

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**FOREIGN DIRECT INVESTMENT IN ADDIS ABABA SINCE 1991:  
CONSTRAINTS, CHALLENGES AND OPPORTUNITIES**

**BY**

**ADAM YEWONDWOSSEN FASSIL**



Addis Ababa  
June 2007

# Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities

By

Adam Yewondwossen Fassil

Advisor

Ato. Getachew Yoseph

A Thesis submitted to the School of Graduate Studies of Addis  
Ababa University in Partial Fulfillment of the Requirements for  
the Degree of Master of Arts in Development Studies

Addis Ababa

June 2007

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**INSTITUTE OF DEVELOPMENT  
RESEARCH (IDR)**

**Title**

**Foreign Direct Investment in Addis Ababa Since 1991: Constraints,  
Challenges and Opportunities.**

**BY**

**Adam Yewondwossen Fassil**

**DEVELOPMENT STUDIES**

APPROVED BY THE BOARD OF EXAMINERS:

SIGNATURE

**Dr. Mulugeta Feseha**  
Institute of Development Research

Director  
FACULTY CHAIRMAN

Getachew Yoseph

ADVISOR

Girma Estiphanos

EXTERNAL EXAMINER

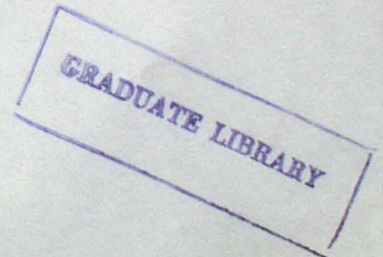
Getnet Alemu

INTERNAL EXAMINAR

[Signature]

[Signature]

[Signature]



## TABLE OF CONTENTS

Contents	Page
Table of Contents .....	i
List of Tables .....	iv
Abbreviations and Acronyms .....	v
Acknowledgements .....	vi
Abstract .....	vii
<b>CHAPTER ONE: INTRODUCTION</b>	
1.1 Background of the Study .....	1
1.2 Statement of the Problem .....	2
1.3 Objectives of the Study .....	3
1.4 Justification of the Study .....	3
1.5 Scope of the Study .....	4
1.6 Limitation of the Study .....	4
1.7 Operational Definition of Technical Terms .....	4
1.8 Organization of the Study .....	5
<b>CHAPTER TWO: REVIEW OF THE RELATED LITRATURE</b>	
2.1 Notion of Foreign Direct Investment .....	6
2.2 Theories on FDI .....	7
2.3 Economic Arguments of FDI: For and Against .....	9
2.3.1 Economic Arguments in Favor of FDI .....	9
2.3.2 Economic Arguments Against FDI: Widening Gaps .....	10
2.4 Controversial Issues on FDI .....	11
2.4.1 Improvement or Deterioration of the Balance of Payments? .....	11
2.4.2 "Crowding in" or "Crowding out"? .....	11
2.4.3 Who Gets the Larger Benefit? .....	12
2.5 Determinants of FDI Flow .....	12
2.5.1 Size and Growth of Local Market .....	13
2.5.2 Availability of Natural Resources .....	13

2.5.3 Macroeconomic Stability .....	14
2.5.4 Labor Cost and Productivity .....	14
2.5.5 Infrastructure .....	14
2.5.6 Institutional Quality and Political Risk .....	14
2.5.7 Incentives .....	15
2.5.8 Location .....	15
2.6 FDI in the World: An Overview .....	15
2.7. Experiences of Selected Countries .....	16
2.8 FDI in Africa: An Overview .....	18
2.9 FDI in Ethiopia: An Overview .....	20
2.10 FDI in Addis Ababa .....	22
2.11 FDI Policy of Ethiopia .....	26
2.12 Business Atmosphere of Ethiopia .....	28

### **CHAPTER THREE: DATA AND METHODOLOGY**

3.1 Research Design and Approach .....	30
3.2 Sources of Data .....	30
3.3 Sample Size and Sampling Techniques .....	31
3.4 Data Collection Instruments .....	34
3.4.1 Procedures in Developing the Instruments .....	35
3.5 Method of Data Collection .....	35
3.6 Data Analysis Tools .....	35

### **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION**

4.1 Constraints of FDI in Addis Ababa .....	36
4.2 Challenges of FDI in Addis Ababa .....	59
4.3 Opportunities of FDI in Addis Ababa .....	60
4.3.1 Opportunities in Agriculture and Agro processing .....	60
4.3.2 Opportunities in Manufacturing Sector .....	62
4.3.3 Opportunities in Construction Sector .....	63
4.3.4 Opportunities in Other Sectors .....	63

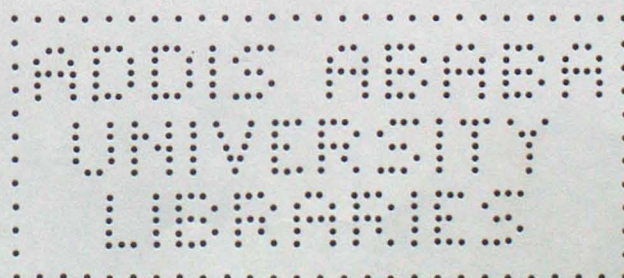
## CHAPTER FIVE: SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

5.1 Summary .....	65
5.2 Conclusions .....	69
5.2.1 Constraints of FDI in Addis Ababa since 1991 .....	69
5.2.2 Challenges of FDI in Addis Ababa since 1991 .....	70
5.2.3 Opportunities of FDI in Addis Ababa since 1991 .....	70
5.3 Policy Implications .....	71

## REFERENCES

## APPENDICES

Appendix A:	Questionnaire for foreign investors
Appendix B1:	Questionnaire for GOs (Addis Ababa City Government Land Administration)
Appendix B2:	Questionnaire for GOs (Federal Inland Revenue Authority)
Appendix B3:	Questionnaire for GOs (Ethiopian Customs Authority-Addis Ababa Office)
Appendix B4:	Questionnaire for GOs (EIA and AACGIA)
Appendix C:	Questionnaire for Experts
Appendix D:	List of GOs Contacted
Appendix E:	List of Experts Contacted
Appendix F:	Supporting Documents



List of Tables	Page
Table 1 Incentives Allowed for Real estate Developers .....	24
Table 2 Incentives Allowed for the Educational Sector .....	25
Table 3 Incentives Allowed for the Health Sector .....	25
Table 4 Incentives Allowed for the Industrial Sector .....	25
Table 5 Lease Payment Price .....	26
Table 6 Summary of Sample Size and Sampling Techniques .....	33
Table 7 Level of Satisfaction Regarding Pre – Investment Climate of Addis Ababa.....	36
Table 8 Factors Considered by Investors before Investing in Ethiopia.....	38
Table 9 Frequency and Percentage Distribution of Informants on their Level of Satisfaction with Regard to Securing Investment License.....	41
Table 10 Respondents Level of Satisfaction by the Services of GOs: Frequency and Percentage Distribution of Respondents.....	42
Table 11 Time spent to clear – out Imported Goods from Customs Authority .....	44
Table 12 Time Spent to Get a Plot of Land in Addis Ababa .....	47
Table 13 Reasons for Investing in Addis Ababa: Frequency and Percentage Distribution.....	49
Table 14 Awareness Level on the FDI Policy of Ethiopia: Frequency and Percentage Distribution of Respondents .....	50
Table 15 Whether the FDI Policy of Ethiopia Satisfy Foreign Investors or Not.....	51
Table 16 Opportunities to Comment on the Investment Policy: Frequency and Percentage Distribution of Respondents.....	52
Table 17 Whether or not there are Incentives from Addis Ababa City Government Investment Authority.....	53
Table 18 Time Spent between Investment License and Realization of the Actual Business .....	54
Table 19 Level of Coordination among the Stakeholders within the FDI Climate.....	55
Table 20 Evaluation of the General Investment Climate of the City .....	56
Table 21 Frequency and Percentage Distribution of Respondents on the Lifespan of their Business .....	58
Table 22 Challenges of Foreign Investors in Addis Ababa .....	59
Table 23 Business Opportunities from Various Sectors .....	63

## Acknowledgments

First of all, I must praise GOD for all the grace and encouragement He bestowed on me while pursuing my studies to this level.

Next, I would like to express my sincere gratitude to my thesis advisor, Ato Getachew Yoseph, for his constructive criticisms and insightful comments. Had it been without his constant support and involvement, this thesis would have not been successful.

Of all, my heartfelt thanks goes to all GOs, World Bank, IMF, WTO, Ethiopian Chamber of Commerce, Ethiopian Economic Association and the foreign investors who have provided me with genuine information. Experts of different organizations also deserve my deepest appreciation.

I would also like to extend my gratitude to my sister Feven Yewondwossen and my brother Messay Yewondwossen for their moral and material support. My closest friend, Yared Antonious, has also helped me in any capacity he can afford. Truly speaking, my deepest gratitude should also be extended to Kelemework Bekele for he was with me during the data entry process.

Last but not least, thanks to those staff at the Institute of Development Research (IDR) in Addis Ababa University (AAU) for the provision of financial assistance.

Adam Yewondwossen Fassil

## Acknowledgments

First of all, I must praise GOD for all the grace and encouragement He bestowed on me while pursuing my studies to this level.

Next, I would like to express my sincere gratitude to my thesis advisor, Ato Getachew Yoseph, for his constructive criticisms and insightful comments. Had it been without his constant support and involvement, this thesis would have not been successful.

Of all, my heartfelt thanks goes to all GOs, World Bank, IMF, WTO, Ethiopian Chamber of Commerce, Ethiopian Economic Association and the foreign investors who have provided me with genuine information. Experts of different organizations also deserve my deepest appreciation.

I would also like to extend my gratitude to my sister Feven Yewondwossen and my brother Messay Yewondwossen for their moral and material support. My closest friend, Yared Antonious, has also helped me in any capacity he can afford. Truly speaking, my deepest gratitude should also be extended to Kelemework Bekele for he was with me during the data entry process.

Last but not least, thanks to those staff at the Institute of Development Research (IDR) in Addis Ababa University (AAU) for the provision of financial assistance.

Adam Yewondwossen Fassil

## Abstract

This study endeavored to identify the constraints, challenges and opportunities of FDI in Addis Ababa since 1991. To this end, related literature, proclamations and publications were reviewed; concerned GOs, experts of the area in focus and sample foreign investors were interviewed.

Survey method was applied to collect data from 377 operational foreign investments. The investments were categorized under different sectors and, therefore, proportionate stratified random sampling was used to all the sectors to obtain 10 per cent sample from each sample frame. On the other hand, purposive sampling technique was deployed to find the GOs and experts working in the area of FDI.

Questionnaire, for the investors, and interview questions for the experts and GOs were the data collection instruments. The data obtained was qualitative and quantitative in nature. It was analyzed qualitatively through narration and quantitatively through SPSS Software Programme respectively.

The results of the study indicated that there are many constraints of FDI basically due to the GOs operating in the area under discussion. These include bureaucracy in the GOs, cost and access to land, lack of infrastructure in the investment sites, corruption, and the strict FDI policy are among others. The challenges to the sector are relatively few and easy to bear. These include cultural shock, language barrier, homesickness, penetrating markets, managing the business and adjusting to the new climate are among the pertinent ones. Apart from these, the investment opportunities for FDI are also discussed in detail. Manufacturing, Real-estate, Urban-Agriculture, Agro-processing, Construction, Consultancy, Exporting of agricultural and Industrial Products and Education are the major ones.

To positively address the FDI climate of the country, possible recommendations are forwarded. These include, among others, improving the bureaucracy in the GOs, fighting corruption, building the image of the country, making EIA a "one-stop-agency" which conducts all the licensing including issuance of land, mobilizing resources from Ethiopians in Diaspora, conducting regular meetings with foreign investors, providing clear incentive packages, relaxing the restrictions on some of the sectors, liberalizing ownership of land, and seeking peaceful resolutions to internal and external conflicts.

# CHAPTER ONE

## INTRODUCTION

This chapter starts with the introductory part and statement of the problem. It also includes the objectives, justification, scope, limitation and organization of the study. Definitions of technical terms are also presented.

### 1.1. Background of the Study

Foreign direct investment (FDI) can be literally defined as those financial flows invested by transnational corporations (TNCs) with regard to their international production operations (World Investment Report 2006). FDI can take different forms. It may be in the form of a new enterprise or the expansion of an existing enterprise; it may also come through a merger or an acquisition. FDI is foreigners' money invested somewhere out of their country.

FDI is not new to Ethiopia in general and Addis Ababa in particular. It was during the reign of Emperor Haileselassie I that foreign investors began to show up in the business domain of the country (Befekadu, 1983). However, FDI did not last for long. The military regime which removed Emperor Haileselassie I from power paralyzed the emerging FDI in the country. Nevertheless, the FDI climate of Ethiopia revived after the military regime was replaced by Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) in 1991.

