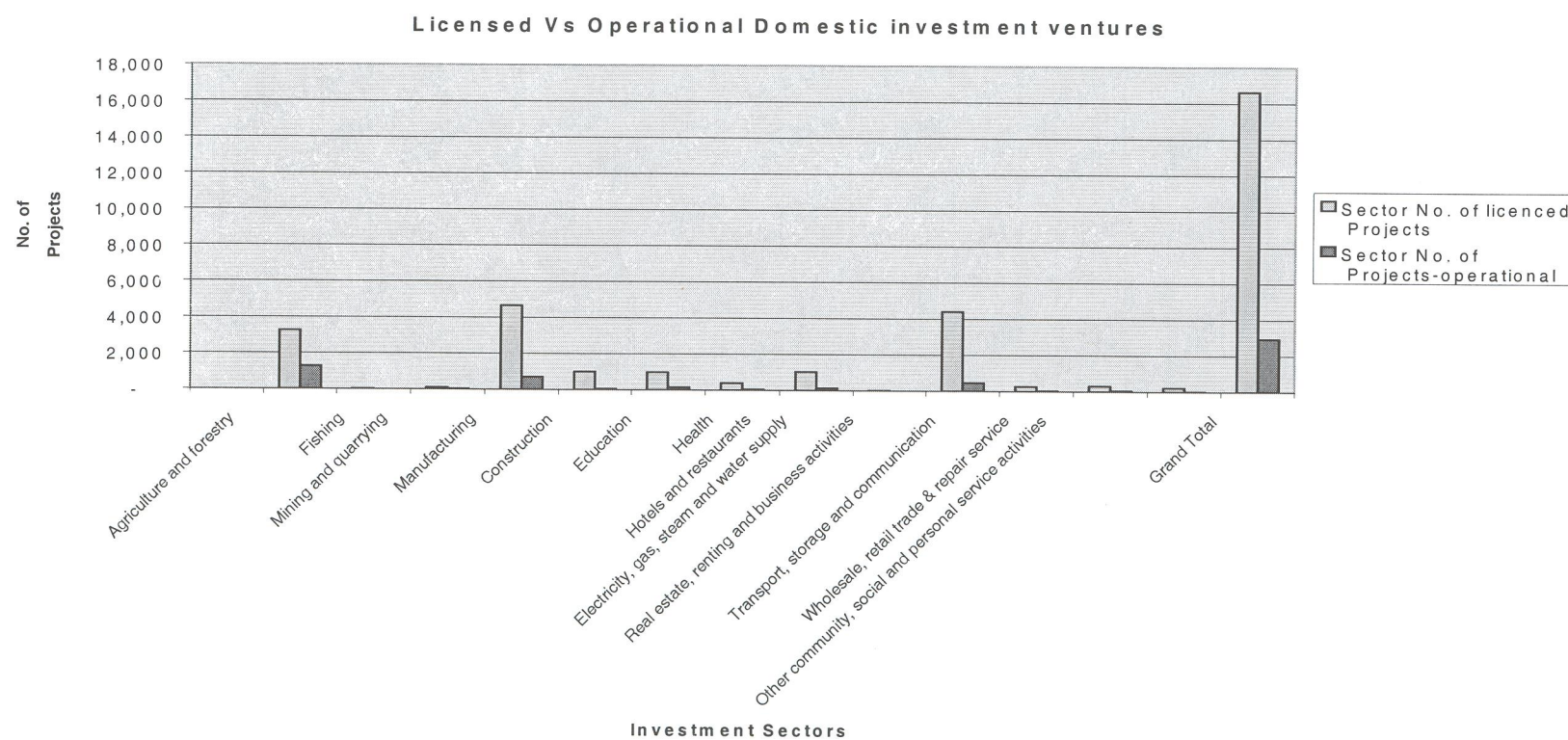


Figure2: Licensed Vs operational Domestic investment Projects by Sector



Source: Ethiopian investment agency

As can be seen from Table 3.2 the highest percentage of licensed domestic investment that was implemented was 39% in the Agricultural sector followed by fishing and mining and quarrying activities which scored the implementation rate of 28.6% and 23% respectively. This is mainly because all the three sectors are primary economic activities which do not require extraordinary production facility and expenditure to be ready in attracting investors.

Table 3.2. The Percentage of Operational Investment Ventures Out Of Total Licensed Domestic Investment Projects (July 1992 - July 2006)

Sector	No. of Projects	No. of operational Projects	% of operational domestic investment projects
Agriculture and forestry	3,258	1,271	39.01
Fishing	7	2	28.57
Mining and quarrying	96	22	22.92
Manufacturing	4,668	703	15.06
Construction	997	48	4.81
Education	979	160	16.34
Health	384	49	12.76
Hotels and restaurants	1,029	134	13.02
Electricity, gas, steam and water supply	11		0.00
Real estate, renting and business activities	4,406	465	10.55
Transport, storage and communication	268	30	11.19
Wholesale, retail trade & repair service	311	44	14.15
Other community, social and personal service activities	221	13	5.88
Grand Total	16,635	2,941	17.68

Source: Ethiopian Investment Agency

The relatively significant figure the fishing activity shows is partly due to the relatively small number of projects licensed but relatively higher number of projects that started operation.



- The degree of realization of the other licensed sectors is not also encouraging registering an even-lower rate of implementation which shows that success in attaining the fruits of the investment projects is as easy as it seems.

It is also important to see that the country was unable to secure the expected volume of capital which can be explained in terms of the poor rate of project implementation . In the years from 1999 to 2006 the country was able to gain only 15% of the expected capital investment to be made in the nation.

The other issue worth-noting in this case is the extent to which the operational investment projects have given rise to employment compared to what was planned through the provision of licenses. For the years 1999-2006, only 17% of the expected permanent and 25.2% of the temporary of jobs expected to be open have become a reality proving under realization of objectives.

In general the proportion of operational investment ventures can be one indicator of the success of the investment policy which affects both capital inflow and employment generation. However as shown in the data all that can be concluded is that, let alone to succeed, the highest attained level of implementation is 39% showing that the country could not succeed in making at least 50% of planned projects a reality.

3.2.2 The Total National Investment Made

This is a general analysis of the total number of projects, capital inflow and number of employments created by domestic, foreign investment projects and by publicly owned companies.

Table3.3 Total Licensed Vs Operational Investment Projects (1992 - 2006)

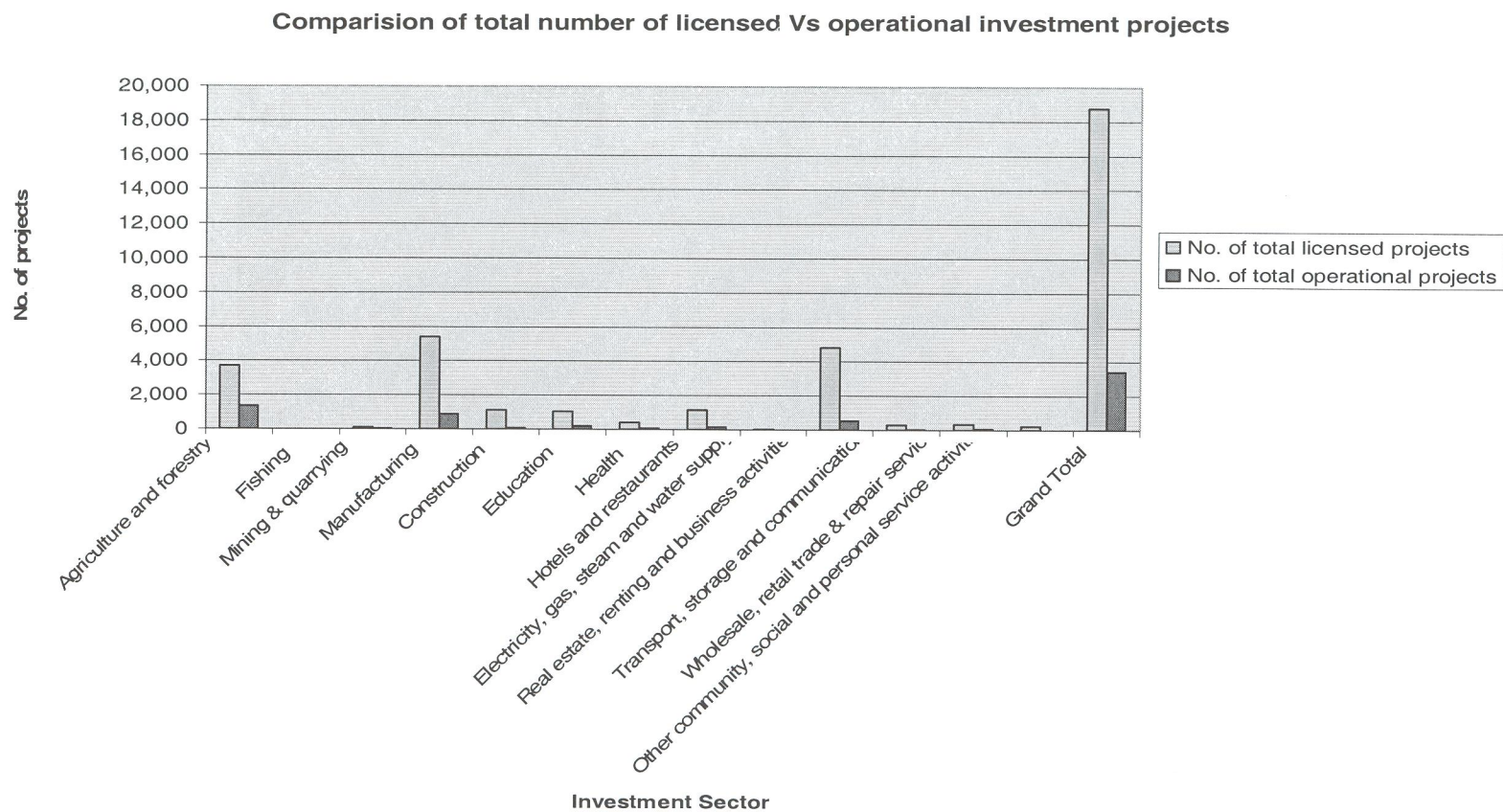
Sector	Total licensed projects				Total operational projects			
	No. of Projects	Capital in Million Birr	Employment		No. of Projects	Capital in Million Birr	Employment	
			Perm.	Temp.			Perm.	Temp.
Agriculture and forestry	3,714	28,576	203,257	1,079,395	1,359	6,107	41,991	327,295
Fishing	11	38	778	417	3	7	511	37
Mining & quarrying	107	1,090	5,714	2,076	26	391	1,736	272
Manufacturing	5,414	75,029	302,611	164,916	906	11,403	58,372	14,121
Construction	1,108	16,980	78,267	202,824	80	3,471	17,373	8,995
Education	1,041	8,133	56,738	14,100	175	2,135	8,385	1,536
Health	432	5,424	24,713	4,523	58	297	2,598	612
Hotels and restaurants	1,150	6,122	39,506	16,534	155	611	4,601	899
Electricity, gas, steam and water supply	57	35,508	1,765	7,427	7	2,241	125	61
Real estate, renting and business activities	4,842	35,528	84,309	78,393	559	3,991	8,055	4,868
Transport, storage and communication	296	5,844	13,516	1,912	40	3,332	7,773	119
Wholesale, retail trade & repair service	362	2,200	11,056	7,162	60	862	1,807	4,485
Other community, social and personal service activities	235	1,774	9,201	4,269	15	81	463	175
Grand Total	18,769	222,245	831,431	1,583,948	3,443	34,931	153,790	363,475

Source: Ethiopian Investment Agency

The above Table 3.3 attempts to give the general picture of the extent of implementation of approved domestic, foreign and public investment projects. The data given shows below average rates of success in implementation of projects approved, securing the capital associated with the implementation of the projects and failure to generate the anticipated rate of employment. In general only 18.3% of approved projects 15.7% of capital expected and 18.5%, and 22.9% of permanent and temporary employments anticipated have materialized the rest being mere plan. Failure in attaining goals in these areas implies that the chances of effectiveness of the policy in securing capital and generating employment is very thin and thus a lot needs to be done to raise the success rate as failure to do so has a far-reaching negative impact on the economy.