The government of Ethiopia which is led by EPRDF has taken different measures to boost FDI in the country. For one, the authority entitled Ethiopian Investment Agency (EIA) was set up in 1992. For another, different proclamations and regulations have been passed and amended. Senior government officials have also traveled to different destinations around the world to attract foreign investors. In addition, commercial attaches who work in the Ethiopian diplomatic missions have been trying to promote the FDI climate of Ethiopia. However, the country is still unable to fully enjoy the benefits of FDI. It is unfortunate to learn that even in the capital Addis Ababa, FDI is in its cradle. As investment is one of the many roads to development, this study is, therefore, designed to identify the challenges, constraints and opportunities of FDI in Addis Ababa.



## 1.2. Statement of the Problem

According to development economists, investment accelerates economic growth and is defined as the engine of economic growth (Todaro 2003). Investment, particularly foreign direct investment, initiates diffusion of technology and creates access to foreign currency. New management skills will also be introduced along with foreign direct investment (FDI). Raising government revenue, absorbing part of unemployed manpower, establishing contacts with overseas banks and markets, training opportunities for local workers of an FDI company, and initiating vigorous competition among suppliers are also the benefits of FDI.

Cognizant of this fact, the current government began to encourage FDI since it came into power in 1991. Different delegations led by senior government officials have traveled to the Middle East, Europe and America to attract foreign investors (Investment Review 1995). The authority called Ethiopian Investment Agency was set up in 1992 to serve foreign investors (Proclamation No. 9/1992). Different proclamations and regulations have also been passed and amended to serve the same purpose (FDRE Proclamation No. 7/1996, 37/1996, 35/1998, 36/1998 & FDRE Council of Ministers Regulation No.116/1998, 168/1999 and 280/2002).

However, the number of foreign investors in the country is still minimal. It is even more disappointing that there are only 377 foreign investors in Addis Ababa whose capital is only 5,877,660.91 US Dollar, which is lower than domestic investors (Statistics on Investment 2007). On the other side, it is quite clear that Addis Ababa has relatively better infrastructure and skilled manpower as compared to the rest of the regions.

However, the reality stands to witness that the city, as a metropolis, has limited FDI (Ethiopian Investment Agency Statistical Bulletin 2007). Whereas other comparable East African cities like Nairobi and Dar es Salaam have 2,742 and 4,095 number of foreign investors whose capital is \$26,745,395 million and \$39,943,067 million respectively (<http://www.imfdatabase.fdi.africa>).

World Economic Forum (2003-2004) cited in Worku (2004) puts Ethiopia as one of the unfavorable places for business, with a gross competitiveness rank of 92/102. The report further stated that Ethiopia's FDI is 75 per cent less than what its economy manages to accommodate. Therefore, the capital city, in spite of its infrastructures and skilled manpower, is declared to be unfavorable. Why does this happen? Is that because of the investment policy? Or, is it because of some other challenges and constraints? What should be done to enjoy the benefits of FDI in

Addis Ababa? Are there business opportunities to foreign investors in the city? These are the core problem areas of the study. Therefore, this study is designed to identify the challenges, constraints and opportunities of FDI in Addis Ababa since 1991.

### **1.3. Objectives of the Study**

#### **1.3.1. General Objective**

- The over-riding objective of the study is to identify the challenges, constraints and opportunities of Foreign Direct Investment (FDI) in Addis Ababa since 1991. On the basis of this analysis, the way forward is suggested in broad but practical terms.

#### **1.3.2. Specific Objectives**

- The study identifies and lists the challenges of FDI in Addis Ababa since 1991.
- The study discusses the constraints of FDI in Addis Ababa since 1991.
- The study elaborates on the opportunities which are available to foreign investors in Addis Ababa in general.
- The study comments on the Foreign Direct Investment Policy of Ethiopia with particular emphasis to foreign investors in Addis Ababa.
- The study discusses the incentives provided by the government of Ethiopia to foreign investors.
- The study reflects the views of some selected foreign investors found in Addis Ababa, with regard to FDI.
- The study suggests remedial solutions to problems detected in the study.
- The study identifies gaps for further studies in the area of FDI.

### **1.4 Justification of the Study**

This study may contribute to discussions on matters of Foreign Direct Investment Policy in Ethiopia. More specifically, the study will discuss the major challenges, constraints and opportunities of FDI in Addis Ababa to create conducive atmosphere for the sector. It should be mentioned that no study has so far been conducted to access the overall status of FDI in Addis Ababa. Therefore, the conduct of this study will be unquestionable. Apart from these, to attract more foreign investors, the study would also address the policy, institutional arrangements and other aspects which can influence FDI.

Identifying gaps for further study and discussions is also one of the justifiable reasons for conducting this study. It, therefore, contributes its share to the improvement of FDI. It is to be noted that foreign investors contribute to economic growth, initiate diffusion of technology, absorb unemployed manpower, introduce new skills of management and the like. Therefore, a study in this area is obviously of vital importance.

### **1.5 Scope of the Study**

The study is spatially limited to Addis Ababa since most of the foreign investments are concentrated in the capital. It only looks into the operational foreign investments which are directly invested in the city for only the operational investments have passed through all the steps required to commence a new business. Pre-operational foreign investments are not included in the study.

### **1.6 Limitations of the Study**

As mentioned above, the study is spatially limited to Addis Ababa. Therefore, the findings of the study may not paint adequate picture about the country as a whole. In addition, the other form of foreign investment, portfolio foreign investment, is not included in the study. Therefore, the findings of the study may not be applicable to portfolio foreign investment.

Apart from these, almost all the sample foreign investors are unaware of the business opportunities available in the capital. Therefore, section 4.3 of the study which presents the opportunities of FDI in Addis Ababa does not incorporate the views of the investors. On the other hand, some of the experts interviewed did not respond to all the questions posed. In spite of these, it is hoped that the study will have its benefits in the foreign direct investment (FDI) arena of the country.

### **1.7 Operational Definition of Technical Terms**

The following technical terms are defined within the context in which they are employed in the study.

**Challenges:** are part of reality which should be faced in a way to achieve a desired goal. In the context of this study, challenges are any real difficulties or situations which an investor may face.

**Constraints:** problems, obstacles, and hindrances which inhibit the investors from achieving their goal.

**Opportunities:** guaranteed business chances which can be exploited by any foreign investor.

**Foreign Aid:** is one form of foreign finance which encompasses all affiliated grants and concessional loans in currency. It is also broadly aimed at transferring resources from developed to less developed nations on development or income distribution grounds (Salvatore 1990).

**Foreign Investment:** is the second form of foreign finance. It is the combination of portfolio investment and FDI. Portfolio investments are purely financial assets such as bonds and stocks, denominated in national currency. With bonds, the investor simply lends his capital to get fixed pay out or returns at a regular interval and then receives the face value of the bond at the pre-specified date. With stocks, the investor purchases equity or net worth of the firm. Portfolio or financial investments take place formally through financial institutions such as banks and investment funds (Salvatore 1990).

## **1.8 Organization of the Study**

This study comprises of five chapters. This first chapter is an introductory chapter consisting of background of the study, statement of the problem, objectives, scope, limitation and justification of the study. The second chapter deals with the review of the relevant literature, followed by chapter three which contains the methodology and research design. Chapter four covers the analysis and interpretation of data. The final chapter encompasses the summary, conclusions and recommendations of the study.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

This chapter of the paper deals with an overview of the related literature. It consists of definitions, economic arguments, controversial issues and determinants of FDI. Foreign Direct Investment is discussed in the context of international arena, Africa, Ethiopia and Addis Ababa. Foreign Direct Investment Policy and the business atmosphere of the country are also dealt with.

#### **2.1 The Notion of Foreign Direct Investment**

Foreign direct investment (FDI) may be defined as those financial flows invested by transnational corporations (TNCs) with regard to their international production operations. These consist of funds for financing establishment, acquisition or expansion of foreign based affiliates of multinational corporations (MNCs) or TNCs (Todaro 2003).

FDI can take different forms. It may be in the form of a new enterprise or the expansion of an existing enterprise; it may also come through a merger or an acquisition.

According to Krugman and Obstfeld (1998), FDI refers to international capital flows in which a firm in one country creates or expands a subsidiary in another. It involves not only a transfer of resources but also the acquisition of control. That is, the subsidiary does not simply have a financial obligation to the parent company; it is part of the same organizational structure.

FDI is also defined as investment involving a long-term relationship and reflects a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy (World Investment Report 2006). Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra-company loans.

The aforementioned points, even though not identical, show the clear conventional definition of foreign direct investment; i.e it is putting money or other resources with the intention to produce goods or services in a foreign country and to control that business to a certain degree. Foreign portfolio investment is not FDI because there is no intention of producing goods or services but the desire to speculate with the shares they have bought. According to the above definitions, it is also possible to note that FDI is not foreign aid.

## **2.2 Theories on FDI**

There are several theories on FDI. However, it is very difficult to bring about an all-inclusive classification of theories which can describe and explain FDI. Therefore, in this section, an attempt is made to highlight those dominant theories which were advocated and empirically tested by various scholars.

There are six major groups of theories on FDI. The first theory assumes full or almost full competition on factor and/or product markets. The second one is a market imperfection hypothesis. The third and fourth hypotheses deal with the propensities of countries, industries, or firms to undertake FDI and the propensities of countries to attract investments (Agarwala 1980:740 cited in Alemayehu and Berhanu 1999). The fifth and sixth theories explain how FDI locates new investment sites.

The perfect market hypothesis also have four sub groups: differential rate of return, portfolio hypothesis, output hypothesis and market size hypothesis. Differential rate of return hypothesis postulates that FDI is a function of international differences in rates of returns on capital investment. FDI flows out of countries with low returns to those expected to yield higher returns per unit of capital. However, many studies could not find any association between the flow of FDI and international differences in returns on investment.

The portfolio hypothesis postulates that investors consider not only the rate of return but also the risk in selecting their portfolios. It also views investment as a positive function of the former

and a negative function of the latter. This hypothesis recommends that diversification of portfolio may help reduce the total risk involved. However, this hypothesis lacks empirical evidence. In addition, it does not explain why multinational corporations are the greatest contributors to FDI and why they prefer direct investment to portfolio investments which could eventually provide a better instrument for geographical and sectoral diversification of their portfolio.

The output and market size hypothesis are the remaining two components of the perfect market theory. While the output hypothesis is applied at the micro level, the market size hypothesis is applied at the macro level. The former assumes a positive relationship between the FDI of a firm and its output (sales) in the host country whereas the latter considers FDI as a function of output or sales.

The second theory on FDI is market imperfection. According to Kindleberger (1989) as cited in Alemayehu and Berhanu (1999), this theory focuses on firm specific and transferable comparative advantages which an investing firm must have. These are cheaper sources of financing, brand name, patented or non-marketable technology, marketing skills or special access to markets, managerial skills, government limitation on output or entry and economies of scale.

The comparative disadvantages of a foreign firm, on the other hand, are related to its ignorance of local customer's tastes, legal system, institutional framework, business and other social customs. Moreover, it considers the costs of operating firms at a distance such as those involved in traveling and communication as a comparative disadvantage. Theory of market imperfection consists of several strands such as behavioral hypothesis, product cycle hypothesis, oligopolistic reactions hypothesis, and internalization hypothesis. There is a question why a firm chooses FDI and not any of the other alternatives such as exporting, licensing, renting or selling the technical, managerial or marketing skills. The rationale behind a firm to choose FDI is that sharing the monopolistic advantage with a local partner in the form of licensing or joint venture is often faced with the problem of an agreeable valuation of this advantage, and sometimes they may agree on a price and other times they may not.

The other theory on FDI is Propensity to Invest. This theory has two strands: liquidity hypothesis and currency area hypothesis. Liquidity hypothesis, sometimes equated with "gamblers earning", seeks to establish positive relation between the internal cash flow (local profits) and

investment outlays of a firm. According to the currency area hypothesis, the pattern of FDI can be explained in terms of the existence of different currency areas: harder and weaker currencies. However, this theory is severely criticized for its lack of empirical evidence (Alemayehu and Berhanu 1999).

The fifth theory is Veron's Product Cycle Theory. This theory explains the movements in FDI. According to this theory, when firms in the developed countries come up with new products, they will first serve the home market until the product gets standardized. Then, they (the investors) think about producing it in a low cost country and re-export it if the costs of transportation can be justified. As per this theory, countries that can provide low cost of production in terms of labor, infrastructure and the like can attract more FDI (Haugen 1993).

The sixth theory focuses on the determinants of FDI based on the theory of "industrial firm" and "industrial organization". Proponents of this theory argue that foreign firms have an advantage over local firms. The theory further states that foreign direct investors tend to boost their capital by exploiting the economy of the host countries as a result of their increased market power, risk management skills and strong financial backups (Alemayehu 1999).

In spite of the fact that there are diverse theories on FDI, political stability, incentives for foreign investors, and the supply of cheap labor in developing countries are considered as important variables for the inflow of FDI to host countries (FIAS 2001).

## **2.3 Economic Arguments of FDI: For and Against**

There are two opposing and yet unsettled views as to the role of FDI in a developing economy. In this section, the main arguments of both views will be briefly discussed.

### **2.3.1 Economic Arguments in Favor of FDI**

The view in favor of FDI mainly comes from the traditional neoclassical analysis of the determinants of economic growth (Todaro 2003). According to this view, FDI is required by least developed countries (LDCs) to fill in the gaps between domestic saving, foreign exchange, government revenue and management skills, and the level of these resources needed to achieve growth targets. Brief comments are made on each of them as follows.