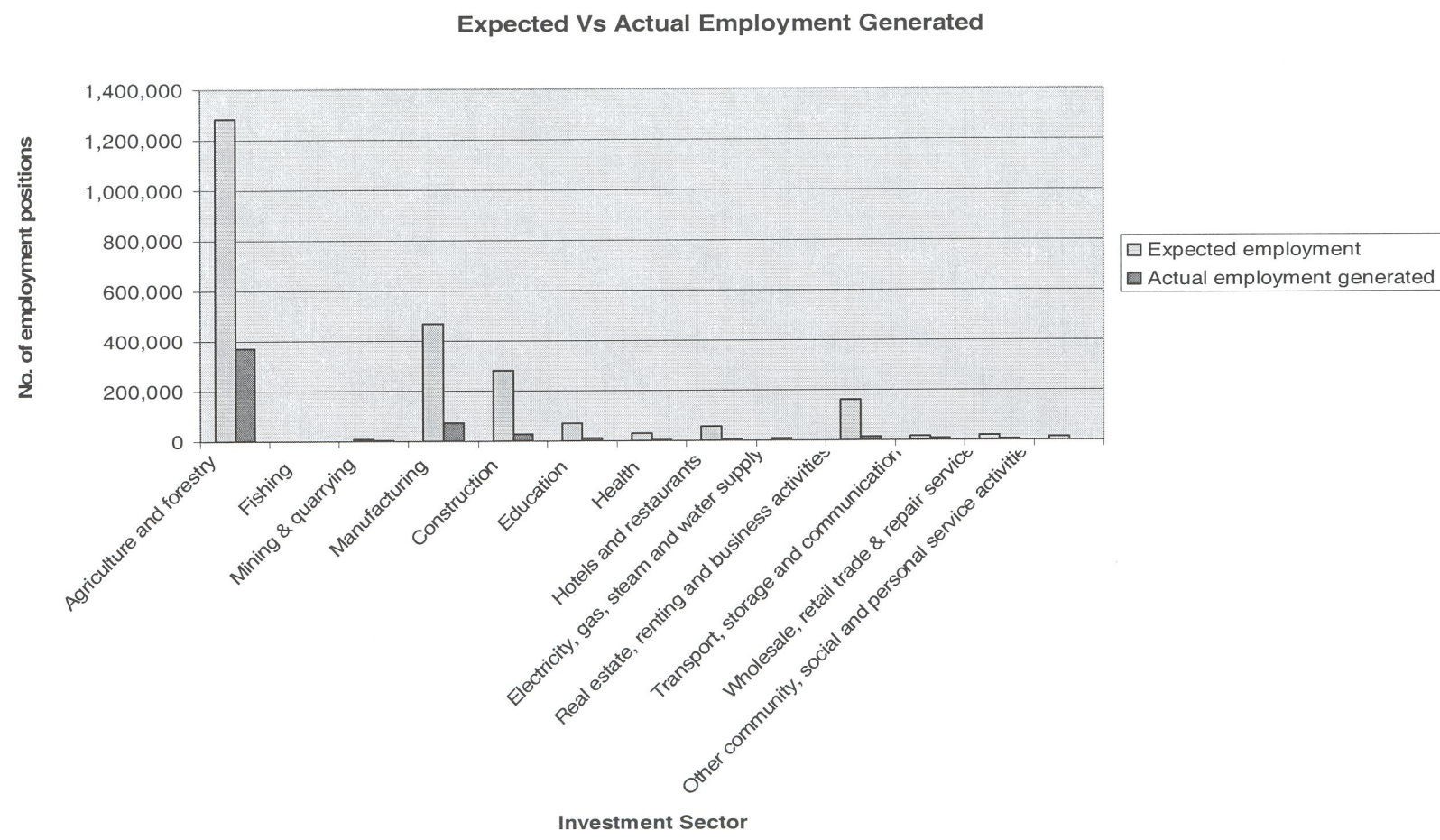
The figures below show the relative discrepancy between the numbers of approved and operational projects and expected versus actually generated employment opportunities respectively.

Figure 3: Total Number of Licensed and Operational Investment Projects in Ethiopia



Source: Ethiopian Investment Agency

Figure 4: Total Planned Vs Actual Employment Generated in Ethiopia



Source: Ethiopian investment agency

3.3. Foreign Direct Investment

3.3.1 Expected Vs Operational Projects

The first and most important variable to be considered in assessing the effectiveness of the Ethiopian investment policy and the system that supports it when it comes to FDI is, measuring the proportion of investment projects that become operational out of the total FDI projects licensed just like the analysis done to measure the success of the investment policy in private domestic investment and investments made in the nation under all types of ownership.

**Table 3.4: Number of Licensed Vs Operational FDI Projects
(1992 - 2006)**

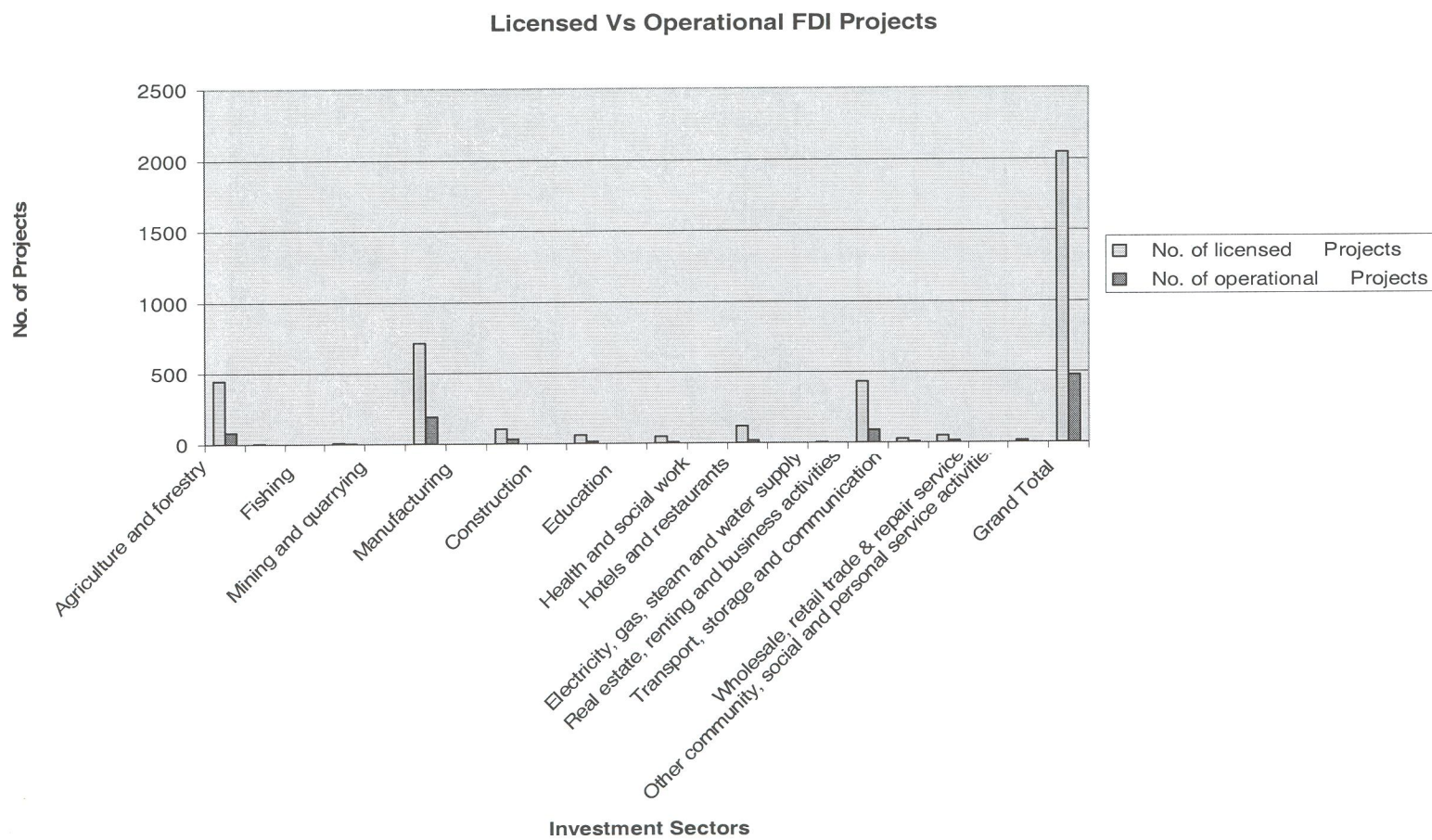
Sector	No. of licensed Projects	No. of operational Projects	% of operational projects
Agriculture and forestry	448	82	18.3
Fishing	4	1	25.0
Mining and quarrying	10	4	40.0
Manufacturing	716	194	27.1
Construction	108	32	29.6
Education	62	15	24.2
Health and social work	47	9	19.1
Hotels and restaurants	121	21	17.4
Electricity, gas, steam and water supply	3	-	0.0
Real estate, renting and business activities	435	94	21.6
Transport, storage and communication	27	9	33.3
Wholesale, retail trade & repair service	50	16	32.0
Other community, social and personal service activities	14	2	14.3
Grand Total	2,045	479	23.4

Source: Ethiopian Investment Agency

As can be seen from the above table there is a significant gap between the number of FDI projects the agency licensed and those that became operational. This poor rate of implantation emanates from different factors such as delay in issuing land, policy/procedural conflicts that hinder foreign investors from operating in the country and the bureaucratic procedures investors have to go through to facilitate the importation of inputs and production facilities to commence operation. Among these, the conflict between the policy of the immigration authority not to allow foreigners that come in to the country through a tourist visa and make investment in the country while the investment agency simply issues license to foreigners up on their application provided that they meet the capital and other prerequisites of the agency regardless of the type of visa (business or tourist) they have.

The figure on the next page also supports this fact revealing the significant gap that exists between the number of licensed and operational investment projects.

Figure 5 Licensed Vs Operational FDI Projects



Source: Ethiopian Investment Agency

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3.3.2. Expected Vs Actual Capital Generated

The other merit on which those who have pro FDI view base their argument is its capacity to generate capital that boosts local economy through the creation of jobs and stimulation of local businesses. However success in this regard depends on how well a nation manages to secure the planned amount of capital that can serve the intended purposes of pumping capital in to the economy and empowering local firms.

Table 3.5. Expected Vs Actual Capital Generated (1992 - 2006)

Sector	Expect capital to be generated	Actual capital inflow
Agriculture and forestry	14,702	2,124
Fishing	23	3
Mining and quarrying	241	73
Manufacturing	23,465	5,895
Construction	5,138	1,797
Education	1,084	276
Health and social work	2,684	45
Hotels and restaurants	1,368	228
Electricity, gas, steam and water supply	451	
Real estate, renting and business activities	6,874	703
Transport, storage and communication	177	23
Wholesale, retail trade & repair service	786	246
Other community, social and personal service activities	97	49
Grand Total	57,090	11,461

Source: Ethiopian Investment Agency

Again in this case there is a significant gap between the expected capital to be generated through FDI and that is actually happening owing its cause to the factors cited for resulting in poor implementation of licensed projects. Since the number of projects becoming operational are directly associated with the inflow of capital, the factors affecting the implementation of licensed projects also affect capital inflow in to the nation.

3.3.3 Employment Generation

One of the most-wanted outcomes of attracting foreign investment in to third world countries is its ability to absorb the ever-increasing labor force dominated by the young age group. Table 3.6 below makes a comparison of expected employment and actual employment generated for the years 1992-2006.

Table 3.6 Expected Vs Actual Employment Generated (1992 - 2006)

Sector	Expected Employment		Actual Employment Generated		% of Actual Employment Generated	
	Perm.	Temp.	Perm.	Temp.	Perm.	Temp.
Agriculture and forestry	88,060	118,696	8,772	18,565	10.0	15.6
Fishing	139	57	10	37	7.2	64.9
Mining and quarrying	796	663	289	18	36.3	2.7
Manufacturing	61,933	32,288	21,292	6,882	34.4	21.3
Construction	12,437	17,721	7,576	7,008	60.9	39.5
Education	4,532	1,150	1,527	476	33.7	41.4
Health and social work	6,097	776	837	34	13.7	4.4
Hotels and restaurants	5,847	2,948	1,007	191	17.2	6.5
Electricity, gas, steam and water supply	205	430	-	-	0.0	0.0
Real estate, renting and business activities	12,486	16,006	1,429	2,691	11.4	16.8
Transport, storage and communication	793	196	111	34	14.0	17.3
Wholesale, retail trade & repair service	2,479	5,038	711	4,367	28.7	86.7
Other community, social and personal service activities	636	318	140	150	22.0	47.2
Grand Total	196,440	196,287	43,701	40,453	22.2	20.6

Source: Ethiopian Investment Agency

In comparing the level of employment expected to be generated through the foreign investment projects coming in to the country with that actually created again shows a significant gap. This

can be seen through the realization of only 22.2 % and 20.6%, of the expected permanent and temporary employment respectively. This can be explained in terms of the level of implementation of investment projects and the resulting capital. Poor implementation rate results in poor capital inflow which has its bearing on the level of employment created be it temporary or permanent. This discrepancy between anticipated and actual employment creation from foreign direct investment is an indication of the fact that things are not going as smoothly as planned and points to the need to pick the figures up.

3.4 .Sectoral Distribution of FDI in Ethiopia

The other measure of effectiveness of the Ethiopian investment policy is to take a look at the sectoral composition of investment projects it has given rise to. This is important because the sectors that are invested in should be those with the potential of generating adequate capital and allow easy access and transfer of knowledge, technology, managerial and marketing skills at different levels. It is also important that the sectoral composition of investment projects coming in to a nation to be in line with the development policy of the country.

Table 3.7 Sectoral distribution by number of projects and trend of FDI coming to Ethiopia and Year of Establishment (1999/2000 - 2005/2006)

Sector	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Agriculture and forestry	3	4	2	6	29	22	8
Fishing	-	-	-	-	-	-	1
Mining and quarrying	-	-	1	-	1	-	-
Manufacturing	9	10	7	23	39	45	17
Construction	5	-	1	1	7	5	7
Education	-	-	2	1	4	4	2
Health	-	-	-	1	1	2	3
Hotels and restaurants	1	-	-	-	10	5	4
Real estate, renting and business activities	1	3	2	3	15	30	31
Transport, storage and communication	1	-	-	-	5	1	2
Wholesale, retail trade & repair service	2	-	1	-	6	2	4
Other community, social and personal service activities	-	-	-	-	1	1	-
Total No. of projects	22	17	16	35	118	117	79

Source: Ethiopian Investment Agency

The table and figure below convey the same information regarding the sectoral distribution of FDI projects in Ethiopia. The illustrations show that manufacturing is the dominant area of investment comprising of 37.1% of the total number of projects implemented in the country followed by Agriculture and forestry and Real estate, renting and business activities which comprise of 18.3% and 21% of total number of projects.

Table 3.8 Average Percentage of Sectoral composition of FDI in Ethiopia for the Year 1999/2000-2005/2006

Sector	Average	% composition by sector
Agriculture and forestry	10.6	18.3 ୨୪
Fishing	0.1	0.2
Mining and quarrying	0.3	0.5
Manufacturing	21.4	37.1
Construction	3.7	6.4
Education	1.9	3.2
Health	1.0	1.7
Hotels and restaurants	2.9	5.0
Real estate, renting and business activities	12.1	21.0
Transport, storage and communication	1.3	2.2
Wholesale, retail trade & repair service	2.1	3.7
Other community, social and personal service activities	0.3	0.5
Total average No. of projects	57.7	100

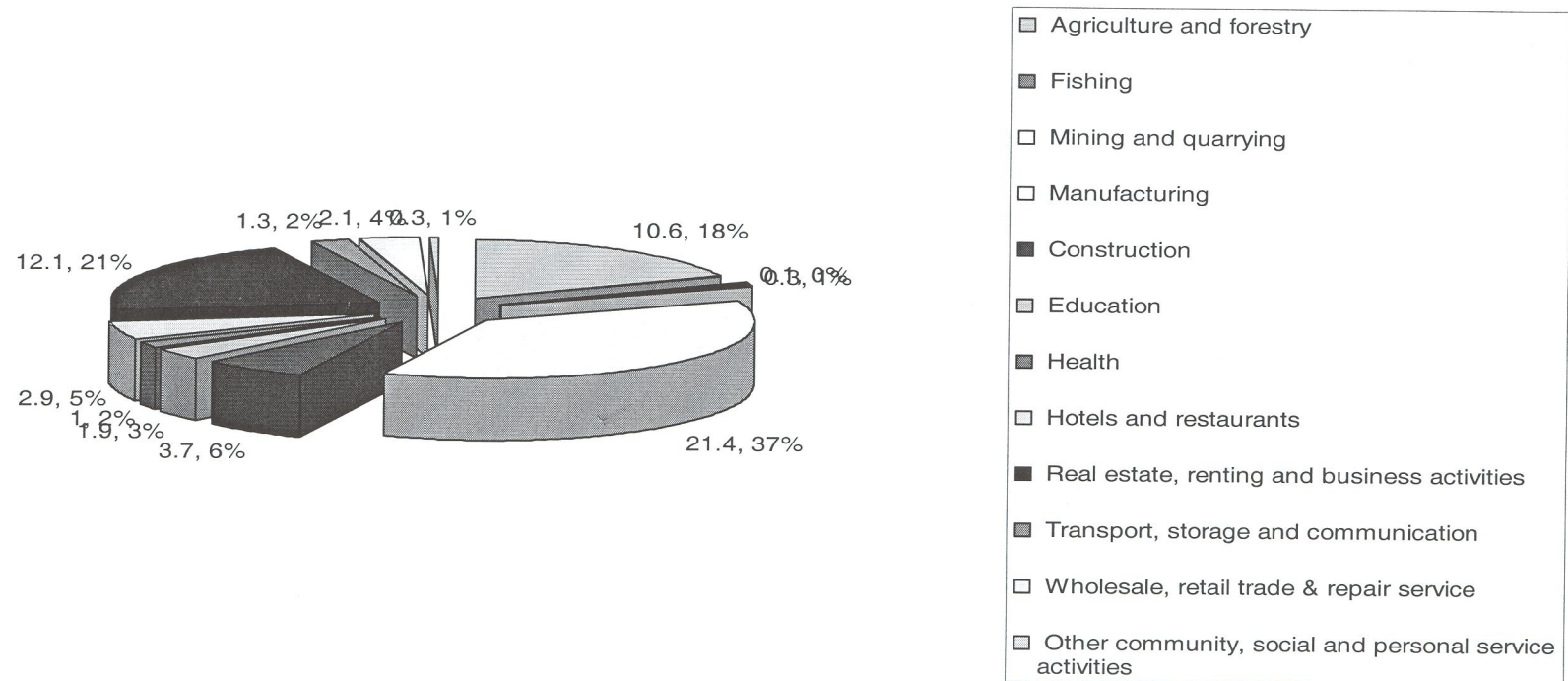
Source: Ethiopian Investment Agency

This is an encouraging sectoral combination as it has the potential to support the Agricultural Development Led Industrialization policy of the Ethiopian government at the macro level and allows transfer of technology, skills on the factory floor. It is also important because it has the potential to raise leadership skills at these essential activities of the economy. The other is the

prospect of development of marketing skills in the areas of agricultural products which is believed to enable the country to gain competitiveness in the international market where primary products are under priced.

Figure 6 Sectoral composition of FDI projects in Ethiopia

Percentage composition of FDI projects in Ethiopia

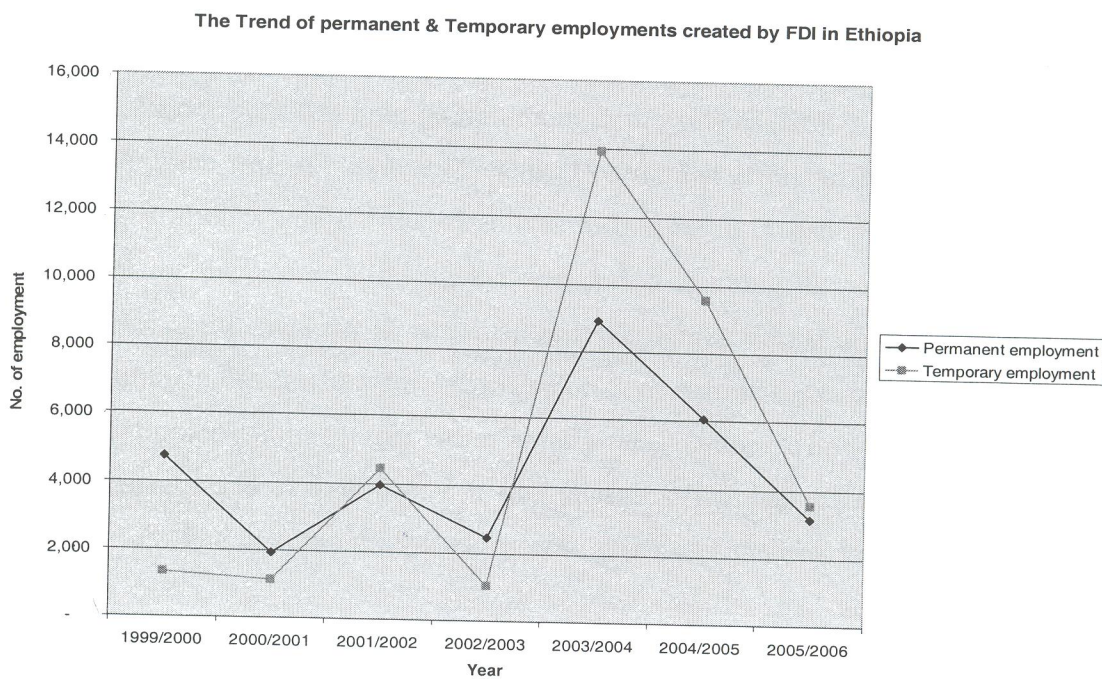


Source: Ethiopian Investment Agency

3.5 Trend of Employment Generation

Beyond measuring the gap between the intended and actual employment generated, its important to take a look at the trend of the actual employment created by FDI projects in Ethiopia is an indictor of level of success in the past and the upcoming periods.

Figure 7: Trend of Employment Generation by foreign direct investment projects in Ethiopia



As can be seen from the figure, the trend of employment in the foreign owned projects shows a serious fluctuation. This is mainly due to the responsiveness of the operation of the FDI ventures to local political issues as well as policy changes especially those relating to investment. The sharp decline in employment in the 2002/2003 fiscal year was due to the Ethio-Eritrean war that threatened foreign investors. On the other hand, the gradual increase in employment can be explained in terms of the amendment of the investment policy that encouraged investors to come in to the country and start operation that reached its peak in 2003/2004 fiscal year. Though they follow the same trend, the temporary employment exceeds permanent employment except in periods of sharp decline. This is because employing temporarily is cheaper as it involves

relatively lower wages and does not bind the employers to any sort of compensation packages and obligations during or after employment and it is easy to lay off temporary workers relatively easily in periods of business decline or other business related reasons.

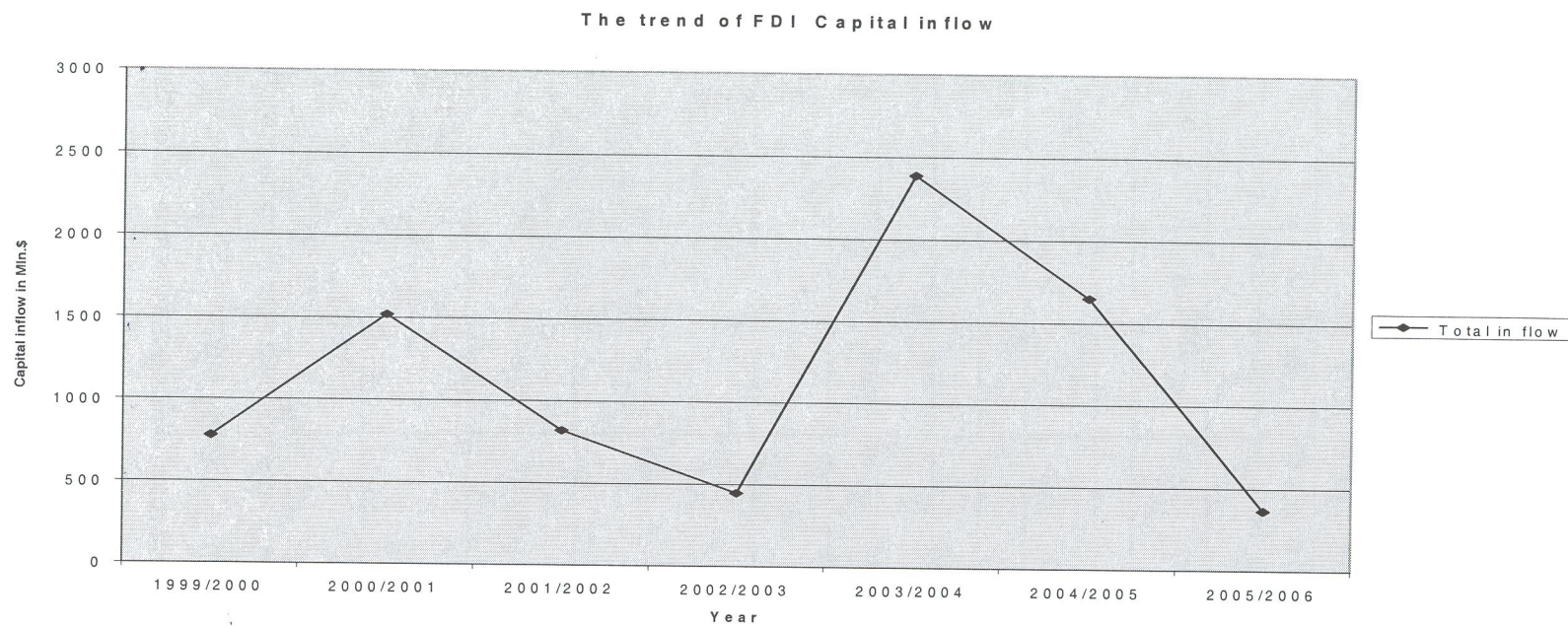
3.6 Trend of Capital Inflow for Operational Foreign Direct Investment Projects