**A. Filling Investment Saving Gap:** It is the first and most often cited contribution of FDI to national development. The basic premise is that since in LDCs the domestically available saving

generally falls short of investment that is needed to generate the growth rate targeted by the countries. As a result, FDI is claimed to fill in this resource gap. Here, obviously, saving is assumed to be a key factor for economic development.

**B. Filling Foreign Exchange Gap:** It is analogous to filling investment savings gap. An inflow of private foreign capital cannot only alleviate part or the entire deficit on the balance of payments current account but can also function to remove that deficit over time if the foreign-owned enterprise can generate a net positive flow of export earnings.

**C. Filling Government Revenue Gap:** It refers to the gap between targeted tax revenue of the government and locally collected taxes. Governments of developing countries are thought of being better able to mobilize financial resources for development projects by taxing profits of foreign investors.

**D. Filling Management, Entrepreneurship, Technology and Skill Gap:** According to this argument, foreign investors not only provide financial resources and new factories to poor countries, but they also supply a "package" of needed resources, including management experience, entrepreneurial abilities, and technological skills which can then be transferred to their local counterparts by means of training programs and the process of learning by doing. Moreover, according to this argument, foreign companies can educate local managers about how to establish contact with overseas banks, locate alternative sources of supply, diversify market outlets, and become better acquainted with international marketing practices. Finally, foreign investments may bring with them the most sophisticated technological knowledge about production processes while transferring modern machinery and equipment to capital-poor developing countries. Such transfers of knowledge, skills, and technology are assumed to be both desirable and productive for the recipient nations.

### **2.3.2 Economic Arguments Against FDI: Widening Gaps**

Some people of developing countries argue against FDI. According to them, FDI usually caters for managerial and other key positions for persons in the source country and depresses host country wages. Its requirements for a package of incentives in terms of well-developed infrastructure facilities, tax holidays, and foreign exchange repatriation have a tendency to impose a bias against the rest of the domestic economy.

Largely driven by the profit maximization motive, FDI may not be compatible with the development needs of poor countries and makes peripheral economies the appendage of the source country. Sometimes, FDI is conceived as the mechanism through which economically powerful countries seek to mobilize natural resources of the poor and extract extraordinary profit (in foreign exchange) to the source country. Importation of intermediate goods, management fees and royalties, interest repayments on loans, profit repatriation and above all, capital flight could greatly affect the country's balance of payment and the possible gains from trade (UNCTAD 1999).

The sphere of influence of FDI in the form of MNCs goes beyond economic affairs. The capacity of large FDI companies to manipulate the political set-up of a country usually emanates from their monopolistic or oligopolistic market powers in determining output, employment and price levels in the domestic economy (Todaro 1989).

But recently the attitude of developing countries towards FDI is changed.

*Perceptions have changed greatly in recent years. So have the ways in which MNCs operate and organize themselves globally. Both are in response to the new global context: rapid technical progress, shrinking economic space, improved communication, intensification of competition, new forms of market rivalry, increasingly mobile capital, widespread policy liberalization and more vocal (and influential) stakeholders (World Investment Report 1999:313).*

## **2.4 Controversial Issues on FDI**

### **2.4.1 Improvement or Deterioration of the Balance of Payments?**

FDI can also contribute towards debt servicing repayments, stimulate export markets and produce foreign exchange revenue. Subsidiaries of MNCs, which bring the vast portion of FDI, are estimated to produce around a third of total global exports. However, levels of FDI do not necessarily give any indication of the domestic gain (UNCTAD 1999). Corporate strategies e.g. protective tariffs and transfer pricing can reduce the level of corporate tax received by host governments. Plus, importation of intermediate goods, management fees, royalties, profit repatriation, capital flight and interest repayments on loans can limit the economic gain to host economy.

### **2.4.2 "Crowding in" or "Crowding out"?**

"Crowding in" occurs where FDI companies can stimulate economic growth in domestic businesses within the national economies. Whereas "crowding out" is a scenario where FDI

companies dominate local markets, pressing local competition and entrepreneurship. One reason for crowding out is "policy chilling" or "regulatory arbitrage" where government regulations, such as labor and environmental standards are kept artificially low to attract foreign investors (OECD 1990).

Empirical data for these scenarios is variable, but crowding out is thought to be more common in specific sectors. Especially, in industrial sectors if the technical and financial capacities of domestic industries is inferior to foreign companies (OECD 1990).

#### **2.4.3 Who Gets the Larger Benefit?**

It is a well established fact that foreign investors work for their profit. They are less concerned about eradicating poverty and raising the standard of living in the country where they invest (Todaro 2003). Due to this fact, some LCD governments argue that allowing foreign investors to invest in their country is like allowing them to exploit the resources which the country is endowed with. Therefore, they conclude that foreign investors get the greater benefit by their investment.

On the other domain, the same source indicates that the greater benefits of FDI go to the host nations: According to this view, diffusion of technology, which costs a great deal of money by the Research and Development Centers of the developed nations, can easily and cheaply be transmitted to the host nations. In addition, the employment opportunities created for the citizens of the host nations would enable the workers not only to lead a better life but also to use the money to begin their own small businesses, which is the first step towards a huge investment.

Access to international market, raising tax revenue, stimulating local production and the like are also the sole benefits to the host nations. Implicitly, this view stresses on the fact that the measure to judge on who gets the larger benefit of FDI should not be emphasized only on the amount of profit that is obtained by foreign investors.

#### **2.5 Determinants of FDI Flows**

The existing uneven distribution of FDI among countries, regions and different income groups has generated a substantial research effort to identify the major determinants. In the late 1990s, FDI was the largest single source of external finance for many developing countries. However,

the percentage share obtained by African countries was not as expected (World Investment Report 1999).

There have been several theoretical explanations given to the determinants of FDI flows. According to the pure capital movements' theory, capital flows across countries are governed by differential rate of return. Followers of this theory assumed the existence of risk, which in present times, by and large explain the flows of FDI (Alemayehu 1999). If it were all about the returns of capital, the developing world (Africa in particular) where the return to capital is very high would have benefited a lot. But, because risk matters, FDI to Africa remained relatively low despite its profitability. Different writers have in common that the following are the major determinants of FDI in the world.

### **2.5.1. Size and Growth of Local Market**

For most multinationals, a large market means a greater demand for their products. Therefore, countries with larger GDP, other things held constant, are likely to get more FDI compared to countries with smaller GDP. As a result, it is common to see econometric studies to use size of GDP as well as and its characteristics (average income levels and GDP growth rates) as proxy to size of the local market. Rapid GDP growth could induce the inflow of FDI because it will usually create a high level of capital requirement in the host country. Therefore, the host country will demand for more FDI by offering concessional terms. Moreover, rapid economic growth will build the confidence for overseas investors to come and invest in the country. More importantly, rapid economic growth accompanied by an increase in per capita income will create huge opportunities for FDI in the industrial sectors, consumer durable goods and infrastructure sectors in the host country (Shan et al 1997).

### **2.5.2 Availability of Natural Resources**

It is a well-known fact that FDI inflows to Africa to a longer extent are determined by the availability of natural resources. This can be easily discerned by looking into the sectoral allocation of FDI in the region. By citing UNCTAD (1999), Morisset (2001) attempts to show that about 60 per cent of FDI inflows to Africa are concentrated in the oil and natural resource sector. Other things held constant, countries with abundant resources are likely to get more FDI than those with little or no natural resources. It is, therefore, possible to expect FDI to respond positively to countries with abundant natural resources.

### **2.5.3 Macroeconomic Stability**

Stable macro economic environment includes a wide array of policies which sustained over a period of time with cumulative verifiable results. The manifestation of good macro economic policies include, among others, increased growth, low inflation, reduction of external account deficit, reduction of fiscal deficit and less exchange rate volatility. Therefore, while a stable and sustainable macroeconomic environment boosts the confidence for foreign investors, macroeconomic instability affects FDI negatively (Elithebeth 2002).

### **2.5.4 Labor Cost and Productivity**

Highly skilled manpower with greater productivity can attract FDI, of course other things held constant. However, when the variation in the cost of labor is relatively insignificant or when wage difference between countries is little, the costs of labor force are expected to have negligible impact on decision about FDI location (Todaro 2003).

In fact, the importance of low-cost unskilled labor force in location decision has declined in recent years and greater attention is now placed on skills and "trainability" of workers (Elithebeth 2002).

### **2.5.5 Infrastructure**

Infrastructure covers many dimensions ranging from roads, ports, railways, telecommunication systems, and even to institutional developments. In developing countries, especially in Africa, bad roads, delays in shipment of goods at ports and unreliable communication systems can be considered as the major obstacles hindering FDI inflows. Therefore, countries that do a better job in making these things better, other things held constant, have a better chance of attracting FDI. In general, "good infrastructure facilitates production and reduces operating cost to attract as well as promote FDI" (Elithebeth 2002:54).

### **2.5.6. Institutional Quality and Political Risk**

Especially in Africa, corruption and weak enforcement of law are viewed as the major deterrents of FDI. Studies indicate that they raise cost of operating business apart from creating dissatisfactions on the investors. Political instability is also a very serious obstacle in securing significant amounts of FDI. That is, political instability, whether real or perceived, affects inflows of FDI (FIAS 2001).

### **2.5.7. Incentives**

Most empirical studies support the notion that specific incentives such as tax exemptions have no major impact on FDI, especially when they are seen as compensation for continuing comparative disadvantages. Besides, these incentives are almost uniformly given by all African countries and therefore will not significantly affect the location of FDI. However, a well studied and practical as well as attractive incentives are seen to attract foreign investors in some investment sectors (FIAS 2001).

### **2.5.8 Location**

Countries which have easy access to the world market either due to water body outlets and /or fair road/air transportation cost can attract FDI, of course other factors held constant. Countries which are located near to densely populated continents are also advantaged (Feuchtwong et al 1988).

## **2.6 FDI in the World: An Overview**

World-wide outflows of FDI had nearly tripled in the years between 1984 and 1987. It then increased by 20 per cent in both 1988 and 1989, to reach an absolute level of \$196 billion. By 1989, the total world-wide stock of this investment stood at approximately \$1.5 trillion (Tsegaye in Abdulhamid and Getachew 1994).

The same source indicates that the dynamism of FDI can best be portrayed when compared with world exports and world output. Between 1983 and 1989, FDI outflows have increased by 29 per cent, which is three times faster than that of the growth of exports and four times than that of the growth of world output.

FDI flows have grown faster than output in the 1980's with the consequences that, overall, a large share of output may be accounted for by FDI. One indicator of this is the ratio of FDI to gross domestic capital formation. According to this indicator, FDI has increased in importance in most developed and developing countries in the late 1980s as compared to the early 1980s (Tsegaye in Abdulhamid and Getachew 1994).

Since 1985, FDI inflows to developing countries have grown at annual rate of 22 per cent and reached \$30 billion in 1989. In the 1990's, FDI had continued to flourish. In that decade, it

marked a significant difference between countries and regions. Asia and Oceania were the top destination of FDI flows to developing regions (World Investment Report 2000).

The year 2004 saw a slight rebound in global FDI after 3 years of declining flows. At \$648 billion, world FDI inflows were 2 per cent higher in 2004 than in 2003. Inflows to developing countries surged by 40 per cent, to \$233 billion, but developed countries as a group experienced a 14 per cent drop in their inward FDI. As a result, the share of developing countries in world FDI inflows was 36 per cent, the highest level since 1997 (World Investment Report 2005).

FDI outflows increased in 2004 by 18 per cent to \$730 billion, with firms based in developed countries accounting for the bulk (\$637 billion). The stock of FDI in 2004 was estimated at \$9 trillion. It was attributed to some 70,000 transnational corporations (TNCs) and their 690,000 affiliates abroad, with total sales by foreign affiliates amounting to almost \$19 trillion. FDI continues to surpass other private capital flows to developing countries as well as flows of official development assistance (ODA). In 2004, it accounted for more than half of all resource flows to developing countries and was considerably larger than ODA (World Investment Report 2005).

At a global level, many factors helped to explain why the growth of FDI was particularly pronounced in developing countries in 2004. Intense competitive pressures in many industries have made the firms to explore new ways of improving their competitiveness.

## **2.7 Experiences of Selected Countries**

### **2.7.1 FDI in China**

FDI is a recent phenomenon to China. In China, FDI began to flow after the famous reform of 1978 (Feuchtwong et al 1988). In the 1980's, FDI in China was limited to few manufacturing sectors. The history of FDI entered into a new phase in the 1990's.

In 1990, China earned \$4 billion from FDI. In the second half of the 1990's, China has managed to get about \$ 40 billion from FDI per year (<http://www.atkearney.com/main.taf? P=1, 5, 151>). In 2005, FDI in China was well over \$400 billion and it involves tens of thousands of companies mainly due to its huge market size, labor cost and productivity, quality infrastructure and an attractive investment policy. China has benefited a lot from FDI. Foreign-funded enterprises

currently account for about 3 per cent of urban employment. FDI has also contributed to the transformation of the industrial structure. China's trade growth during the reform period has been about 4.5 times as fast as world trade growth, and the foreign-funded enterprises have played a key role in this achievement. Their share in export has risen from 1 per cent in 1985 to between 45 and 50 per cent currently (<http://www/imf.org/external/np/tr/2002/tr02502.htm>).

Surprisingly, now, China ranks as the number one FDI destination across the world in all major sector investments including financial and non-financial services, manufacturing, primary activities, telecommunication, wholesale and retail. About 40 per cent of global investors expressed a more positive out look on China's economy (<http://www.atkearney.com/main.taf?P=1,5,1,151>).

### 2.7.2 FDI in Mauritius

Mauritius can be regarded as a major economic success story, an example for many small LDCs now at a stage of development alike that of Mauritius in the late 1960s. At that time, this tiny island's economy had mono-crop dependency on sugar, a failed import substitution sector and the Malthusian nightmare of being unable to provide jobs for its predominantly youthful population. Inspired by the free zones model for the Far East, especially that of Taiwan (in turn, an adaptation of the Irish model), Mauritius created Export Processing Zones (EPZ) regime in 1970.

The country's chance of EPZ success should have been slim because it lacked good infrastructure and domestic material inputs, and the country is 6,000 miles from the nearest developed country market. Yet, this regime proved to be the catalyst which lifted Mauritius from its plight amongst the poorest of the poor in Africa in the early 1970s.

The EPZ regime succeeded because other conditions were right initially and because of the flexibility demonstrated both by entrepreneurs and by the Government to make changes when needed. The EPZ regime took root in a peaceful, multi-cultural, politically stable westminster-style democracy committed to the free enterprises system. The regime provided mainly fiscal incentives, some infrastructure and a responsive government administration keen to attract foreign investment, to provide opportunities for local capital and to create jobs and exports in a diversified economy. Because land was difficult to acquire or lease and there was virtually no need to protect domestic market firms from free zone competitors, EPZ firms were allowed to



locate anywhere in the country with a minimum of government supervision (Bheenick and O Shapiro 2000 cited in FIAS 2001).

After initial success in the first six years, when 17,000 jobs were created, the EPZ floundered for the next six years under difficult world economic conditions and policy mistakes which cost Mauritius some of its investment attractiveness and credibility with foreign investors. A major turn-around came after 1983, following significant policy improvements and the creation of an investment and export promotion agency (MEDIA) which aggressively promoted foreign investment from the Asian NIEs and elsewhere. MEDIA also began to provide the industrial buildings that have been found critically needed in order to attract foreign investment from the Asian NIEs.

A brief overview of some key indicators provides a thumbnail sketch of Mauritius's success. By 1971, Mauritius had 10 enterprises operating in its EPZ regime. By 1999, this number has reached roughly 525 firms. EPZ firms were involved in the production of garments, textiles, toys, watches, spectacles, food and agriculture, plastics, electronics, jewelry and crafts, and more recently, in service industries. Direct employment created by the EPZ firms increased from 600 in 1970 to 87,057 in 1998. By 1998, EPZ firms were contributing approximately 70 per cent (largely textiles and apparels) of the total export earnings of Mauritius. GNP per capita in Mauritius has increased steadily, from US\$28 in 1970 to US\$1,190 in 1980 and almost US\$3,590 in 1999.

## **2.8 FDI in Africa: An Overview**

Though FDI is a recent phenomenon to Africa as compared to the west, it is growing from year to year. For instance, Yohannes (1999) noted that the absolute level of FDI flows into Africa is rising from an annual average of \$800 million during 1975-80 to annual average of \$3.9 billion during 1990-96. Although rising from a small base, FDI inflows into Africa grew by five folds between 1975-80 and 1990-96, compared to 4.7 times for Latin America and seven folds for developing countries as a whole (World Bank 1999).

The 2001 World Investment Report has also documented that inflows of FDI to Africa rose nearly by 28 per cent, from \$8 billion in 1998 to \$10 billion in 1999. However, in absolute terms, these figures are very small compared to the dramatic rises in FDI flows to the rest of the world in 1998-1999. For example, developing countries as a whole attracted \$208 billion in 1999,

which is 16 per cent higher than the 1998 level. On the other hand, developed countries attracted \$636 billion of FDI inflows in 1999, \$156 billion more than in 1998, accounting for nearly 75 per cent of the world's total.

There are several reasons which can be advanced to explain why Africa takes little share of FDI in the global economy. Prolonged civil conflicts and political crises are common to many African countries. Drought, small market size, slower economic growth, poor as well as deteriorating physical infrastructure, high degree of indebtedness and low level of technological capabilities have made the continent less attractive site for FDI (World Bank 2005).

As indicated above, because of the limited amounts of FDI flows to Africa, most African countries receive small FDI flows in absolute terms. In recent years, however, Angola, Egypt, Morocco, Nigeria, South Africa and Tunisia have attracted considerable amounts of FDI. In Angola, the foreign investment capital went mainly to petroleum. Egypt managed to attract such increasing amounts of FDI mainly because of deregulations and privatization. Consequently, these two countries have overtaken Nigeria, which had been traditionally the largest recipient of FDI in Africa (World Investment Report 2006). At this point, it is necessary to note that Ethiopia is not included in the category of countries which receive a considerable amount of FDI in Africa.

In 2005, FDI in Africa remained at almost the same level- \$18 billion, as in 2004. FDI in natural resources was particularly strong, reflecting the high prices of minerals and oil and the increased profitability of investment in the primary sector. However, Africa's share in FDI flow worldwide remains low, at 3 per cent (World Investment Report 2005).

Evidences on sectoral distribution of FDI in African countries showed a varying interest by different sources. FDI originating from the United States, for example, is mainly interested in natural resources, particularly focusing on petroleum investment. French FDI also showed a rising interest in natural resources extraction, while FDI from Germany, The Netherlands, and Switzerland has gone mainly to manufacturing. FDI from the UK has shown an increasing interest in service sectors (World Investment Report 2000).

## 2.9 FDI in Ethiopia: An Overview

The history of endeavors to industrialize Ethiopia dates back to the beginning of the 20<sup>th</sup> century (Befekadu 1983). Foreign nationals who had settled in urban areas realized Ethiopia's demand for manufactured goods and began to establish manufacturing firms. However, it is noted that until 1957 there had been no documented strategy for industrialization of Ethiopia except the declaration of the Ten-Years Industrial Development Programme of 1945, which consisted of only the general guidelines.

From 1957 onwards, formal industrialization policies were issued and successive five-year plans were designed. These policies included exemptions from income tax, access to foreign exchange, loans for buying real estates, and tariff protections (Ministry of Trade & Industry 1986). As a result, foreign nationals residing in Ethiopia responded by bringing in capital and technology. However, it is argued that the policy was totally outward oriented and the domestic factors of development were put at a secondary position. As a result, a modern sector which is totally dependent on the external world and completely divorced from the traditional sector was set up (Befekadu 1983).

During the Derg Regime (1974-1991), because of the socialist ideology which is alien to the private sector, the regime not only confiscated the flourishing private enterprises, but also viewed the private capital as a danger to the well being of the society. Moreover, the regime deliberately sterilized the private capital formation efforts in the country (Tsegaye 1994 in Abdulhamid and Getachew 1994).

Post-1991 Ethiopia is characterized by fundamental political and economic reforms which are deemed to revitalize the economy. New policies were introduced to initiate investment and development. In this respect, the major policy changes include the following.

1. The exorbitant import tariffs have been reduced, and trade liberalization measures have also been introduced;
2. Markets and prices have been liberalized;
3. The Birr has been devalued so that distortions in the exchange rate have almost been eliminated;
4. A new investment code has been promulgated and successively amended; and
5. The privatization of the state-owned enterprises is being carried out step-by-step (Yohannes 1998 in Alemayehu and Berhanu 1999).

In response to the aforementioned policy changes, some foreign private investors have started investment activities in the country. However, the response from foreign investors is so far below the expectations. Although there are no comprehensive studies regarding the problems inhibiting entry, operation and expansion of foreign private investment in the country, a brief assessment by Berhanu (1999:7-12) is worth reviewing here.

The writer identified the following six major factors which are considered by foreign investors to favor or disfavor Ethiopia for their investment. Resource endowment, cost of labor and land, demand conditions, macro economic conditions, efficiency of bureaucratic and legal system are the major factors. According to the findings of the study, Ethiopia's natural resource base is not strong enough to attract FDI. The costs of raw material and land are relatively higher in Ethiopia than other countries in a similar level of economic development. There is also a very low effective demand of the population as implied by its very low per capita income. The macro (national level) economic structure of the country is also unstable since it is an agrarian country, which is dependent on rain. The bureaucratic and legal systems were also criticized. Foreign investors want effective bureaucratic set ups and quick justice. However, the situation in Ethiopia leaves much to be reformed. Foreign investors are suspicious that the general political, economic and social security of the country are stable.

However, the findings of Berhanu are not all true. Researches indicate that Ethiopia has reasonably good resource base which can possibly attract FDI. Surveys also show that Ethiopia has good prospects for mineral extraction, including petroleum oil. For example, a Canadian Company, named Pinewood Resources Ltd, reported that it had been engaged in petroleum exploration in Gambella during the past few years. In an interview with The Reporter, a weekly newspaper, in February 2001, the president of the company said that the prospects for oil extraction were so encouraging that he was convinced that at least 50,000 barrels a day would be extracted, which is believed to surpass the current domestic demand of the country ( Tagese 2001).

Apart from this, a large coal deposit has also been recently discovered in Yayu district (Wollega). It was reported that an annual output of 3,000,000 tones is possible to be extracted and would last for about 40 years. In addition, it is also reported that more than 500 metric tones of gold reserves have been identified by the government's exploration efforts (Alula 2001).

The obstacles of FDI in Ethiopia are also briefly discussed by Berhanu (1999). He concluded that a high degree of indebtedness of the country coupled with difficulties in balance of payments often caused by a sharp decline of commodity prices result in a severe shortage of foreign exchange, which makes it difficult to ensure a repatriation of FDI profits back to their home country. Therefore, the poor attractiveness of the country for FDI can also be related to the problem of high foreign debt burden and the deteriorating terms of trade.

According to FIAS (1997), the reservation of several areas to domestic investors by the Investment Code has created some degree of suspicion on the part of the investors. The investors think that the government is not fully committed to open up the economy to foreign investors. The survey further indicated that the inadequacy of the domestic infrastructure, shortage of skilled labor force and, perhaps most importantly, the negative image of the country due to recurrent drought and prolonged civil war the country went through for decades as other critical factors blocking the inflow of FDI into the country.

Another study by Worku (2004) indicated that the bureaucratic and legal system is inefficient to attract FDI. The judicial body is blamed to be too slow to pass verdicts. The weakness of the legal system is not only in bringing justice. The legal system, according to the writer, is also weak in protecting property rights. He also noted that the amount of time it takes to secure a plot of land for investment is high. Due to this, they (foreign investors) do not feel that it is not secured to invest in Ethiopia.

Cognizant of this fact, the government of Ethiopia has introduced a new regulation entitled Investment Incentives and Investment Areas Reserved for Domestic Investors, No. 84/2003. According to the regulation, additional investment areas, which had previously been exclusively reserved for the government are now open to both foreign and domestic investors, of course they are open only for those investors who are willing to work jointly with the government. The newly opened areas are defense industries, hydropower generation and telecommunication services (Council of Ministers Regulation No. 84/2003).

## **2.10 FDI in Addis Ababa**

After Addis Ababa was founded by Atse Menilik and his wife, Itege Tayitu, in 1887, it has been serving the entire nation as the center for social, economic and political activities. The city is also the seat for many international organizations and embassies (AACGIG 2005). It is astronomically located in 8°50' North to 9°06' North latitude and 38°05' Eastern longitude lines.

The city is situated in the central highland of the country from 2000-2500 meters above sea level (m.a.s.l).

Addis Ababa is a self governing chartered city with its own City Council. The asphalt road of the city is 432 kilometers. The headquarters of Ethiopian Airlines, Ethio-Djibouti Railway and Ethiopian Telecommunications Corporation are found in Addis Ababa. As compared to other cities of the country, Addis Ababa has many hospitals, banks, schools, and higher learning institutions. Almost all parts of the city have access to electric power, tap water and telephone lines. Therefore, the city is a reasonably good site for FDI. In addition, the city has devised many incentives for foreign direct investors. For one, the bid amount for land lease is reduced. For another, advance payment for lease is also reduced from 20 per cent to 10 per cent. Plus, the initial capital required to be shown in the investor's bank account is reduced to 20 per cent, from 30 per cent. Moreover, the city government respects the incentives given by the federal government for investors. Duty free privileges, transferring of loss, tax holidays and quick provision of land are preserved as incentives to foreign investors (AACGIG 2005). In addition, Ethiopia has signed various international investment guarantee and protection agreements and it is also a member of the World Bank affiliated Multilateral Investment Guarantee Agency (MIGA). The country has signed agreements with International Convention for the Settlement of Investment Dispute (ICSID) and Overseas Private Investment Corporation (OPIC).

There are 377 foreign investors in Addis Ababa with a total capital of \$5,877,660.91. Most of the investors are engaged in the manufacturing sectors (Ethiopian Investment Agency 2007).