Table 3.9. and the supporting graph show that the foreign investment capital coming to Ethiopia has shown a significant fluctuation over the years from 1999-2006. It starts from its minimum in 1999 showing an increase due to the gradual progress made in the area of investment promotion and the implementation of the investment incentive package incorporated in the Ethiopian investment policy. But this trend did not continue as the figures started dropping owing to the bureaucratic bottleneck reaching its minimum in the year 2002/2003, which was the period for the Ethio-Eritrean war. A post-war investment promotion effort supported by the amendment of the investment policy and its incentives to bring in investment capital helped in raising FDI capital for the years following the war period reaching its peak in the year 2003/2004. However this again could not be sustained as the figures started dropping once again reaching the minimum point in the final year of consideration. As this fluctuating trend is the outcome of political and other administrative issues among other factors. The implication of the failure to keep a constant trend of cash inflow is an indicator of the lack of a framework or system that neutralizes adverse conditions that can potentially affect the operation of FDI projects in the country.

Table3.9 : Trend for capital in flow for Operational Foreign direct investment Projects by Sector, and Year of Establishment) Fiscal Year (1999/2000 - 2005/ 2006) (Capital in Million Birr)

Sector	1999/2000	2000/2001	(2001/2002)	2002/2003	2003/2004	2004/2005	2005/2006
Agriculture and forestry	33	285	239	70	1,021	248	65
Fishing	-	-	-	-	-	-	3
Mining and quarrying	-	-	6	-	6	-	-
Manufacturing	349	1,233	304	176	613	878	87
Construction	309	-	22	177	519	346	84
Education	-	-	204	8	6	32	8
Health	-	-	-	2	2	2	3
Hotels and restaurants	24	-	-	-	50	5	4
Real estate, renting and business activities	1	2	16	14	21	89	96
Transport, storage & communication	3	-	-	-	8	1	10
Wholesale, retail trade & repair service	61	-	30	-	141	2	4
Other community, social and personal service activities	-	-	-	-	1	48	-
Total in flow	779	1,520	821	447	2,389	1,650	365

Source: Ethiopian Investment Agency

Figure 8: Trend of Foreign Capital Inflow in to Ethiopia

Source: Ethiopian Investment Agency

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Table 3.10 depicts the average investment capital generated by the different sectors identified as the possible areas for investment by the Ethiopian investment agency.

**Table 3.10 : Average foreign investment capital by sector
(1999/2000 - 2005/ 2006) (Capital in Million Birr)**

Sector	Average capital inflow	% Contribution to total capital inflow
Agriculture and forestry	280	24.59
Fishing	0	0.04
Mining and quarrying	2	0.15
Manufacturing	520	45.67
Construction	208	18.27
Education	37	3.24
Health	1	0.12
Hotels and restaurants	12	1.04
Real estate, renting and business activities	34	3.00
Transport, storage and communication	3	0.28
Wholesale, retail trade & repair service	34	2.99
Other community, social and personal service activities	7	0.61
Total average capital inflow	1,139	100.00

Source: Calculated based on data from the Ethiopian Investment Agency

The higher proportion of the FDI capital coming in to the country is through manufacturing followed by agriculture and construction which bring in a significant volume of capital in to the country. The dominance of manufacturing capital can be explained in terms of the incentive the country provides for those producing manufactured products for export generating foreign exchange earning to the country. The other possible explanation for the relatively higher volume of capital inflow in the manufacturing sector is the coming of foreign investors to Ethiopia to make use of the African Growth Opportunity Act (AGOA) to which Ethiopia is entitled to make

tax free exports to the United States of America especially in the manufacturing and export of textile products. The significant figure registered coming in to Ethiopia through the agricultural sectors is the result of Ethiopia's conducive climatic condition, which is suitable to agriculture. Investment in the area of construction is the result of the focus the government gave to infrastructure and real estate development to solve the longstanding problem of backward infrastructure-mainly road and shortage of housing in the country.

3.7 Cross Country Comparison

Table 3.11 makes a comparison of FDI coming in to Ethiopia with other African nations in a relatively same category as Ethiopia in the level of development. It shows that even in African standards the contribution of FDI coming in to Ethiopia is lower than its neighbors.

Table 3.11 FDI as a Percentage of GDP

Country	Year					Average
	1980	1985	1990	1995	1999	
Ethiopia	2.7	2	1.6	3.1	12.4	4.4
Kenya	5.5	7.8	7.9	8.1	8.2	7.5
Uganda	-	0.2	0.1	4.7	15.8	5.2
Zambia	8.5	18.9	30.0	35.9	58.4	30.3

Source: World Investment Report

The contribution made by FDI to the national economy is lower due to the different push factors that prevent foreign investors from coming to Ethiopia. Some of the push factors that discourage FDI in Ethiopia are the recurrent civil war and the resulting designation of the country as a potentially unstable part of the African continent thus risky to invest in. The other is the poor level of infrastructure development compared to the other African nations that stand to compete with Ethiopia. Another point that explains the poor FDI record in Ethiopia is the poor economy that resulted in low standard of living of the citizens that limits their purchasing power. This discourages foreign investors to come to Ethiopia mainly due to fear of lack of market to their products and services. In general the FDI coming to Ethiopia is lower than what is registered by its African counter parts mainly due to political and economic reasons that affected the attractiveness and the investment absorption capacity of the nation.

3.8 Study Findings

3.8.1 Employee Profile

The following tables depict the general information pertaining to employees working in foreign companies engaged in flower production and export, tyre manufacturing and construction.

Table 3.12: Number of years' experience of workers in foreign companies

Number of years worked	Number of employees	Percentage
1-5	14	46.7
6-10	10	33.3
11-20	5	16.7
21-30	1	3.3
Total	30	100

Source: primary data generated for the study

The above table shows the total number of years of experience of the employees working for the foreign companies under consideration. The data given shows that the larger proportions of people working for the foreign companies are carrier beginners with less than 10 years' experience. This can be both an advantage and a disadvantage to these firms. The advantage is mainly the result of having an energetic and vigorous workforce willing to try new ideas and easily catch up advanced way of doing things with in the firms. The disadvantage is that of not being able to grasp the great number of years' experience acquired by senior citizens through out the number of years worked. It also shows that these foreign investment projects have to some extent succeeded in absorbing the growing number of young labor force evidencing a somewhat promising trend towards job creation for the young.

Regarding the background experience of the workers table 3.13 reveals that the greater proportion, 43.3% has come from government agencies followed by those from local private companies 33.3% and those who had just begun their carrier in the foreign projects 13.3%.

Table 3.13 Employee Composition Based on Past Working Experience

Previously worked for	Number of Employees	Percentage
Government agency	13	43.3
Local private co.	10	33.3
Foreign company	2	6.7
Had own business	1	3.3
No prior experience	4	13.3
Total	30	100.0
Relation between prior & current job experience		
Related	8	30.8
Unrelated	18	69.2
Total	26	100.0

Source: primary data generated for the study

Securing workforce with diverse experience is beneficial both to the workers and the owners of the foreign firm because having people from different walks of carrier life allows the organization to be a learning organization that allows easy exchange of experience that allowing an organization to succeed.

The above table also shows that only about 31% of the employees in foreign investment project have come from a related line of business while the rest 69% have come a different form of organization. Though the diverse experience has some benefits, those benefits don't come with out some side effects. Some of the side effects would be a longer learning periods and the resulting time and training cost, damages done due to lack of acquaintance with the machinery, equipment and different chemicals used in the normal operation of the business.

3.8.2 Technological Transfer Issues

Since the transfer of appropriate technology is one of the essential goals of the investment policy, it is important to see the trend of development of the technology/production system through time. For this the study has attempted to get the views of employees especially those who have been working for companies in a related or same line of business on issues related to the relative status of current production/operation technology, current machinery and process of production and quality of products compared to their previous status.

Table 3.14 Technology Transfer Issues in the Views of Worker and Managers

Status of current production/operation technology compared to the previous		Percentage
Improved	11	50.0
Deteriorated	2	9.1
No change	9	40.9
Total	22	100.0
Current machinery and process of production		
Improved	13	59.1
Deteriorated	9	40.9
Total	22	100.0
Quality of products		
Improved	12	46.2
Deteriorated	9	34.6
No change	5	19.2
Total	26	100.0

Source: primary data generated for the study

According to the findings of the study, 50% believe that the technology currently used has improved from its previous status mainly through the introduction of computerized/computer aided production system. While 9.1% of the respondents think that the production systems previously used were better than the ones currently used mainly because of the ease of usage and their superior quality. These groups of respondents are those who have prior knowledge of the line of business they currently work on and have a good experience that can enable them to make comparisons between different modes of machinery and ways of operation. The rest 40.9% have observed no change in the technology that is currently brought in. these views show that there is no definite trend either towards improvement or deterioration of technology that has come in to the country following the commencement of FDI projects in the country. This is not a good sign for a country that if not fully, to a higher extent expects the importation of superior quality technology. This can be mainly due to the failure of the government investment agency to establish the system to examine the standard of technology to make sure that they suit the country's condition. The same goes to the standard of machinery and equipment that comes in to the country. With 59.1% respondents agreeing to the improvement and 40.9% on the opposite

side with the opinion to its deterioration still are not a pretty picture. Especially in a sample company that is invested in as a joint venture, the previous well functioning and high quality machinery was replaced by poor quality, second hand machinery that was imported from the investors' home country with no due consideration to the quality of the products that result from this type of machinery, technology and production techniques. The other factor in assessing the policy and the system supporting it is to consider the quality of the product produced by the foreign projects. 46.2% of the respondents the majority of whom are from the construction sector have observed improvements in the quality of construction currently undertaken compared to previous periods in their carrier. Those from the agriculture sector especially floriculture believe that they produce superior quality products with a considerably high demand in the international market. Much of the report for the deterioration 34.6% or 'no change in quality' 19.2% responses were observed from the manufacturing companies that produces goods for both local consumers and for export. In explaining the 'deterioration' of the products, the employees cite the products' unsuitability to the local demand due to the product's unsuitability to the Ethiopian setting thus, unable to satisfy local demand and losing the revenue that can be generated locally.

3.8.3 Training and Employee Development Issues

The other issue that needs to be considered in assessing the performance of the investment climate in Ethiopia is to see the extent to which it has allowed employee skill development. In this study the opinion of employees regarding knowledge gain as a result of working for the foreign company was assessed. Around 86.7% of the employees believe that they have gained knowledge and skill which is an encouraging thing to learn since acquiring skill it is one of the best outcomes that is expected from allowing a foreign investor to operate in Ethiopia. However about 50% of the knowledge and skill is acquired through learning by doing while formal training and a combination of the two each constitute 25% of the learning process, of which, on-the-job training, off-the-job training and the combination of both forms of training constitutes 57.1%, 7.1% , 35.7% of the learning process respectively.