### **2.10.1 Investment Opportunities in Addis Ababa**

Broadly speaking, there are five sectors which need further investment to satisfy the needs of the society. Among the sectors, manufacturing is one. Some of the investment opportunities available in the manufacturing sector are textile and leather products, food and agro industry, paper and paper products, electricity and electronic equipments, drugs and ingredients, chemicals and chemical products, metal products and farm machines are among the major ones (AACGIA 2006).

Within the service sector, construction of Real-Estate and supplying Industrial Development Zones are potential investment areas. Researches have shown that within the next six years only, it will be necessary to construct about 468,668 houses to meet the increasing demand of

**Table 2: Incentives Allowed for the Educational Sector**

Required Condition	Kinds of Institution	
	Kindergarten	Vocational College
Number of rooms	5-10	20-40
Investment capital in million birr	3-6	3.6-13
Labor power	15-23	120-240
Land area (in square meters)	500-1,000	1,000-10,000
<b>Incentives</b>		
Grace Period	2 years	2 years
Payment period	10 years	10 years
Out of the total lease price payment	45%	35%
Down payment	10%	10%

Source: Addis Ababa City Government Investment Authority, 2006, Page 25

**Table 3: Incentives Allowed for the Health Sector**

Required Condition	Kinds of the Institution- Hospital
Number of rooms	25-199
Investment capital in million birr	12-24
Labor power	110-323
Land area (in square meters)	1,000-4,000
<b>Incentives</b>	
Grace Period	4 years
Payment period	20 years
Out of the total lease price payment	30%
Down payment	10%

Source: Addis Ababa City Government Investment Authority, 2006, Page 26

**Table 4: Incentives Allowed for the Industrial Sector**

Scored Point	Incentives to be given			
	Payment %	Grace Period	Completion Period	Down Payment
Above 75%	20	5 years	30 years	10%
From 50-75%	40	5 years	28 years	10%
From 25-49%	50	4 years	25 years	10%

**For other developmental sectors:**

1. Advance payment amount 20%
2. Grace period 2 years
3. Payment completion period 20 years

**Source:** Addis Ababa City Government Investment Authority, 2006, Page 26

**Table 5: Lease Payment Price**

Item No	Location of the Land	Land Grade	Initial Price in sq. m.
1.	Central business zones	1	1167.3
		2	1062.9
		3	916.2
		4	751.5
		5	619.2
2	Places which are under transition	1	716.4
		2	647.1
		3	559.8
		4	472.5
		5	384.3
3	Expansion zones	1	245.7
		2	207.0
		3	150.3
		4	132.3

**Source:** Addis Ababa City Government Investment Authority, 2006, Page 48

## **2.11 FDI Policy of Ethiopia**

The investment policy regime of Ethiopia which has been created since the advent of the existing government is briefly described as follows. The present regulatory regime governing FDI has undergone significant changes as part of the reform process which started in 1992/93. Nonetheless, Ethiopia does not have a separate law governing FDI. The incentive system is the same for FDI and domestic investors except that foreign investors are allowed to remit in foreign

currency their profits and dividends or capital upon liquidation. In general, the main incentives offered to FDI are the following:

- Foreign investors are fully exempted from customs duties and import tariffs on all capital equipment and export taxes. Income tax holidays are given for investors who favor exporting their products. Accordingly, an investor in the manufacturing or agro-processing sector, exporting at least 50 per cent of his/her products, or supplying at least 75 per cent of his/her products to an exporter as an input will be eligible for income tax exemption of 5 years with a possibility of extension.
- Research and Development expenditures and remittance of capital are tax exempted.
- Foreign investors could carry forward initial operating losses and can use any depreciation method to apply in their financial statement.
- Investment guarantees for FDI include full repatriation of capital and profits. Foreign investors could remit profits and dividends accruing from investment, principal and interest payments on external loans, payments related to technology transfer agreement, proceeds from the sale or liquidation of an enterprise and proceeds from the transfer of shares of partial ownership of an enterprise to a domestic investor. There is also a guarantee against expropriation, except in major cases of public interest when full market value compensation will be paid.

The discrimination against FDI is related only to sub-sector restrictions. These restrictions have been revised over the years. More sectors are now open to FDI. However, there are still areas reserved for domestic private investors and the state. Trade is still excluded from FDI. Transmission and supply of electrical energy and postal services with the exception of courier services are exclusively reserved for the government. Manufacturing of weapons and ammunitions as well as the provision of telecommunication services are open both to foreign and domestic investors but only under a joint venture arrangement with the government. Banking and insurance businesses are open only to Ethiopian nationals. A similar restriction is also imposed on domestic transport and shipping.

In its series of amendments, the government has revised the minimum capital required for foreign investors. Accordingly, a foreign investor could expend as low as \$100,000 for a single investment. For joint venture activities with Ethiopian investors, the foreign partner is expected to contribute a minimum equity of \$60,000 in areas allowed for his entry. In areas of

engineering, architectural, accounting and audit services, project studies and management, consultancy services, the minimum FDI equity is \$50,000 and \$25,000 if it is made wholly or jointly with a domestic investor, respectively. This minimum capital requirement is not applicable for a project that reinvests its profits or dividends or exports 75% of its production (FDRE Proclamation No. 7/1996, 37/1996, 35/1998, 36/1998 & FDRE Council of Ministers Regulation No.116/1998, 168/1999, 280/2002 and 84/2003).

The intention behind setting a certain threshold level of investment might be to deny access to small scale ventures that domestic investors could easily handle and attract large scale FDI projects. Nonetheless, government keeps on relaxing conditions for entry and considers it as a sign of its strong commitment to attract as much FDI as possible. These frequent revisions might rather hold back timely investment with the expectation that the provisions would likely be further revised to offer additional incentives. Thus, had these privileges been given in the first instance and not frequently revised, the country would have attracted more FDI (Worku 2004).

## **2.12 Business Atmosphere of Ethiopia**

This section heavily draws upon the publication of the Ethiopian Chamber of Commerce, National Business Agenda 2006–2007. According to the document's findings, the following problems are identified as the major constraints of the general business climate in which foreign investors operate.

In developing countries like Ethiopia, usually, a change in the political regime is followed by new policies and implementation strategies. This situation is perceived as an uncalculated risk in the eyes of foreign investors. Corruption and inability to provide efficient service also dilute the business climate of the country. The taxation regime is also criticized. There is unfair competition between VAT registrant and non-registrant (Turn – Over Tax registrant). A VAT Registrant has to charge consumers an indirect tax of 15 per cent of the value of goods or services sold. A non-registrant, however, pays a Turn-Over Tax (TOT) of 2 per cent on goods sold and 2 to 10 per cent on services rendered. This, according to the document, creates a distorted market.

The other side of the taxation regime is also discouraging for it requires an obligatory registration on businesses whose annual taxable transaction is 500,000 Birr or more. This, by itself, is not a constraint if it was done after a thorough examination of a business's nature.

However, it is mandatory for some business types to register for VAT, irrespective of their annual sales revenue. Flour factories can be set as a good example.

The method of setting tax on some businesses is not free from criticisms. The tax base (annual sales value) assessment of many processing factories such as flour and edible oil is based on consumption of electric energy. However, electric energy is also used for other purposes such as maintenance of machinery and spare parts, which significantly increases the bill over and beyond what is consumed for actual business. Moreover, depending on the technology and depreciation of machinery, different factories consume different levels of energy per unit of inputs to be processed. Therefore, the method applied to assess the tax base in a loose manner makes some of the factories to be charged more than they are expected to pay.

The system of resolving appeals on taxation is also unfair. Appeals on tax disputes are made to an Appeal Commission established by the Federal Inland Revenue Authority itself. This gives the same executive organ the power to assess, collect and enforce taxation. The same organ is made to pass judgment and enforce on its own case. Moreover, no appeal shall be accepted unless the appellant pays 50 per cent of the disputed tax amount. Further appeal to a regular court requires payment in full of the disputed tax amount. Hence, justice from a regular court is a lengthy process.

On the other hand, any form of bank loan is subjected to a stamp duty. More elaborately, a stamp duty or tax of one per cent is deductible on bank credits from business actors. This trend makes the businessmen to take one per cent less and pay interest on it. Due to this, shortage of capital and burdens are laid upon the businessmen.

The exorbitant lease price of a plot of land is also mentioned as a constraint for the business in general and FDI in particular. Moreover, while payment is allowed on installment, interest and compound interest are payable on it, further augmenting the cost of land.

In addition, further complaints were made due to the unsatisfactory infrastructure provision. Moreover, electric power, postal service, telecommunication and pipe water are the monopoly of the state. It is mandatory to bear extra cost for transformers to get electric line connection. What is paid for transformers is not refunded in anyway. This incurs substantial initial cost to a business.

## CHAPTER THREE

### DATA AND METHODOLOGY

This chapter deals with the research design and methodology of the study. It consists of methodology, sources of data, sample size and sampling techniques, data collection instruments, and data analysis tools.

#### 3.1 Research Design and Approach

After the research problem and both the general and specific objectives are stated, related literatures were reviewed to gather empirical and theoretical facts which are related with the problem in focus. Before the data collection stage began, questionnaires were constructed by bearing in mind the research objectives. To meet the objectives and obtain reliable data, semi-structured and structured interview questions for foreign investors and in-depth interview questions for government bodies were prepared. Experts' opinions were also gathered through open-ended interview questions. The obtained data were qualitative and quantitative in nature. The analysis of the qualitative part was done by applying narration, which is one of the methods of qualitative data analysis, and the quantitative data was analyzed using SPSS Software Programme.

#### 3.2 Sources of Data

Both primary and secondary data were used in this study. The primary data was collected from three sources. Randomly selected foreign investors who have directly invested in Addis Ababa were the sample population. Currently, the total number of foreign investors in the city is 377.

The second source, which can be referred as key informants, is the government officials from Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Ethiopian Customs Authority, and Addis Ababa City Government Land Administration were among the sources of data. Thirdly, Experts from World Bank, International Monetary Fund (IMF), World Trade Organization (WTO), Ethiopian Chamber of Commerce, Ethiopian Economic Association, National Bank of Ethiopia, Ethiopian Investment Agency, Ministry of Trade and Industry, Ministry of Finance and Economic Development, and Addis Ababa University were also contacted. The experts are also considered as key

informants. On the other hand, secondary data was collected from various books, articles, journals, electronic media, and so on.

### **3.3 Sample Size and Sampling Techniques**

To undertake this study, gathering accurate data was of a paramount importance. To do so, appropriate sampling techniques were needed to be used, which according to Robson (1993) depends on three situations: nature of the population, the type of investigation, and the degree of precision at a minimum cost. In light of this consideration and taking the significance of this study into account, the proportionate stratified random and purposive sampling techniques were employed appropriately. The population of this study was divided into three groups based on the role-played: foreign investors, governmental organizations which are either directly or indirectly attached to foreign investment and experts of different international organizations, GOs and higher learning institutions.

To select sample among the foreign investors, simple random sampling was applied to the different strata since it enables the researcher to acquire representative population with least cost, time and energy. The sample frame was foreign investors who are licensed by Ethiopian Investment Agency. The required sample (i.e. ten per cent of 377) was drawn from the already stratified sample frames of Addis Ababa City Administration Investment Authority. Agriculture and Forestry, Fishing, Mining and Quarrying, Manufacturing, Construction, Education, Health, Hotels and Restaurants, Real estate, Renting and Business Activities, Transport, Storage and Communication, Wholesale, Retail trade and Repair service, and other community, social and personal service activities are the different sectors from which samples are drawn (Refer to Table 6, Page 34).

Due to the variation in the distribution of the investors under each sector, ten per cent sample was drawn from each group to be added up and get ten per cent of the total sample.

The basic criteria adapted to select the sample were two. The investors should be foreigners who have directly invested their money in Addis Ababa and they should be licensed by pertinent bodies of the city. They should not also claim the licensing authority to be considered as domestic investors by denying their privileges. It should be noted that there are foreign investors who have involved in investment areas reserved for domestic investors when they agreed to

deny their privileges of remitting their profit and dividends or capital upon liquidation in foreign currency.

On the other hand, to obtain reliable data, purposive sampling design was applied for the in-depth interview with six government bodies since they are either directly or indirectly work in the area under discussion. Ethiopian Investment Agency, Addis Ababa City Administration Investment Authority, Ethiopian Customs Authority, Federal Inland Revenue Authority, and Addis Ababa City Government Land Administration were purposely contacted.

Similarly, purposive sampling technique was applied to gather experts' opinion of different organizations, unions and institutions. The criteria used to select the experts were the following:

- some kind of experience or know-how in the area of FDI;
- working in the area of trade, business and investment;
- working in organizations with a position which entertains investment issues;
- availability of the expert; and
- willingness of the expert.

The sources of the experts are indicated in section 3.2 of this study.