Table 3.15 Assessment of Knowledge Gain and Forms of Training in Sample Foreign Investment Projects

Has working for a foreign company resulted in Knowledge & skill development?	Number of employees	Percentage
Yes	26	86.7
No	4	13.3
Total	30	100.0
Knowledge and skill acquired through:		
Learning by doing	14	50.0
Formal training	7	25.0
Both	7	25.0
Total	28	100.0
Form of training		
On-the-job	16	57.1
Off-the-job	2	7.1
Both	10	35.7
Total	28	100.0
Training for new machinery and processes is:		
Given	20	69.0
Not given	9	31.0
Total	29	100.0
Applicability of skills acquired in other related/ unrelated firms		
Applicable	24	80
Not applicable	6	20
Total	30	100

Source: primary data generated for the study

This has its own implication as an organization has to strike a balance between formal and informal training since it needs to effectively transfer the knowledge necessary and effectively measure the outcomes. In this case the acquisition of knowledge through learning by doing might have some short comings as it might overlook some important procedures and basic elements of the skill to be transferred. The other is that when learning progresses through learning by doing, there might not be a formal way of measuring knowledge transfer that covers the essential parts of the skill to be acquired.

Training for new machinery and equipment is given in 69% of the cases and not given in 31% of the cases. 69% is a significant figure and shows a promising trend towards employees' acquaintance with new technologies that could enable them to do their jobs better and apply the skills acquired in a related or same line of operation in other local companies.

Related to this, the applicability of the knowledge and skills acquired in the foreign companies to other local or foreign companies in a related or unrelated line of business was the other concern of the study. 80% of the knowledge acquired from working to the foreign company is believed to be applied in other firms while the rest 20% is believed inapplicable mainly due to the differences in production techniques, machinery/equipment used in operation, and controlling mechanisms used by different companies. Though this is the case the 80% transfer of knowledge is a significant figure evidencing a promising trend towards the success of the investment policy's goal of knowledge transfer.

3.8.4 Salary and other benefit issues

Salary and other benefits are important points to discuss as the end result of any investment policy and the resulting activities rests on improving the living standards of citizens.

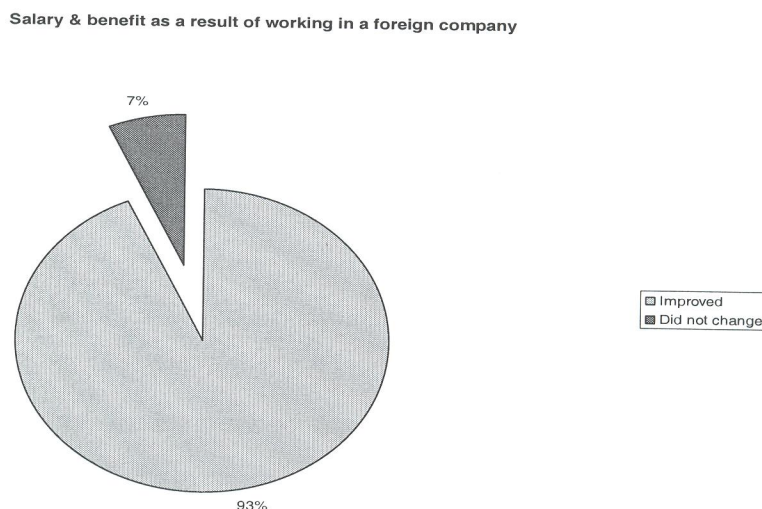
Table: 3.16 Salary and other benefits as a result of working in a foreign firm

Salary and other benefits as a result of working in a foreign firm	Number of employees
Improved	28
Did not change	2
Total	30

Source: primary data generated for the study

Based on the findings of the study, as far as salary and other related benefits are concerned there is a significant improvement and nearly 93% of the employees working in different companies agree that there is a considerable increase in their salaries, working condition and other related benefits.

Figure 9: Salary and Benefit Improvement of Workers in Sample FDI Projects



Source: primary data generated for the study

This is an important thing because it ensures the well being of employees and their families raising living standards of the workers enabling them to afford a better living condition in every aspect of their lives.

3.9. Forward and Backward Linkages of the FDI Projects

3.9.1 Backward Linkages

None of the foreign companies entirely depends on inputs from local sources. Only firms in the floriculture business and construction depend on local suppliers for inputs and services in the production/delivery of their products. But the tyre factory that comes under a manufacturing sector entirely depends on foreign raw materials in production. However the inputs the florists depend on local suppliers is only for pest sides and to some extent chemical fertilizers which are both imported from abroad making it difficult to conclude that the foreign firm has succeeded to stimulate local production of inputs. However one important point to mention is the forwarding/delivery service agencies it has given rise to that makes it difficult to conclude that the establishment of the flower business is unsuccessful in encouraging the opening of new line of business for local firms. This gives a somewhat confusion impression because though the flower business did not encourage local production of inputs it has encouraged the establishment

of service giving organizations. On the other hand the construction sector strongly depends on local suppliers for inputs such as cement, iron, iron nails etc, though it imports part of its inputs such as machineries and specialized equipment and materials for construction from abroad. But the construction sector is in a relatively better position in this particular case considered, than the flower and manufacturing industries in maintaining a strong backward linkage.

3.9.2 Forward Linkages

In treating the forward linkages of the firms under study, the general picture is that except the construction sector which builds houses and roads for local use, both the manufacturing and flower production industries have a weak forward linkages with local firms and markets. When it comes to the flower business the weak forward linkage is explained in terms of the business's strong export orientation because of higher returns in the internationally than the revenue generated in the local market. The main current weak forward linkage of the tyre producing industry is due to the change in the nature and quality of the product following the change of ownership from public to a joint venture. The new product of the factory has become unsuitable to Ethiopian roads losing the previous features it was praised for by the local customers. This has forced the company to focus on establishing forward linkages with only foreign firms/markets following the loosening of the its previous forward linkage with domestic distributors/market.

Thus in conclusion, it is hard to say that the investment ventures especially those in the flower and tyre production have succeeded in aiding the establishment and diversification of local businesses though some hopeful trend is observed in the construction sector.

3.10 Government officials' Description of the Current Investment Climate of Ethiopia

Most of the investment coming to Ethiopia is green field, which involves in starting a company from a scratch. This is a good thing because starting investment from a scratch allows investments being made in the nation to be made considering the local situation in relation to consumer taste, labor availability, different polices and leads to the establishment and operation of effective FDI ventures that benefit both the investors and Ethiopia at large. In the category of brown field investment which involves in the acquisition or merger of an already existing company, joint venture is the dominant form of foreign investment in the Ethiopian case. This

again can be considered beneficial as it allows local companies to work in close contact with the foreign companies and acquire important skills and experiences that can allow further development of the business. Most of the investment coming in to Ethiopia is dominated by the manufacturing sector followed by agriculture and construction respectively. None of the respondents from the licensing, follow up and promotion department of the investment agency confirm the presence of a system for controlling the technology that comes in to the country for obsolescence and the standard of the products produced by the foreign firm. This shows that there is no mechanism to check the suitability of any imported machinery or production technology for the local taste, demand as well as the quality of the products that could make them competitive in the international market. This has a serious implication on the success of the Ethiopian investment policy as one of its main goals is earning foreign exchange through the export of commodities produced in the country. However failure to control the quality and suitability of a particular machinery or technology might lead to the importation of obsolete machinery or technology of any sort that might result in the production of poor quality products which won't be able to break through the international market making Ethiopia's dream of raising foreign exchange earnings a mere wishful plan on the paper. The other implication of not being able to control technology that comes in to the country is on the level of employment created. This is because it makes it difficult to check if the investment coming in to the country is labor or capital intensive. For a labor abundant nation such as Ethiopia it is important the investment projects and the different technologies and processes brought in with them to be labor intensive to ensure the creation of job opportunities for the ever-growing labor force.

When it comes to doing the best the country can in attracting FDI in to the country there is a 50-50 view among the government officials with some regarding what has been done as 'not enough' to a successful end while others believe that the country has 'done enough' and mention:

- Tax holidays
- Tax exemption
- Support in the provision of land and residence
- Promotion activities under taken to give foreign investors a clear picture of the country's potential

, as the major and sufficient measures taken to attract FDI in to the nation. Nearly 60% of the respondents consider promotion as the only means of attracting FDI in to the country while the remaining 40% consider the both promotion and the associated incentives as the main means of attracting FDI. About 80% of the respondents pointed out that the investment agency attempts to use the foreign investors as a means of promotion. However this effort has gained minimum success as the investors themselves have some reservations related with the bureaucratic procedures they have to go through and the level of infrastructural development. 60% of the respondents consider poor implementation rate as the main constraint in the facilitation of FDI in Ethiopia. While, the rest 40% consider the combination of implementation and attracting problems as major hindrances that stand on the way to fetch FDI to the extent required. It is agreed by all the respondents that the agency does its utmost effort to get the opinion of the foreign investors on needed improvements to be made in making the investment climate better.

In this regard the main identified concerns of the investors revolve around

- Delay up on land issuance
- The land policy of the Ethiopia that prohibits private ownership
- Conflicting policies and procedures that exist between the investment agency and the different relevant government institutions and offices.

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Chapter 4

Conclusion and Recommendation

4.1 Conclusion

Though there is a strong desire from the government side to attract foreign direct investment through the design and implementation of an attractive investment policy with encouraging incentives, the success of the investment policy in attaining its goal is minimal. This can be seen by:

- The low rate of implementation of licensed projects that has resulted in poor cash inflow and lower job opportunities than the country aspires for due to political, social and economic reasons that affected the FDI attractiveness and investment absorption capacity of the country.
- Lack of control of the technology and production techniques that come in to the country for obsolescence, and suitability to the country's market, development policy and other existing situations in the country mainly due to the lack of expertise and the cost of keeping track of newly emerging technologies and examination of imported technology.
- Limited transfer of managerial skills and formal on-the job and off-the job training programs that enable worker and managers apply their skills in related or different line of business. This is mainly due to the minimum emphasis given to a well structured training programs focusing primarily on learning by doing. In addition to this the reservation of application and use of sophisticated technology only to those on higher positions is the other factor that has limited learning in most cases.
- Poor backward and forward linkages with local firms and local markets that resulted in limited success in encouraging the establishment and development of local businesses due to the firms' high dependence on imported inputs and focus on foreign markets to market their products.

4.2 Recommendation

Since the performance of the investment policy to date is not encouraging, there have to be some measures taken to change this trend through:

- The proper follow up of the implementation of investment projects so as to enable them commence operation in the shortest time possible.
- cutting the bureaucratic ladder investors have to go through to get licenses, import the necessary equipment needed to start operation, getting land
- Clearing any procedural and policy conflicts relating to granting investment licenses, provision of land, tax and capital requirement issues, creating problems that discourage investors already in Ethiopia and those who plan to come and work in the country.
- Controlling the technology that is brought in to the country to make sure that they produce up-to-the-standard products, are labor intensive and produce goods that suit both local and international demands.
- Allocating adequate budget to change the image of the country as a potentially unstable and risky investment destination.
- Trying to use the investors in Ethiopia as a channel of promotion
- Raising the national literacy rate and purchasing power of the population in the long run since these are some of the vital factors that affect the investment absorption capacity of a nation and affect the chances of fetching the required amount of FDI a nation hopes for.

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Annex A

Annex A.1

The Potential Benefits of FDI

- ***Employment generation and growth:*** By providing additional capital to a host country, FDI can create new employment opportunities resulting in higher growth. It can also increase employment indirectly through increased linkages with domestic firms. More specifically, the location of a foreign firm in a host country generally leads to the establishment of domestic firms that provide inputs to it thereby increasing the demand for labor in the economy.
- ***Supplementing domestic savings:*** African countries have low savings rates thereby making it difficult to finance investment projects needed for accelerated growth and development. FDI can fill this resource gap between domestic savings and investment requirements.
- ***Integration into the global economy:*** Openness to FDI enhances international trade thereby contributing to the integration of the host-country into the world economy (Morrisset, 2000 cited in Dupasquier et al,2005).
- ***Raising skills of local manpower:*** Through training of workers and learning by doing, FDI raises the skills of local manpower thereby increasing their productivity level. The idea that FDI enhances the productivity of the labour force is supported by empirical evidence suggesting that workers in foreign-owned enterprises are more productive than those in domestic-owned enterprises (Harrison, 1996 cited in Dupasquier et al, 2005).
- ***Transfer of modern technologies:*** Foreign firms typically make significant investments in research and development. Consequently they tend to have superior technology relative to firms in developing countries. FDI gives developing countries cheap access to new technologies and skills thereby enhancing local technological capabilities and their ability to compete on world markets.

- *Enhanced efficiency*: Opening up an economy to foreign firms increases the degree of competition in product markets thereby forcing domestic firms to allocate and use resources more efficiently. (Dupasquier et al,2005)

Annex A.2

Six Myths about the Benefits of Foreign Investment the Pretensions of Neoliberalism

By James Petras, 2005

Myth #1 - Foreign Investment (FI) creates new enterprises, gains or expands markets and stimulates new research and development of local technological 'know-how'.

In fact most FI is directed toward buying privatized and profitable existing public enterprises and private firms, taking over existing markets and selling or renting technology designed and developed at the "home office". Since the late 1980's over half of foreign investment in Latin America was directed toward purchasing existing enterprises, usually at below market valuation. Instead of complementing local public or private capital, FI "crowds out" local capital and public initiative and undermines emerging technological research centers.

With regard to market expansion, the record is mixed: in some sectors where public enterprises were starved for funds, like telecommunications, the new foreign owners may have expanded the number of users and enlarged the market. In other cases, like water, electricity, and transportation, the new foreign owners have reduced the market, especially to low-income classes, by raising charges beyond the means of most consumers. The experience with foreign investment and technological transfers is largely negative: over 80% of research and development is carried out in the main office. The "transfers of technology" is the rental of sale of techniques developed elsewhere, rather than local design. The multinationals usually charge subsidiaries excess royalty fees, service and management costs, to artificially or fraudulently lower profits and taxes to local governments.

Myth #2 Foreign investment increases the export competitiveness of an industry, and stimulates the local economy via secondary and tertiary purchases and sales.

In reality foreign investors buy up lucrative mineral resources and export them with little or no value added. Most of the minerals are converted into semi-finished or finished value added goods - processed, refined, manufactured - in home countries or elsewhere, creating jobs, diversified economies and skills. The privatization of the lucrative giant iron mine Vale del Doce in Brazil in the 1990's has led to huge profits for the new owners and the sale of raw ore overseas, particularly to China in the 21st century. China converts iron ore to steel for transport, machine industries and a host of job-generating metallurgical enterprises. In Bolivia, the privatization of the gas and petrol industry in the mid 1990's has led to billions in profits in the 21st century and the loss of hundreds of thousands of jobs in processing and conversion of petroleum and gas into value added goods, plus failure to supply local low-income consumers. The extraction of raw materials is capital intensive using few workers. Processing and manufacture is more labor intensive and job creating.

Myth # 3 foreign investors provide tax revenue to bolster the local treasury and hard currency earnings to finance imports.

The reality is foreign investors engage in tax frauds, swindles in purchasing public enterprises, and large scale money laundering. In May 2005, the Venezuelan government has announced billion-dollar tax evasions and frauds committed by major overseas petroleum companies which signed on to service contracts since the 1990's. The entire Russian petroleum and gas sector was stolen by a new class of billionaire robber oligarchs, associated with foreign investors, who subsequently evaded taxes, as illustrated by the trial and conviction of two oligarchs, Platon Lebedev and Mikhail Khodorkovsky for \$29 billion in tax evasion facilitated by US and European banks.

The impact of the multinational corporations on the balance of payments over the long run is negative. For example, most assembly plants in export zones import all their inputs machinery, design and know-how and export the semi-finished or finished product. The resulting trade balance depends on the cost of the inputs relative to the value of exports. In many cases the imported components charged to the local economy are greater than the value added in the export zone.

Secondly most of the revenues from the export platform accrue to the capitalists since the key to success is low wages leading to the creation of personal empires. The Brazilian experience over the past decade and a half illustrates the negative external balances resulting from foreign investment and externally funded investment. In 2004 Brazil paid foreign bankers \$46 billion (USD) in interest and principle while receiving only \$16 billion dollars in new loans, leading to a net outflow of \$30 billion dollars. (2) Between January and April 2005 Brazil was bled for \$4.6 billion (USD) in interest payments, \$3.7 billion in profit remittances by multinational corporations, \$1.7 billion for 'external services' and \$7.3 billion in payments of principle in the debt. (3) The total drain of \$17.3 billion dollars far exceeded the positive commercial trade balance of \$12.2 billion dollars. (4) In other words, the FI-led export model led to new indebtedness to pay for the shortfall, the loss of employment by small and medium farmers at the mercy of the agro-business elites and the destruction of the environment.

Myth #4 - Maintaining debt payments is essential to securing financial good standing in international markets and maintaining the integrity of the financial system. Both are crucial to sound development.

The historical record reveals that incurring debt under dubious circumstances and paying back illegally contracted loans by non-representative governments jeopardized the long-term financial standing and integrity of the domestic financial system and led to a financial collapse, as displayed in the Argentine experience between 1976-2001. A substantial part of the public external and internal debt was illegally contracted and had little development utility. A lawsuit launched by an Argentine economist, Olmos, against payment of the Argentine foreign debt revealed that the foreign private debts of Citibank, First National Bank of Boston, Deutsch Bank, Chase Manhattan Bank and Bank of America were taken over by the Argentine government. (5) The same is true of debts of subsidiaries of overseas banks. The Olmos lawsuit also documented how the Argentine dictatorship and subsequent regimes borrowed to secure hard currency to facilitate capital flight in dollars. The foreign loans went directly to the Central Bank, which made the dollars available to the rich who recycled the dollars to

their overseas accounts. Between 1978-1981 over \$38 billion USD fled the country. Most of the foreign loans were used to finance the "economic" openings, luxury imports and non-productive goods, especially military equipment. The Olmos case pointed to a perverse source of greater indebtedness: the Argentine regime borrowed at high interest rates and then deposited the funds with the same lender banks at lower interest rates leaving a net loss of several billion dollars, added to the foreign debt.

Myth # 5 Most Third World countries depend on foreign investment to provide needed capital for development since local sources are not available or inadequate.

Contrary to the opinion of most neo-liberal economists, most of what is called foreign investment is really foreign borrowing of national savings to buy local enterprises and finance investments. Foreign investors and MNCs secure overseas loans backed by local governments, or directly receive loans from local pension funds and banks drawing on the local deposits and worker pension payments. Recent reports on pension fund financing of US MNCs in Mexico shows that Banamex (purchased in the 21st century) secured a 28.9 billion peso (about \$2.6 billion USD) loan, American Movil (Telcel) 13 billion pesos (\$1.2 billion USD), Ford Motor (in long-term loans) (9.556 billion pesos) and one billion pesos (in short term loans), and General Motors (financial sector) received 6.555 billion pesos. This pattern of foreign borrowing to take over local markets and productive facilities is common practice, dispelling the notion that foreign investors bring "fresh capital" into a country. Equally important, it refutes the notion that Third World countries "need" FI because of capital scarcity. Invitations to FI divert local savings from local public and private investors, crowd out local borrowers and force them to seek 'informal' money lenders charging higher interest rates. Instead of complementing local investors FI compete for local savings from a privileged position in the credit market, bringing to bear their greater (overseas) assets and political influence in securing loans from local lending agencies.

Myth #6 The proponents of foreign investment argue that its entry serves as an anchor for attracting further investment and serves as a 'pole of development'.

Nothing could be further from the truth. The experiences of foreign-owned assembly plants in the Caribbean, Central America and Mexico speak to the great instability and insecurity with the emergence of new sources of cheaper labor in Asia, especially China and Viet Nam. Foreign investors are more likely than local manufacturers to relocate to new low-wage areas, creating a "boom and bust" economy.

The practice of FI, in Mexico, the Caribbean and Central America, faced with competition from Asia, is to relocate, not to upgrade technology and skills or to move up to quality products. Finally, a long-term study of the impact of foreign investment on development in India has found no correlation between this foreign investment and growth.

In sum, reliance on foreign investment is a risky, costly and limiting development strategy. The benefits and costs are unevenly distributed between the "sender" and receiver. In the larger historical picture it is not surprising that none of the early, late or latest developing countries put foreign investment into the center of their development scheme. Neither the US, Germany and Japan in the 19th and 20th century, nor Russia, China, Korea and Taiwan in the 20th century depended on it to advance their industrial and financial institutions. Given the disadvantages cited in the text, it is clear that the way ahead for developing countries is through minimizing it and maximizing national ownership and investment of local financial resources, skills and enlarging and deepening local and overseas markets through a diversified economy.

Because the negative economic, social and political costs of foreign investment are evident to increasing numbers of people in the Third World, particularly in Latin America, it is a major detonator of mass social movements, and even revolutionary struggles, as is the case in Bolivia during 2005. Since FI is a direct result of political decisions adopted at the highest level of government, mass social struggles are as much or even more so directed against the incumbent political regime responsible for promoting and mollycoddling foreign investment. The increasing turn of social movements toward political struggles for state power is directly related to the increasing

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recognition that political power and foreign investment are intimately connected. In the 21st century, at least in Latin America, all of the electoral regimes, which have been overthrown by popular majorities, had deep structural links to foreign investment: Gutierrez in Ecuador, Sanchez de Losada and Mesa in Bolivia and Fujimori in Peru. The leader with the greatest sustained support in Latin America, President Chavez in Venezuela, is precisely the only one who has increased regulations and taxes on foreign investment and redistributed the increased revenues to the poor, working class and peasants. The question still remains whether this new infusion of energy and class awareness can go beyond defeating pro-FI regimes to constructing a state based on a broad alliance of class forces, which goes beyond 'nationalization' and toward a socialist economy.

Annex B



3 Annex
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FEDERAL NEGARIT GAZETA

OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

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9th Year No. 34
ADDIS ABABA-7th February, 2003

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CONTENTS
Council of Ministers Regulations No. 84/2003
Council of Ministers Regulations on Investment
incentives and Investment Areas Reserved for
Domestic Investors Page 2092

የሚኒስትሮች ምክር ቤት ደንብ ቁጥር ፹፬/፲፱፻፺፮
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COUNCIL OF MINISTERS REGULATIONS No. 84/2003
COUNCIL OF MINISTERS REGULATIONS ON
INVESTMENT INCENTIVES AND INVESTMENT
AREAS RESERVED FOR DOMESTIC INVESTORS
These Regulations are issued by the Council of Ministers
pursuant to Article 5 of the Definition of Powers and Duties of
the Executive Organs of the Federal Democratic Republic of
Ethiopia Proclamation No. 4/1995 (as amended) and Articles
6 and 9 of the Re-enactment of Investment Proclamation
No. 280/2002.

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፩. አጭር ርዕስ
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፪. ትርጓሜ
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፪. “ቦርድ” ማለት የፌዴራሉ መንግሥት ኢንቨስትመንት
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PART ONE
General
1. Short Title
These Regulations may be cited as the “Investment
Incentives and Investment Areas Reserved for Domestic
Investors Council of Ministers Regulations
No. 84/2003.”
2. Definitions
Unless the context requires otherwise, in these
Regulations:
1) “Authority” means the Ethiopian Investment
Authority;
2) “Board” means the Federal Investment Board;

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Unit Price

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- 1. "የካፒታል ዕቃ" ማለት ምርት ለማምረት ወይም አገልግሎት ለመስጠት የሚያስችሉ የማምረቻና አገልግሎት መስጫ መሳሪያዎች፣ ዕቃዎችና አክሰሪዎች ናቸው።
- 2. "የገቢ ግብር" ማለት የፈጸሙት ስራዎች ላይ የሚጣሉ ታክሶችንም ይወክላሉ።
- 3. "የገቢ ግብር" ማለት የፈጸሙት ስራዎች ላይ የተከፈለው የገቢ ግብር ለሚጣል ታክስ ነው።
- 4. "አዋጅ" ማለት የአገልግሎት ስራዎችን አዋጅ ቁጥጥር ይደርሳል።
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ከገቢ ግብር ነፃ ስለመሆን