No.	Subjects/Samples	Sample Frame	Sample Size	Sampling Techniques
III	<b>Experts</b>			
1	Ethiopian Investment Agency		2	Purposive sampling
2	World Bank		1	Purposive sampling
3	International Monetary Fund (IMF)		1	Purposive sampling
4	World Trade Organization (WTO)		1	Purposive sampling
5	Ministry of Trade and Industry		1	Purposive sampling
6	Ethiopian Chamber of Commerce		2	Purposive sampling
7	Ethiopian Economic Association		1	Purposive sampling
8	National Bank of Ethiopia		1	Purposive sampling
9	Ministry of Finance and Economic Development		1	Purposive sampling
10	Addis Ababa University		1	Purposive sampling

### 3.4 Data Collection Instruments

Employing multiple data collection instruments favor the researcher in improving the quality of any source of data (Robson 1993). As a result, two methods namely: questionnaire and interviews were used to collect the relevant data.

**Questionnaire:** A questionnaire consisting of closed and open-ended questions for the survey was prepared. The questionnaires were distributed to the randomly selected foreign direct investors residing in Addis Ababa. It was filled by the researcher during the interview. In general, the questions revolved around the challenges, constraints and opportunities of FDI in Addis Ababa. Questions about the FDI policy and the incentives to foreign investors were also included. There were rooms for the investors to express their views with regard to the policy and the incentives. The investors were also asked some indirect questions to know the criteria they have before investing in any country. Finally, they were asked to suggest remedial solutions to the problems they have faced.

**Interview:** Structured and semi-structured questions were prepared for the in-depth interview. Information from the already mentioned GOs was also collected through interview. The questions highlight on various areas such as the efficiency of the services rendered to the investors and the problems they have so as to further improve their service delivery in particular and FDI in general. Experts' opinion was also gathered through interview. The interview questions for all the experts were the same.

### **3.4.1 Procedures in Developing the Instruments**

Research papers with similar areas of this study were reviewed. With the help of hints from the studies and other related literatures, both the questionnaires and interview questions were developed in English language. Then, these questions were translated into Amharic language for those informants who prefer to respond in Amharic. The draft items were given to graduates from language studies. These experts have made some thematic corrections. Finally, the questionnaires and interview questions were given to the advisor of this study to take constructive corrections. Modifications were made according to the corrections given.

### **3.5 Method of Data Collection**

The questionnaires of the survey were filled-out through interviews by the researcher. The researcher has also conducted the in-depth interviews by himself.

### **3.6 Data Analysis Tools**

An attempt was made to employ the relevant data analysis tools which are in compliance with the very nature of the data at hand. The qualitative responses of both the interviews and questionnaires were analyzed through narration. The quantitative data was analyzed using SPSS Software Programme.

In addition, in the case of in-depth interviews, the notes taken during the interview and the information obtained from published documents were used to carry-out triangulation analysis between the findings of foreign investors, GOs and experts.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

This chapter deals with the analysis and interpretation of data gathered through questionnaire and interview. It also contains discussions on the gathered data.

For the sake of convenience, the analysis is divided into three parts. Questions which assess the constraints of FDI are analyzed in section 4.1. The following section (4.2) analyzes the challenges of FDI whereas the last section (4.3) analyzes the opportunities of FDI in Addis Ababa. In all the three sections, responses from GOs, experts and reference materials are treated together to make triangular analysis whenever necessary.

#### 4.1 Constraints of FDI in Addis Ababa

The tables which are interpreted and analyzed under this section present the responses of the investors, GOs and experts for questions basically incorporated to identify the constraints of FDI. Therefore, it does not mean that all the analyses to be made under this section should indicate constraints of FDI in Addis Ababa. The analysis may also indicate a positive signal if the information in the table/tables dictate it.

**Table7: Level of satisfaction regarding pre-investment climate of Addis Ababa**

Questions	Level of Satisfaction											
	Highly satisfied		Satisfied		Average		Dissatisfied		Not applicable		Didn't notice	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Access to visa	32	84	4	11	-	-	2	5.2	-	-	-	-
Access to residence	27	71	-	-	-	-	11	29	-	-	-	-
Access to work permit	34	89.4	2	5.2	-	-	2	5.2	-	-	-	-
Extent of hospitality	23	60.5	-	-	4	10.5	-	-	7	18.5	4	10.5

Table 7 presents the summary of four questions basically incorporated to evaluate the pre-investment climate of Addis Ababa. As can be seen from the table, most of the respondents (84%) are highly satisfied by the provision of visa in light with time, cost and energy. The other

11% of the respondents disclosed that they are satisfied too. However, the remaining 5.2% of the respondents indicated that they are dissatisfied by the access to visa due to the absence of diplomatic mission of Ethiopia in their country. Due to this, they have traveled to other neighboring countries to request for a visa.

To sum up, it is rational to put that almost all (95%) of foreign investors residing in Addis Ababa are satisfied by the access to visa. It is also worth to mention here that the government of Ethiopia has allowed nationals of 33 countries to receive their tourist visas on arrival to Ethiopia at the regular charge. The list includes, among others, Australia, Austria, Belgium, Canada, China, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Republic of Korea, Kuwait, Mexico, The Netherlands, Norway, Poland, Portugal, Russian Federation, Spain, Sweden, United Kingdom and United states. Besides, visas are readily available at Ethiopian's diplomatic missions abroad (Investment Guide for Ethiopia 2004).

On the other hand, as table 7 depicts, access to residential house has a slight problem. About 29% of the respondents indicated that there were hardships to locate residential house at the well developed parts of the city with reasonable rent price. They also discussed that no residential house is ready to investors for rent by the efforts of the government. The other 71% of the respondents expressed their high satisfaction by the provision of residential houses from the society. They indicated that they were able to rent house within the city.

With regard to access to residence (work) permit, the same table stands to witness that the large majority (89.4%) of the respondents are highly satisfied by the quick issuance of residence permit from the Main Department for Immigration and Nationality Affairs. The other 5.2% of the respondents are just satisfied. However, it is found out that the rest 5.2% of the respondents complained that they have wasted much of their time in the offices waiting for the permit due to the absence of some officers.

The last item that table 7 incorporates is the issues related to the hospitability of the people of Addis Ababa. This section of the table entertains a wide variety of responses. Some 18.5% of the respondents said that the question is not applicable to the very nature of their business. The other 10.5% of the respondents indicated that they did not notice it at all. On the other hand, 10.5% of the respondents explained that they did not observe anything special with regard to the hospitability of the city's dwellers. More than half of the respondents (60.5%) discussed that

the bright and wel-coming faces of workers of hotels have impressed them. Some of them also explained that they have experienced no serious security threat so far. Therefore, the majority expressed their high satisfaction. Though this item of table 7 has multiple responses, it is still encouraging to learn that no foreign investor is dissatisfied by the hospitality of the metropolis's dwellers.

Table 8: Factors considered by investors before investing in Ethiopia

Factors considered by the investors before investing in Addis Ababa	Frequency and percentage distribution of respondents	
	Frequency	%
Political stability	38	100
Security for investors and investments	38	100
Economic stability	38	100
Market potential and purchasing power of the people	31	81.5
Labor: Quality and availability Regulation Cost	29	76.3
Infrastructure: Road Rail Ports Air transport Electric supply and cost Telecommunication Cold stores Hospitals Schools Higher institutions Banks	34	89.4
Policy environment	38	100
Incentives	21	55.2
Natural resources	11	28.9
Land: Access to land Cost	30	78.9
Corruption	38	100
Image of the country	24	63.1
Efficiency of government bureaucracy	38	100
Information from business partners	24	63.1
Information from diplomatic missions of Ethiopia	18	47.3

As per the information from the above table, there are many factors which are considered by foreign investors depending upon the nature of their business. What so ever the case maybe, political stability, security for investors and investments, economic stability, extent of corruption, policy environment and efficiency of government bureaucracy are considered by all the investors.

Market potential and purchasing power of the people are one of the considerations of the investors from business sectors of hotels and restaurants, construction, education, transport, manufacturing, real estate, wholesale and repair service, and health. This group of investors constitutes 81.5% of the investors.

In relation to infrastructure, table 8 indicates that the great majority of the investors (89.4%) considered the quality and availability of infrastructures before their investments. The rest 10.6% of the investors who are engaged in the construction, mining and quarrying are less concerned with infrastructural facilities since their absence is the sign for the business opportunity which they are looking for.

With regard to labor quality, availability and cost, most of the respondents (76.3%) indicated that it is their concern. However, the investors who are engaged in business sectors of health, manufacturing and real estate disclosed that they are less worried about labor quality since they came with their own professionals. Even this group of investors considered the general labor conditions like labor cost and availability. However, according to them, the issue of labor will be their prime concern when there is a problem within their own highly skilled professionals.

Again, table 8 reveals that almost half of the investors (44.8%) from all the investment sectors did not consider incentives given by Ethiopia before their investment. This is because, according to them, incentives given by Ethiopia have nothing special. They further explained that what pulled them to Addis Ababa are not the incentives but the business opportunities they have observed. This analysis is compatible with FIAS (2001) (Refer section 2.5.7 of this study).

The table in focus further states that only 28.9% of the investors considered the natural resources base of Ethiopia in general and Addis Ababa in particular before their investments. This group of investors is engaged in agriculture, mining, quarrying and manufacturing. All the rest which constitutes 71.1% of the investors are not pulled by the natural resource base of

Addis Ababa. It is to be recalled that in section 2.9 of this study, it is discussed that Ethiopia does not have exceptionally good resource base which can attract foreign investments.

On the other hand, as to table 8, access to and cost of land was considered by the large majority (78.9%) of the investors before they invested in Addis Ababa. The investors stated that due to the very nature of their business which is directly or indirectly attached to land, the issue of land was one of their considerations. This group of investors is engaged in the business sectors of agriculture, education, construction, manufacturing, hotels and restaurants, mining and quarrying, real estate and renting and, transport and storage. The rest 21.1% of the investors who are engaged in the transport, community service, wholesale and retail trade sectors disclosed that due to the very nature of their business which can be done simply by renting a flat, they did not consider the cost and availability of land. For them, clamoring for land is raising their initial cost of operation.

As to the image of Ethiopia in the global information climate, some 35.9% of the respondents disclosed that they did not consider it. According to the information they released in table 8, the negative image which Ethiopia has may not inhibit them from operating their business in the country. Some investors of this category explained that "reality" affects business more than "image". These investors are optimist that any bad image can be changed through time if there is determination to do so. Few of the investors in this group also disclosed that the nature of their business has nothing to do with the image of the country.

On the other hand, most of the investors (63.1%) have considered the image of the country to check whether it may affect their business or not. These investors have consulted World Bank publications, electronic media, Ethiopian diplomatic missions, Encyclopedia and the like to grasp enough knowledge. Some investors of the same group have obtained information about Ethiopia from their Ethiopian business partners.

The previous two tables show the pre-investment climate of Addis Ababa. The following table presents the post-investment climate of the city, of course after the investors got through the bureaucracy of the different governmental organizations working in the area of FDI.

**Table 9: Frequency and percentage distribution of informants on their level of satisfaction with regard to securing investment license**

Time spent to get investment license	Freq	%
1-4 hours	9	23.6
1-2 days	26	68.4
3-4 days	2	5.2
5-7 days	1	2.6
8-10 days	-	-
> 10 days	-	-

Though Ethiopian Investment Agency's rule states that the time it takes for a new investment license is only 4 hours, table 9 clearly shows that only 23.6% of the investors were able to get the license within the specified time. The rest 68.4% and 5.2% of the respondents have spent 48 hours and 3 to 4 days respectively just to get the license. Even if there was no serious problem mentioned with regard to investment license, 2.6% of the respondents who are engaged in the real estate, renting and business sectors suggested that the agency should clearly list and paste the requirements needed to get a new investment license either in its website or notice board so as to save the time of the investors which is to be wasted in search of the information.

Though EIA did not let foreign investors to comment on its service delivery in a standardized manner, in an effort to improve its service delivery, it has opened a complaints hearing office. EIA further explained that the flow of FDI has shown increment year to year as a result of the promotion activities it has been carrying out.

To sum up, according to table 9, it appears that the great majority of the respondents have spent a maximum of two days to get their investment license.

**Table 10: Respondents' level of satisfaction by the services of GOs: Frequency and percentage distribution of responses**

Organizations	Level of satisfaction by the service											
	Excellent		Very good		Good		Unsatisfactory		Poor		N.A	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Addis Ababa City Government Investment Authority	-	-	-	-	9	23.6	11	28.9	5	13.1	13	34.2
Ethiopian Customs Authority-Addis Ababa Office	-	-	3	7.8	12	31.5	15	39.4	6	15.7	2	5.2
Federal Inland Revenue Authority	-	-	-	-	11	28.9	6	15.7	7	18.4	14	36.8
Addis Ababa City Government Land Administration	-	-	1	2.6	-	-	3	7.8	21	55.2	13	34.2

Unlike table 8 which assess the conditions considered by foreign investors before the on set of their business, tables 9 and 10 discuss what they really found out regarding the services of GOs working in the area of FDI. What does the reality look like regarding the GOs working in the area of FDI?

According to table10, the services delivered by Addis Ababa City Government Investment Authority were designated to be unsatisfactory by 28.9% of the investors. The other 13.1% declared the activities to be poor. This group of the investors disclosed that the authority has no incentives to foreign investors. The time they spent in the bureau, according to them, was too much. They further indicated that the authority does not provide land for investors, except for those who are engaged only in the industrial sector. The authority was also criticized by the same group of investors since it does not quickly provide land for investors.