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- 1. በማንኛውም ወይም በአገር-አገልግሎት ወይም በርዳኝ በሚያወጣው የምርት እድገት ገበያ መመሪያ በሚወጡ የግብርና ምርቶች ሥራ የተሰማራ ማንኛውም ባለሀብት ካመረተው ምርት በገንዘብ፡
 - ሀ) 4% (ሃምሳ በመቶ) የሆነውን የምርቱን ሙጢት ወደ ውጭ የሚልክ ከሆነ ወይም
 - ለ) 10% (አስ አምስት በመቶ) የሆነውን የምርቱን ሙጢት ወደ ውጭ ለሚልክ ባለሀብት በምርት ግብአትነት የሚያቀርብ ከሆነ።
- 2. ለጅ ዓመት ከገቢ ግብር ነፃ የመሆን መብት ያገኛል።
- 3. በዚህ አንቀጽ ንዑስ አንቀጽ (አ) የተመለከተው ቢኖርም የርዳኝ ዘመን ሁኔታ እስከ 2 ዓመት የሚደርስ ከገቢ ግብር ነፃ የመሆን መብት ሊሰጥ ይችላል። ሆኖም ከ2 ዓመት በላይ የገቢ ግብር ነፃ መብት የሚሰጠው በሚኒስትሮች የኮሚሽን ውሳኔ ብቻ ይሆናል።
- 4. በዚህ አንቀጽ ንዑስ አንቀጽ (አ) በተጠቀሱት ሥራዎች የተመሳሳይ ባለሀብት ካመረተው ምርት ከ4% (ሃምሳ በመቶ) በታች የሚሆነውን ወደ ውጭ የሚልክ ወይም ምርቱን ለሀገር ውስጥ ገበያ ብቻ የሚያቀርብ ከሆነ ለጅ ዓመት ከገቢ ግብር ነፃ የመሆን መብት ያገኛል።
- 5. በዚህ አንቀጽ ንዑስ አንቀጽ (ለ) የተመለከተው ቢኖርም የርዳኝ ዘመን ሁኔታ እስከ 2 ዓመት የሚደርስ ከገቢ ግብር ነፃ የመሆን መብት ሊሰጥ ይችላል።
- 6. በዚህ አንቀጽ ንዑስ አንቀጽ (ለ) የተመለከተው ቢኖርም ምርቱን ለሀገር ውስጥ ገበያ ብቻ የሚያቀርብ ባለሀብት የሙብቱ ተጠቃሚ አንዳይሆን የርዳኝ በሚያወጣው መመሪያ ሊከለከል ይችላል።
- 7. በዚህ አንቀጽ ንዑስ አንቀጽ (አ) እና (ለ) የተመለከተው ቢኖርም ቆይታ ለሌላ ለአካባቢ ክረስት ደረጃ በማልፋት ወደ ውጭ የሚልክ ባለሀብት በንዑስ አንቀጽ የተመለከቱትን ማበረታቻዎች እያገኘም።
- 8. ባለሀብቱ አገልግሎት ስራዎችን የሚያካሂድበት ሥራ በአን ሃራዊ ደረጃ በአካባቢ ልማት ወይንም በተፋ ለካባቢዎች ማለትም በጋምቤላ፣ በሲኒዳንጉልና ጉሙገዝ በደቡብ አዎ፣ በአፋር ክልል የርዳኝ በሚወሰናቸው ዞኖችን በሌላ ክልልና ወደፊት የርዳኝ እንደሁኔታው እየተመለከተ በሚወሰናቸው ሌሎች አካባቢዎች ከሆነ በዚህ አንቀጽ ከተፈቀደው የገቢ ግብር ነፃ በመን በተጨማሪ ለ1 ዓመት ከገቢ ግብር ነፃ የመሆን መብት ያገኛል።
- 9. በዚህ ደንብ አንቀጽ 2 በተመለከቱት የገቢ ግብር ነፃ ማበረታቻዎች ባለሀብቱ ተጠቃሚ የሚሆነው መረጃውን አግባብ ላለው ግብር ሰብሳቢ መሥሪያ ቤት አቅርቦ ለተረጋገጠለት ለአያንዳንዱ የገቢ ግብር ዘመን (ዓመት) ይሆናል።

- 3) "Capital Goods" means machinery, equipment and accessories, needed to produce goods or render services;
- 4) "Customs Duty" includes taxes levied on imported goods;
- 5) "Income Tax" means tax levied on profits from business and categorized as the revenue of the Federal Government, Regional Governments or as their joint revenue;
- 6) "Proclamation" means Investment Proclamation No. 280/2002;
- 7) The definitions provided for under Article 2 of the Proclamation shall apply to these Regulations.

3. Investment Areas Reserved for Domestic Investors
 Areas of investment listed in the schedule attached to these Regulations are exclusively reserved for domestic investors.

PART TWO
Exemption from Income Tax

- 4. Investment Activities Eligible for Income Tax Exemption
 - 1) Where an investor engaged in manufacturing or agro-industrial activities or the production of agricultural products to be determined by directives to be issued by the Board;
 - (a) exports at least 50% (fifty per cent) of his products, or
 - (b) supplies at least 75% (seventy five per cent) of his product to an exporter as a production input; he shall be eligible for income tax exemption for 5 years.
 - 2) Notwithstanding the provisions of Sub Articles (1) of this Article the Board may, under special circumstances, grant income tax exemption for a period not longer than 7 years. However, the granting of income tax exemption for a period longer than 7 years requires the decision of the Council of Ministers.
 - 3) An investor engaged in activities mentioned under sub Article (1) of this Article who exports less than 50% (fifty per cent) of his products or supplies his products only to the domestic market shall be eligible for income tax exemption for 2 years.
 - 4) Notwithstanding the provision of sub article (3) of this Article, the Board may, under special circumstances, grant income tax exemption for a period not longer than 5 years.
 - 5) Notwithstanding the provision of Sub Article (3) of this Article, directives issued by the Board may prohibit exemption from income tax with respect to an investor who supplies his products only to the domestic market.
 - 6) Notwithstanding the provision of Sub Articles (1) and (3) of this Article, an investor who exports and hides and skins after processing up to crust level may not be entitled to incentives provided therewith.
 - 7) Notwithstanding the foregoing provisions of this Article, where the investment is in relatively under developed Regions such as Gambella, Benshangul and Gumuz, South Omo, in Afar Zones to be determined by the Board, Somali and other Regions to be determined by the Board, the investor shall be eligible for income tax exemption for an additional 1 year period.
 - 8) The income tax exemption provided under the provisions of Article 4 of these Regulations shall be effective when the investor provides the information for the relevant revenue collecting institution and its validity is ascertained for each income tax period.

- ሀ) ባለቤቱ ደረጃዎችን የማይጨምሩ ሆቴሎች፣ ጥቅሎች፣ ፒንብሎች፣ ሻይሎች፣ ቡና ቤቶች፣ ጫፍ ቤቶች፣ የምሽት ክበቦች፣ ዓለም አቀፍ ደረጃ የሌላቸው ረስቶሪንቶችና ምግብ ቤቶች፤
- ለ) የንግድ ሥራዎች ማለትም የጅምላ፣ የቸርቸርና አስመዳኝነት ሥራ፤
- ሐ) የጥገና አገልግሎት ሥራ፤
- መ) የንግድ መንገድ ትራንስፖርትና የመዘናኛ ማከራያ አገልግሎት ሥራ፤
- ጠ) የፖስታና ኩሪየር አገልግሎት ሥራ፤
- ረ) ለንግድና መኖሪያ ቤት የማሆኑ ቤቶችና ሕንፃዎችን ጠርቶ ማከራያትና መሸጫ፤
- ሰ) የንግድና አስተዳደር አማካኝነት ሥራ፤
- ሸ) የማስታወቂያ ሥራ አገልግሎት፤
- ቀ) የፊልምና ሙሴል ሥራዎች፤
- በ) የሬዲዮና ቱሌቪዥን ሥርዓት አገልግሎት ሥራ፤
- ተ) የሲኒማና ቲያትር ቤቶች አገልግሎት ንግድ ሥራ፤
- ቸ) የጉምሩክ አስተላላጊነት ንግድ ሥራ፤
- ኸ) የላውንደሪ አገልግሎት ንግድ ሥራ፤
- ከ) የጉዞ ወኪልነት፣ የንግድ ሪዳትና የትኩስ መሸጫ አገልግሎት ንግድ ሥራ፤
- ኘ) የሎተሪና የመግዘል ሥራዎች።
- ሀ) በዚህ አንቀጽ ንዑስ አንቀጽ (፩) ሥር ከተገለጹት የሥራ መስኮች በተጨማሪ ስርዓት አገልግሎት ሆኖ ሊያገኘው የጉምሩክ ተረጎም ነፃ መብት የማይሰጣቸውን ሌሎች የሥራ መስኮች በየጊዜው በሚያወጣው መመሪያ ሊወሰን ይችላል።

16. ከጉምሩክ ተረጎም ነፃ ሆነው የገቡ የክፍያ ስጦታዎችን ስለማስተላለፍ

ከጉምሩክ ተረጎም ነፃ ሆኖ የገባ ግናቸውም የክፍያ ስጦታ ሲከፈልበት ደንብ የነበረው የጉምሩክ ተረጎም አስተዳደር ሳይከፈልበት ተመሳሳይ የጉምሩክ ተረጎም ነፃ መብት ለሌሎች ለውሎተላለፍ አይችልም።

**ከፍል አራት
ልዩ ልዩ ደንቦች**

17. ትዕዛዝ

በዚህ ደንብ አንቀጽ 18 የተመለከተውን የተላለገ ማንኛውም ባለቤብት የጉምሩክ ባለሥልጣንን እንደገና ለማቋቋምና አውራጃ ልውጥን በወጣው አዋጅ ተቀርቆ ማሻሻያ አንቀጽ ሆኖ መሠረት ይቀጣል።

18. በሌሎች ተረጎሚዎች ስለማይኖራቸው ደንቦችና መመሪያዎች

- ሐ) የኢንቨስትመንት ማከራያ የሚያስፈልጉ ምክር ቤት ደንብ ተቀርቆ ማሻሻያ (አንድተኛኛል) እና ለአገር ውስጥ ባለቤቶች ስለተከለሉ የሥራ መስኮች የወጣው የሚያስፈልጉ ምክር ቤት ደንብ ተቀርቆ ማሻሻያ በዚህ ደንብ ተሸረገል።
- ለ) በዚህ ደንብ ስር የሚቀረጹ ግናቸውም ደንብ ወይም መመሪያ በዚህ ደንብ ውስጥ የተደነገጉ ጉዳዮችን በተመለከተ ተረጎሚዎች አይኖራቸውም።

- (a) hotels (excluding star-designated hotels), motels, tea rooms, coffee shops, bars, night clubs and restaurants which do not have international standards;
- (b) wholesale, retail and import trade;
- (c) maintenance services; ...
- (d) commercial road transport and car-hire services;
- (e) postal and courier services;
- (f) real estate development;
- (g) business and management consultancy services;
- (h) advertisement services;
- (i) cinematography and similar activities;
- (j) radio and television broadcasting services;
- (k) theatre and cinema hall operations;
- (l) customs clearance services;
- (m) laundry services;
- (n) travel agency, trade auxiliary and ticket-selling services;
- (o) lottery and games of a similar nature;

2) Notwithstanding the provision of Sub-Article (1) of this Article, the Board may, where it finds appropriate, issue directives providing for additional areas of investment which may not be eligible for exemption from the payment of customs duty.

11. Transfer of Capital Goods Imported Free of Customs Duty

Capital goods imported free of customs duty shall not be transferred to third parties not entitled to similar duty free privileges, unless prior payment of the customs duty is effected thereon.

**PART FOUR
Miscellaneous Provisions**

12. Penalty

Any investor who acts contrary to Article 11 of these Regulations shall be punishable in accordance with Article 73 of the Re-establishment and Modernization of Customs Authority Proclamation No. 60/1997.