The authority on its part disclosed that it has been trying to satisfy both the domestic and foreign investors since its inception. According to the authority, the cause for the sluggish delivery of

land is the Addis Ababa City Government Land Administration since the bureau fails to provide it land for industrial purpose. To substantiate this, the authority indicated that the land administration bureau has not provided it land for the last two years while there are many licensed investment projects which are waiting for land.

The authority further explained that due to the rule passed by the government, it does not provide land for all types of investments. It only provides to industries which fulfill the minimum capital requirement. Textile and Leather Industries with fixed capital of not less than 4 million birr, Candy, Flour, Bakery, Bread and Edible Oil Industries with fixed capital of not less than 6 million birr, Dairy Products and Coffee Processing Industries with fixed capital of not less than 2 million birr, Metal, Wood, Furniture and Paint Industries with fixed capital of not less than 4 million birr, Electrical and Electronics Manufacturing and Pharmaceuticals Industries with fixed capital of not less than 3 million birr, Plastic Industries with fixed capital of not less than 8 million birr, Paper and Printing Industries with fixed capital of not less than 4 million birr, and Construction Materials Production Industries with fixed capital of not less than 6 million birr are legible to take land with a price of 284 and 341 birr per meter square in Akaki Kaliti and Mekanisa Lebu Industrial Zones respectively.

In an effort to refresh the FDI climate of the country, EIA has been engaged in various activities. It has tried to promote FDI by carrying out four tasks.

1. Investor servicing
2. Image building
3. Investment generation
4. Policy advocacy

However, it was noted that no compiled report has been produced from the tasks carried-out. Therefore, it is not possible to evaluate to what extent the promotion activity is successful.

Based on table 10, it is therefore possible to deduce that apart from 34.2% and 23.6% of the respondents who fall in the " not applicable " and " Good " category respectively, the rest large majority, which constitutes 42% of the respondents, are not satisfied by the services rendered by Addis Ababa City Government Investment Authority.

Apart from these, as can be observed from table 10, only 7.8% of the investors denoted the service delivery of Ethiopian Customs Authority-Addis Ababa Office to be "very good". The

other 31.5% said that, in general, the services are good. Whereas 39.4% of the investors who are engaged in the manufacturing, hotels and restaurants, agriculture and health sectors discussed that the services delivered by Addis Ababa Customs Authority are unsatisfactory. Moreover, the other 15.7% of the investors from the same sectors declared the services of customs authority to be poor. To substantiate their argument, they explained that they do not clear-out their imported goods from the authority quickly. Especially those involved in the manufacturing sector discussed that it takes them more than a month to clear-out imported chemicals.

**Table 11: Time spent to clear-out imported goods from customs authority**

Time spent to clear imported goods	Freq	%
1 hour to 1 day	–	–
2 to 4 days	2	5.2
5 to 10 days	12	31.5
11 to 15 days	9	23.6
16 to 20 days	9	23.6
21 to 25 days	–	–
26 to 30 days	–	–
More than 1 month	4	10.5
More than 2 months	–	–
More than 3 months	–	–
More than 4 months	–	–
More than 5 months	–	–
More than 6 months	–	–
Not applicable	2	5.2

On its part, the authority disclosed that it is trying its best to deliver quick service to its customers. In an effort to do so, the authority has designed the list of custom-free items to identify and hand them over quickly to customers. However, the authority explained that some investors especially those engaged in the manufacturing sector import substitute chemicals which are not registered on their list. Then, the authority will be forced to send them to Ministry of Trade and Industry to bring a letter testifying that the chemical imported is the substitute of the already registered chemical. According to the customs authority, this process, which is not

within the domain of its reach, makes the investors to spend much of their time. On their part, most of the investors who are engaged in the manufacturing sector complained that it is not even necessary to check against lists since they have customs free privilege of importing production materials. They said that this checking process is only an obstacle which does not have any purpose at all.

In addition, customs duty free privileges are also characterized by irregularities. According to Investment Guide for Ethiopia (2004), hotels other than those star-designated are not exempted from the payment of customs duty. However, a modern motel with traditional brewery inside was given customs duty free privilege on some of its imported items

With regard to improving its service delivery to satisfy all the customers, the authority has also organized a committee to evaluate its service delivery. This Business Process Reengineering Committee (BPRC) handles problems which arise in the authority. In addition, especially to satisfy foreign investors, the authority has recently introduced an "Export Window" to service only investors who export their products. Moreover, the authority has finalized the necessary preparation so as to launch on job training to its officers who are working in customer handling desks.

In addition, the authority has also begun to immediately put imported goods of foreign investors in their stores, if they have. Then the stores will be locked with two different keys by a committee of two-both from the investors' side and the authority's side. This activity, according to the authority, minimizes the risk of mishandling which may occur in the authority's crowded stores. The locked stores of the investors will be opened after the necessary assessments are made on the documents of the imported items. To further improve its service delivery, the authority regretfully explained that it has financial constraint so as to raise the salary of its officers. In addition, it was mentioned that there is high rate of turn over of experienced officers in the authority. However, the authority admitted that it has never let foreign investors to comment on its service delivery in a standardized manner. But, it indicated that it has complaints hearing office.

To sum up, though Ethiopian Customs Authority-Addis Ababa Office is carrying out different activities to satisfy its' customers, table 10 reveals that more than half of the respondents are not satisfied by the services of the authority.

On the other hand, table 10 also reveals that 28.9% of the investors designated the service delivery of Federal Inland Revenue Authority to be "good". The rest 15.7% and 18.4% of the investors designated the service delivery to be "unsatisfactory" and "poor" respectively. Some 36.8% of the investors who fall in the "not applicable" category discussed that they did not pay tax, some of them due to tax holidays, the rest have not operated for more than a year and the others are under discussion with the authority to decide on whether to have tax holidays or not.

The foreign investors who denoted the service delivery to be poor and unsatisfactory indicated that the authority has asked them to pay tax beginning from the day they took their investment license. In an effort to persuade the authority, they have presented the proof that there was gap in between the commencement of their business and issuance of the investment permit. However, the authority made them to pay and proceed with their complaints. Finally, after very long time, the authority returned the money. The inconvenience occurred has made some of the investors to designate its service delivery to be poor and/or unsatisfactory. The other investors on their part indicated that the authority was too slow to assess their income sheet, balance sheet and declaration of profit so as to approve the documents which indicate the declared income tax.

Table 10 also reveals that no foreign investor has evaluated the service delivery of the authority to be either very good or excellent. The authority on its part indicated that its auditors are doing their level best even if it is manually. Plus, due to the limited number of auditors the authority has, it admits that usually more than a month is needed to assess the income of a company and set tax.

With regard to tax disagreement between foreign investors and the authority, it was disclosed that there were some disagreements occurred. However, the authority fails to explain this since it does not register this type of complaints. Apart from this, the authority has admitted that it has never let foreign investors to comment on its service delivery in a standardized manner.

In an effort to improve its service delivery, the authority has evaluated its service delivery by itself before three years. However, as it is discussed above, there are still problems in the authority.

To sum up, table 10 indicates that the large majority of the respondents are not satisfied by the service delivery of the authority. However, it is still confusing to observe that a good sum of the investors have designated the services to be " good ".

The last GO which was evaluated by the foreign investors is the Addis Ababa City Government Land Administration (AACGLA). According to the table, 2.6% (1 investor) engaged in the export of textile products disclosed that the services rendered by AACGLA is very good. All the rest, except those which fall in the "not applicable" category, complained that the service delivery of the bureau is full of problems. As it can be observed from table 12 below, it takes a considerable amount of time to get land. Due to this, slightly more than half (55.2%) of the respondents denoted the service of the bureau to be poor. The other 7.8% of the investors are also unsatisfied by the services.

**Table 12: Time spent to get a plot of land in Addis Ababa**

Duration of time spent to get a plot of land on lease holding basis	Freq	%
1-15 days	-	-
16-30 days	-	-
2 months	1	2.6
3 months	1	2.6
4 to 6 months	2	5.2
7 to 9 months	4	10.5
10 to 12 months	3	7.8
1 year to 1 year and half	11	28.9
2 years and more	2	5.2
Not Applicable	14	36.8

The respondents who denoted the service delivery to be "poor" and "unsatisfactory" disclosed that it is a very complicated process to get land. They indicated that it took them months to get a plot of land, not for free but on a lease holding basis.

Some of the respondents from the same group discussed that even after they are given land, they had to deal with kebele officials so as to help them remove illegal settlers from their land. In

addition, though they paid lease price for the land they possess, according to them, the necessary infrastructures were not put in place. Due to this, they were to incur extra costs for the provision of the infrastructural facilities.

Experts from Ethiopian Investment Agency, Ministry of Trade and Industry, Ethiopian Chamber of Commerce, Ethiopian Economic Association, Ministry of Finance and Economic Development and Addis Ababa University have also mentioned that there are problems to get land for any activities. However, in theory, Article 36 of the 1996 Investment Proclamation states that where a Regional Government receives applications for the allocation of land for an approved investment, it shall, on the basis of Federal and its own laws, deliver the required land to the investor within 60 days thereof.

On its part, the Addis Ababa City Government Land Administration disclosed that it is doing its level best so as to satisfy the investors even if the discussed problems are there. According to the land administration bureau, delays exist because there are no readily available places for investment. Even when investors locate by themselves, delays would occur due to further dealings with illegal settlers and compensation payments, which both are very long processes.

Currently the bureau has put in place a new system of giving land which has five steps. The first step is to check the investment license and the project to be implemented. Then a land request form will be filled by the investors which contains detailed questions about the land and the investors' status. Secondly, land for investment will be prepared, if possible by fulfilling the preferences of the investors. Thirdly, a Board consisting of nine committee members will conduct a meeting so as to approve or suggest further considerations on the issuance of the land. Fourthly, a legal lease holding contract of agreement will be signed between the two parties, of course after the necessary payments are made by the investor. Lastly, land holding certificate will be issued after an agreed amount of solid cash is put in blocked account as a proof that the investor has the financial capability for the other necessary constructions. It was pointed out that the money kept in blocked account will be immediately released after 10% of the construction is completed.

Apart from these, the bureau has admitted that it has never let foreign investors to comment on its service delivery in a standardized manner. The bureau did not also have complaints hearing office. On the other hand, in an effort to improve its service delivery, the officials of the bureau

have evaluated the service delivery of the authority. However, it was disclosed that nothing is changed in the bureau even after the evaluation.

To sum up, except those who fall in the " not applicable " category, almost all of the investors did not get land within 60 days. Therefore, the investment proclamation which states the delivery of investment land within the specified time is not practical.

**Table 13: Reasons for investing in Addis Ababa: Frequency and percentage distribution**

Reasons for choosing Addis Ababa for investment	Freq	%
Market potential	32	84.2
Labor quality, availability and cost	29	76.3
Infrastructure – road rail way air transport electric power Banks telecommunication facilities learning institutions recreational centers	38	100
Nature of my investment requires large cities	11	28.9
Family reasons	3	7.8
Partners' advise and choice	14	36.8

As to table 13, it can be clearly seen that the infrastructural superiority which Addis Ababa has over the rest parts of the country has helped it to attract a good amount of the foreign investors who decided to invest in Ethiopia. The large majority (84.2%) of the respondents have indicated that the market potential which the city is believed to have was a pulling factor for them to invest in the city. It has been repeatedly said that most of the educated manpower which the country produced are concentrated in Addis Ababa. The analysis which can be drawn from table 13 shows that due to the relatively high number of educated manpower which the city acquires, 76.3% of foreign investors are pulled towards it.

As can be observed from table 13, due to the very nature of their investment, some 28.9% of the investors have chosen Addis Ababa for their investment. This group of investors is engaged in Education, Agriculture (especially flower exporting which cannot be more than 50 kms far

away from airports), business activities (especially consultants) and export oriented manufacturing firms, which are preferable to be near to airports.

Family reasons, those investors who are married with Ethiopians residing in Addis Ababa, and business partners' advices have also made 7.8% and 36.8% of the investors to invest in Addis Ababa.

Based on table 13, it is therefore possible to deduce that the infrastructural facility, market potential and labor quality were the reasons for investing in Addis Ababa by the large majority of the investors. Some 36.8% and 28.9% of the respondents were also pulled to Addis Ababa due to partners' advice and nature of the investment respectively. Though it constitutes little share (7.8%), family reasons have also pulled investments to the capital city.

**Table 14: Awareness level on the FDI policy of Ethiopia: Frequency and percentage distribution of respondents**

Aware	Freq	%	Not Aware	Freq	%
Contacted diplomatic mission office	9	23.6	-	-	-
Read the policy from electronic media	6	15.7	-	-	-
Briefed by business partner	17	44.7	-	-	-
Briefed by Minister of Ministry of Foreign Affairs in his visit to china	1	2.6	-	-	-
Other sources: friends, family, relatives etc.	1	2.6	-	-	-
Used more than one of the sources mentioned	34	89.4	-	-	-

Table 14 assesses the awareness level of the investors regarding the FDI policy of Ethiopia. It is illustrated in the table that 23.6% of the investors have contacted Ethiopian Embassies and diplomatic offices abroad to seek information regarding the investment policy. Some 15.7% of the respondents indicated that they have referred electronic medias like Google, [www.doingbusiness.org](http://www.doingbusiness.org), [www.miga.org](http://www.miga.org), [unctad](http://unctad.org) and others. The other 44.7% of the respondents revealed that they had frequent and long discussions with their Ethiopian business partners regarding the policy in focus. In his official working visit to china, the Minister of Foreign Affairs



(Ato. Seyoum Mesfin) has managed to impress one Chinese investor regarding the FDI policy of Ethiopia in a meeting organized for Chinese investors and Ethiopian senior government officials, in Beijing.