13. Repealed and Non-effective Regulations and Directives

- 1) Investment Incentives Council of Ministers Regulations No. 7/1996 (as amended) and Investment Areas Reserved for Domestic Investors Council of Ministers Regulations No. 35/1998 are hereby repealed.
- 2) Any Regulations or directives inconsistent with these Regulations shall not have effect with respect to matters provided for in these Regulations

ግንባታ ስራ ለአገር ውስጥ ባለሀብቶች የተከለሉ የሥራ መስኮች

- ሀ. የግንባታ ስራ የኢንቨስትመንት ሥራ መስኮች በሀገር ውስጥ ባለሀብቶች ብቻ የሚካሄዱ ይኖራሉ፡፡
 - ሀ. የትርጉም ገንዘብ የደረሰ ሥራ፡፡
 - ለ. የጅምላ ገንዘብ (ክፍያና የክፍያ ምርቶችን ማቅረብ እንዲሁም የውጭ ባለሀብቶች በአገር ውስጥ ያመረቱትን በጅምላ መሸጥን ሳይጨምር)፡፡
 - ሐ. የገቢ ገንዘብ (ከቡታጋዝ በተመን እና የሚኒስትሮች ምክር ቤት በሚወሰነው መሠረት ለወጪ ምርት ግብዓትነት ከሚወሰዱ በስተቀር)፡፡
 - ተ. ጥራ በጥፋት ማረጋገጥ የትባታ አህሉትን ጥራጥራ፣ ቆይታ ለመከፈብ በመግባት እንዲሁም እንዲሰተፋ ራሱ ካረባቸው ወይም ካደለባቸው በስተቀር በጎችና ፍየሎችና የተንደኑ ከብቶች በታም ወይ ውጭ መላክ፡፡
 - ሐ. በደረጃ እንደ ከሚመደቡት በስተቀር የኮንስትራክሽን ሥራ ተቋራጭነት፡፡
 - ሐ. ቆይታ ለመደብከን ካረጃ ማልፋት፡፡
 - ለ. የባለቤብ ደረጃዎችን የማይጨምሩ ሆቴሎች፣ ሞቱሎች፣ ፕንሊዮኖች፣ ጃይ ቤቶች፣ ቡና ቤቶችና መጠጥ ቤቶች፣ የምሽት ክብቦች፣ ዓለም አቀፋዊ ደረጃ ካላቸውና በተወሰነ አገር ምግብ አስገኛጅነት ከሚታወቁት በስተቀር ሌሎች የምግብ ቤቶች፡፡
 - ሐ. የጉዞ ወኪልነት፣ የገንዘብ ረዳትነትና የቲኬት መሸጥ አገልግሎት ሥራ፡፡
 - ለ. መኪና የማከራየትና የታክስ አገልግሎት፡፡
 - ለ. የመንገድ የገንዘብ ትራንስፖርት እና የሀገር ውስጥ ውሃ ላይ ትራንስፖርት አገልግሎት፡፡
 - ለ. ለሀገር ውስጥ ገበያ የሚቀርቡ የዳቦና የኬክ ምርቶች፡፡
 - ለ. የወጪው በት አገልግሎት፡፡
 - ለ. ማህተም ማስተካከል፣ የቱንጅና ሳሎን የአገጥረኝነት ሥራ፡፡ በዕቅድ ደረጃ የሚካሄዱ የልብስ ስፈት፡፡
 - ለ. የሕንፃ እድገትና የመኪና ጥገና አገልግሎት፡፡
 - ለ. የአገልግሎት መደብላቸውና የጣውላ ሥራ፡፡
 - ለ. የጉምሩክ አስተላላጅነት ሥራ፡፡
 - ለ. የመብረም፣ የቲያትርና የሲኒማ ማግኘት አገልግሎት፡፡
 - ለ. የማተሚያ ገንዘብ ሥራ፡፡
- ለ. በዚህ አንቀጽ ንዑስ አንቀጽ (አ) የተዘረዘሩት የኢንቨስትመንት ሥራዎች እንደተጠበቁ ሆነው የግንባታ ስራ የሥራ መስኮች አይታዩም ቢሆኑም ባላቸው ባለሀብቶች ብቻ የሚካሄዱ ይኖራሉ፡፡
 - ሀ. የባንክ፣ የኢንሹራንስ ሥራ እና አገልግሎት የብድርና ቁጠባ ተቋም ሥራ፡፡
 - ለ. የግንባታ ስራ የመርከብ ወኪልና አገልግሎት፡፡
 - ለ. የብርድካስተንግ አገልግሎት፡፡
 - ለ. እስከ ፳ መንገዶች የመጫን አትም ባላቸው አርክራፍቶች የሚካሄዱ የአየር ትራንስፖርት አገልግሎት፡፡

SCHEDULE

Areas of Investment Reserved for Domestic Investors

1. The following areas are exclusively reserved for domestic investors:
 - 1) retail trade and brokerage;
 - 2) wholesale trade (excluding supply of petroleum and its by-products as well as wholesale by foreign investors of their products locally produced);
 - 3) import trade (excluding LPG, bitumen and upon approval from the Council of Ministers, material inputs for export products);
 - 4) 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;
 - 5) construction companies excluding those designated as grade 1;
 - 6) tanning of hides and skins up to crust level;
 - 7) hotels (excluding star-designated hotels), motels, pensions, tea rooms, coffee shops, bars, night clubs and restaurants excluding international and specialized restaurants;
 - 8) travel agency, trade auxiliary and ticket selling services;
 - 9) car-hire and taxi-cabs transport services;
 - 10) commercial road transport and inland water transport services;
 - 11) bakery products and pastries for the domestic market;
 - 12) grinding mills;
 - 13) barber shops, beauty saloons, and provision of smith, workshops and tailoring services except by garment factories;
 - 14) building maintenance and repair and maintenance of vehicles;
 - 15) saw milling and timber making;
 - 16) customs clearance services;
 - 17) museums, theaters and cinema hall operations;
 - 18) printing industries.
2. Without prejudice to the provisions of sub-Article (1) of this schedule, the following areas of investment are exclusively reserved for Ethiopian nationals:
 - 1) banking, insurance and microcredit and saving services;
 - 2) forwarding and shipping agency services;
 - 3) broadcasting services; and
 - 4) air transport services using aircraft with a seating capacity of upto 20 passengers.

Annex C: Questionnaires

F. B. I.
LIBRARY

10. If your reply to question No.9 is 'yes' what was the observed out come of this promotion?

Successful

Not successful

11. What constraints exist in area of Foreign Direct Investment?

Attracting

Licensing

Implementation

Other _____

12. Do you attempt to get the opinion of foreign investors in Ethiopia regarding what should be done to improve the investment environment in the country?

Yes

No

13. If your answer for Question No. 12 is 'yes', what are/were their major areas of concern?

14. Any further comments on FDI?

Questions for investors

1. What is your investment area/ sector?

Agriculture Manufacturing Construction

Education Health & social work

Other, please specify _____

2. Is Ethiopia the only place you have invested in?

Yes No

3. If your reply to Question No. 2 is 'No' in what other countries do you invest in? _____

4. Are you engaged in the production/delivery of

A single product/service Diversified products/services

5. From where do you get your inputs?

Local suppliers Foreign suppliers

6. Do you produce inputs for local firms i.e. do you have a forward linkage with local firms?

Yes No

7. Has your operation resulted in the production of raw materials or inputs that you previously imported at the time you commenced operation in Ethiopia?

Yes No

8. If your reply to Question No. 7 is 'yes' how important is the input in your production?

Very important Important Not important

9. Do you meet with people from the investment agency or concerned government officials to discuss your areas of concern?

Yes No

10. If your answer to Question No. 9 is 'Yes', how often do you meet?

11. Is your meeting regular?

Yes No

12. What were your major areas of concern you've had to raise to the officials during your meeting?

13. Do they appropriately use your inputs/opinions in improving situations/do you see your suggestions put in place?

Yes No

14. What do you think would supplement the current Ethiopian investment policy in making the investment climate better?

15. Are you encouraged to promote Ethiopia to other investors in your home country to invest in?

Yes No

16. What encourages you in promoting/ suggesting Ethiopia as a good investment destination?

- The investment policy and the incorporated incentive package
- The existing investment climate
- Encouragement from the government of Ethiopia
- Other please describe _____

17. How did you find the support of banks?

Excellent Good Poor

18. How did you find the support of insurance companies?

Excellent Good Poor

19. How do you rate the overall investment environment in Ethiopia?

- Enabling/encouraging
- Difficult but manageable
- Discouraging

20. Any further comments please state

Questions for Managers

1. At which level of management are you working?

Top Middle Lower

2. What is your level of education?

PhD. MA/M. Sc. BA/B. Sc.
 Diploma Certificate Other _____

3. How many employees are in the company? _____

4. How many are at:

PhD. Level _____ MA/M. Sc. Level _____
 BA/B. Sc. Level _____ Diploma Level _____
 Certificate Level _____ Other _____

5. How long have you worked for the foreign company?

6. The number of employees over time

- Has increased
- Decreased
- Has shown no change

7. Which area has shown

- | | Increase | Decrease |
|---------------------------|--------------------------|--------------------------|
| ▪ Top management level | <input type="checkbox"/> | <input type="checkbox"/> |
| ▪ Middle management level | <input type="checkbox"/> | <input type="checkbox"/> |
| ▪ Lower management level | <input type="checkbox"/> | <input type="checkbox"/> |
| ▪ lower level employees | <input type="checkbox"/> | <input type="checkbox"/> |

8. Does the firm train its employees i.e. has the commencement of operation by the foreign firm resulted in the need to upgrade the skill of employees?

Yes No

9. If your answer to question No.8 is 'yes' how many are trained each year on average? _____

10. How many are trained at

Top management level _____ Middle management level _____
 Lower management level _____ Lower level employees _____

11. What is the most needed skill?

- Marketing skill
- Leadership skill
- Quick adoption of new techniques of production
- Other please specify _____

12. Do you think the trainings given for the job in the foreign company have a long-term impact on the development of the business?

Yes No

13. If your answer to question No.12 is 'yes' in what way? Please specify.

14. Does the training given to employees and the management team have a wider range of applicability i.e. can the trainee apply the skills developed through the training in other related or non-related industries?

Yes No

15. What are the areas the trainee can apply his skills acquired through the training?

16. Is there a significant difference between the pre and post-training performance of employees?

Yes No

17. If your answer to question No.16 is 'yes' in what way do you measure their performance?

18. Do you have improvements in salary and other benefits as a result of working for the foreign company?

Yes No

19. If your answer to Question No. 18 is 'yes' how significant are these improvements?

Very significant Significant Not significant

20. The foreign company you work in

- Produces consumer goods/services for local consumers
- Produces consumer goods/ services for export
- Produces inputs for local firms
- Produces inputs for foreign firms

21. If the foreign firm you work for produces consumer goods and services for local market how successful is it in meeting the local demand?

Very successful Successful Not successful

22. If your firm is successful in meeting local demand in what way, do measure your success?

Through:

- The provision of product that suit the taste of local customers
- Quality substitutes for locally consumed goods
- Offering lower price
- other please specify _____

23. If your firm is not successful what could be the possible bottlenecks?

24. If the foreign firm you work for produces inputs for and services for local firms how successful, is it in meeting the firms' demand?

Very successful Successful Not successful

25. Other comments as far as working for a foreign firm is concerned please state

26. If any comments on operations of the foreign firm, please state

Questions for Employees

1. What is the operation of the foreign firm you work in?
Agriculture Manufacturing Construction
Education Health & social work
Other, please specify _____
2. For how long have you worked for this company? _____
3. Where have you worked before?
 - In a government agency
 - In a local private company
 - In a foreign company
 - other please specify _____
4. Was your previous job related to your current job in the foreign company?
Yes No
5. If your reply to Question No.4 is 'yes' how has your experienced helped in performing your current job in the FDI venture?

6. Do you think there is better machinery or working condition in the foreign company now than the company you've been working for previously?
Yes No
7. If you have been working for a firm in a related or same line of business how do you compare the current working condition and production technique in the foreign firm with the previous company you have been working for?
It has:
Improved Deteriorated No change
8. Have you gained knowledge/ skill from working for a foreign company?
Yes No
9. If your reply to Question No.8 is 'yes' in what way have you acquired the skill? Through

Training

Learning by doing

10. If you get training in what way do you get the training?

On-the-job

Off-the-job

Other, please specify _____

11. Do you get training to use new machinery and new ways of doing things?

Yes

No

12. How do you compare the quality of the products/ services currently produced/delivered in relation to the one previously produced/ delivered?

Improved

Showed no significant change

Deteriorated

13. Is there any improvement in your salary and other benefits?

Yes

No

14. Do you think you can apply the knowledge/skill acquired in the foreign company in other local firms or sectors?

Yes

No

15. If your answer to Question No. 14 is 'yes what are the possible areas you can apply your skills in?

16. Any further comments please state

Questions for linking/Support firms

This is a questionnaire for linking/Support firms, firms that operate in close contact with foreign investment ventures either through the provisions of inputs or services for the production of goods or delivery of services by a foreign company operating in Ethiopia. Linking firms also include those using the products or services produced by foreign firms operating in Ethiopia as an input in their production of goods and delivery of services.

1. How long have you been in this business? _____
2. Who are your main customers?
Domestic firms/ investors Foreign firms/investors
3. If you are working with a foreign firm, have you observed improvement in your product/service quality?
Yes No
4. Before starting operation with the foreign firm how did you market your products/services?
Through:
 - Advertisement
 - Personal selling
 - Through whole sellers
 - If other, please specify _____
5. How do you market your products/services after starting working with the foreign firm/s?
Advertisement
Personal selling
Through whole sellers
If other, please specify _____
6. Do you think your current marketing strategy is better than the previous one?
Yes No
7. If your answer to Question No. 6 is 'Yes', please describe in what way/s your current marketing strategy is better than the previous one.