The above table also shows that the other 2.6% of the investors had the information about the policy from family members, which the investor denoted it to be "marketable". A thorough observation on the responses of the investors revealed that the great majority (89.4%) of the respondents did not rely on only one source of information. This shows that they were suspicious about the FDI policy of Ethiopia. The above analysis goes hand in hand with FIAS (2001) which states that foreign investors are suspicious about the FDI policies of Sub-Saharan countries. The book further states that foreign investors have calculated moves before their investments.

To put it in a nut shell, all the investors were aware of the FDI Policy of Ethiopia before their investments. It was also indicated that the large majority of the respondents (89.4%) have consulted more than two sources of information so as to learn about the investment climate.

**Table 15: Whether the FDI policy of Ethiopia satisfy foreign investors or not**

Types of responses	Freq	%
Fully satisfied	1	2.6
Partially satisfied	37	97.4
Totally unsatisfied	-	-
Total	38	100

As per the information from the above table, except 2.6% of the investors (1 investor engaged in flower exporting business) all the rest (97.4%) are not fully satisfied by the FDI Policy. Some of the investors in this category explained that the policy lacks implementation. The others disclosed that the policy lacks clarity with regard to exemptions from customs duties on all capital equipments. They complained that some of their capital equipments were taxed. This group of investors who are engaged in manufacturing sector criticized the policy for it is presented in a too generalized way without making a clear cut to what is allowed and what is not by referring to each sector of investment. According to them, what is allowed for one business sector is not allowed to another. This reality should be clearly stated.

Respondents from diversified sectors explained that they are not fully satisfied by the investment policy since many sectors are restricted to domestic investors only. They further indicated that minimum capital requirements are also laid upon only to foreign investors to join some of the business sectors.

Apart from these, the policy was also criticized since it does not permit foreign investors to participate in the construction sector, except for first grade construction class. They further complained that the policy has special incentives only for those investors who are engaged in export. Again, a simple observation on table 15 reveals that there is no investor who is totally unsatisfied by the investment policy. This is a promising sign for the investment climate. However, almost all the investors (97.4%) have complained, in one way or another, about the policy.

**Table 16: Opportunities to comment on the investment policy: Frequency and percentage distribution of respondents**

Types of responses		Freq	%
Yes	In a meeting (meetings) not organized for it	13	34.2
	In a meeting (meetings) organized for it	1	2.6
No	There was no room for the comment	24	63.1
Total		38	100

Table 16 stands to witness that most of the respondents (63.1%) did not get the opportunity to comment on the investment policy to senior government officials. The other 34.2% of the respondents indicated that though they had the chance to comment on the policy, they are pessimist that the government officials would not take it seriously since the comments were forwarded in meetings which have different agenda.

The table also depicts that there is one investor taking 2.6% share who indicated that there was a meeting organized by the government so as to collect the opinion of investors who are engaged in flower export. According to the investor, the FDI policy of the country was the point of discussion, of course with particular emphasis to flower export only.

Therefore, based on the information from table 16 it is possible to state that the government favors to discuss only with investors who are engaged in the sectors which are prioritized by it.

This indicates that the government differentiates between investors; and this may pose a question about its determination to attract "foreign investor", not investors who may indirectly assist its development agenda.

**Table 17: Whether or not there are incentives from Addis Ababa City Government Investment Authority**

Types of responses	Freq	%
Yes	4	10.5
No	31	81.5
Not applicable	3	7.8
Total	38	100

In relation to incentives from the city government of Addis Ababa, table 17 reveals that the large majority of the respondents (81.5%) did not receive any form of incentive from the city government investment authority. The other 7.8% indicated that due to the nature of their business, this question is not applicable to them. Only one-tenth of the investors on their part disclosed that they have received incentives in the form of quick provision of land and speedy service delivery, even though the incentives are not enough.

To sum up, it appears that the authority does not have clearly identified incentives to foreign investors. The great majority of the respondents (81.5%) did not receive any form of incentive from the authority.

The authority on its part indicated that it has no incentives to foreign investors except those mentioned in the investment policy. Unlike this authority, Ethiopian Customs Authority-Addis Ababa Office disclosed that it has opened a new "export window" to service particularly foreign investors (Refer the analysis under Table 10). This incentive is not a declared incentive by the government but by the authority's effort. Therefore, as compared to that authority, Addis Ababa City Government Investment Authority fails to play its own role from refreshing the FDI climate of the city.

**Table 18: Time spent between investment license and realization of the actual business**

Time spent	Freq	%
1 to 3 months	10	26.3
4 to 6 months	4	10.5
7 to 9 months	21	55.2
10 to 12 months	2	5.2
More than 1 year	1	2.6
More than 2 years	-	-
More than 3 years	-	-
More than 4 years	-	-
Total	38	100

As per the information on table 18, slightly more than half of the investors (55.2%) have spent 7 to 9 months after they got their investment license. This happened, according to the investors, generally due to lengthy government bureaucracy in the GOs, poor provision of land and also due to problems associated with identifying a good business site.

It can be observed from the above table that 26.3% of the respondents have realized the commencement of their business within a maximum of 3 months. However, a thorough assessment in this group of investors revealed that except for a flower farm which was given land in the extreme corner of the city, all the rest who are engaged in education, hotels and restaurants, social services and health sector did not request for land due to the following reasons.

1. Some of them had the information that securing land is a very long process.
2. Some of them did not think that the land they may get from the government will not be a good site for business making.
3. Some of them did not want to raise their initial cost by paying for lease just to hold a plot of land.
4. Some of them preferred to rent a house since the very nature of their business does not necessarily question to own a plot of land.

The above table does also present the fact that 10.5% of the respondents have spent 4 to 6 months after they got their investment license. According to the respondents, this happened due

to sluggish GOs bureaucracy, the lengthy process faced to secure land and lack of a good business site within a short period of time.

The last 5.2% and 2.6% of the investors disclosed that in addition to the bureaucratic constraints experienced in the GOs including Ethiopian Electric Power Corporation, Ministry of Water and Muger Cement Factory, they did not also get land at least within half a year. An investor in this group regrettably explained that the land he secured on lease holding basis did not have all the infrastructures which exposed him to bear extra cost.

In general, the above table indicates that more than 70% of the respondents did not realize their business within three months due to lengthy government bureaucracy in the GOs, poor provision of land and lack of good business sites.

**Table 19: Level of coordination among the stakeholders within the FDI climate**

Stakeholders	Types of response							
	Failures Observed		Failures Not Observed		I did not notice		Not Applicable	
	Freq	%	Freq	%	Freq	%	Freq	%
Ethiopian Investment Agency	34	89.4	-	-	3	7.8	1	2.6
Addis Ababa City Government Investment Authority								
Ethiopian Customs Authority-Addis Ababa Office								
Federal Inland Revenue Authority								
Addis Ababa City Government Land Administration								

Table 19 presents the responses of the investors as to how they evaluated the coordination extent of the GOs involved in the FDI climate of Addis Ababa. As it can be seen from the table, the great majority of the informants (89.4%) indicated that there is no coordination among the stakeholders in their service delivery to foreign investors. Some of the investors in this group explained that except carrying out the services their respective organization has, the GOs act as

if they do not know each other. As an example, some of the investors disclosed that the supporting letters written by Ethiopian Investment Agency to Addis Ababa City Government Land Administration so as to influence the bureau to provide quick delivery of land to investors is not effective. The others complained that documents given by one GO may be blocked by another seeking for clarity. These, according to the investors, show that what is done by one GO is not already known by the other. Ethiopian Customs Authority-Addis Ababa Office was asserted as an example to this criticism since it requested some of the investors to bring another letter (second letter) so as to release their imported goods free of duty.

The above table also depicts the fact that 7.8% of the respondents did not know whether the stakeholders are coordinated or not since most of the out-off office activities are done by either their Ethiopian counterparts or hired workers. One investor taking the share of 2.6% who is engaged in mining and quarrying sector disclosed that the question is not applicable to his investment.

To sum up, the great majority of the respondents (89.4%) disclosed that the GOs are not coordinated. The table further indicates that some of the respondents (7.8%) are unaware of the question in focus.

**Table 20: Evaluation of the general investment climate of the city**

Types of conditions which spoiled the investment climate of the city and consequently need government's intervention	Freq	%
The bureaucracy in the GOs	38	100
Provision of land	26	68.4
Infrastructures in the newly given investment sites	18	47.3
Lack of clear incentives	9	23.6
Corruption:	7	18.4
The policy	13	34.2
Absence of regular discussions between investors and government officials	3	7.8
The legal framework	5	13.1
Custom duties on some capital goods	8	21

Table 20 entertains the responses of the investors to questions about factors which negatively affect the FDI climate of the city. The respondents disclosed that future government actions are needed to address the problems to be mentioned. According to the information in the table, all of the investors disclosed that the lengthy bureaucracy in most of the GOs have hindered their

efficiency. They indicated that the government should intervene so as to avert the constraints. This suggestion of the investors is also shared by all of the experts contacted. GOs officials themselves have admitted that the bureaucracy put in place has got some problems.

Apart from these, some 47.3% of the investors indicated that the general investment climate of the city would be improved if government takes quick measures to install infrastructural facilities in the newly issued investment sites. The other 34.2% on their part disclosed that if the FDI policy is improved, they are optimistic that the general investment climate would flourish. According to 23.6% and 18.4% of the investors, lack of clear incentives and corruption respectively has hindered the issues in focus.

Custom duties which are laid on some capital goods were considered as a deterrent to the FDI climate of Ethiopia by 21% of the respondents. In the eyes of 13.1% of the investors, the slow operating legal process has painted dark color to the FDI picture of the country. "Absence of regular discussions" between investors and government officials was identified to dilute the FDI climate by 7.8% of the respondents.

Again, table 20 reveals that 68.4% of the respondents indicated that the sluggish provision of land has diluted the investment climate of the city. They further underlined on the fact that the government should arrange quick delivery of land to investors who are in need of it. All the experts contacted also buy this idea. The experts disclosed that land is among the major constraints of FDI. Even Addis Ababa City Government Land Administration admitted that securing land for investment is still a problem. The other GOs have also explained that leasing a plot of land is a problem. The three parties (foreign investors, GOs and experts) have in common that they urge the government to seek solution to the problem.

In relation to the provision of infrastructural facilities, almost half of the investors (47.3%) indicated that the general investment climate of the city is dark shaded due to the very slow provision of infrastructural facilities, which are vital for investment, particularly in the newly issued investment sites. Some 70% of the experts and 4 officials of different GOs have also disclosed the prevalence of this scenario.

**Table 21: Frequency and percentage distribution of respondents on the life span of their business**

Types of responses	Freq	%
A. As long as there is political, social and economic stability is there	6	15.7
B. It depends on the income earned	3	7.8
C. Until the end of the road	8	21
D. As long as I bear the bureaucracy	4	10.5
E. God knows	1	2.6
F. Did not yet decide	2	5.2
G. Combined ideas of item A and D of this table	14	36.8

The above table which entertains the responses of the investors with regard to the life span of their business in Addis Ababa indicates that their responses fall to seven categories. Some 15.7% of the respondents disclosed that their investment will keep on operating in the city as long as there is political, social and economic stability. The other 10.5% on their part stressed on the fact that they will exist with their investments in so far as the bureaucratic obstacles in the GOs are bearable. The rest 36.8% of the investors discussed that they would operate their investments if both the government bureaucracy and the political, social and economic conditions of the city in particular and the country in general are comfortable. The investors who take the share of 7.8% on their part indicated that they will remain in the business as long as they are profitable. This analysis is compatible with section 2.5 of the study which discusses the determinants of FDI.

Respondents who take 21% share disclosed that some of them due to their marriage relationship they have with Ethiopian nationals, others due to the very nature of their business and the rest due to other business reasons, it is their plan to operate their investments for unlimited time. The other 5.2% of the investors explained that they have not yet decided on the issue; whereas 2.6% of the respondents (1 investor) indicated that it is God who knows what will happen to his investment.

From the above analysis made on table 21, it is possible to deduce that the investors may shut down their investments if the conditions valuable for their business do not exist. On the other

hand, it was observed that currently no investor is to shut down his/her investment. Further, it is implicitly said that the government has to play its role in safeguarding the stability of the nation. Plus, it should revise the bureaucratic set ups it designed in the different GOs, at least to keep the already operating investments.

## 4.2 Challenges of FDI in Addis Ababa

As it is defined in chapter one section 1.7 of this study, challenge is part of the reality which should be faced in a way to achieve a desired goal. In light with this simple definition, the following challenges were raised by the investors from the different business sectors.

The table 22 presents the summary of the responses of the investors regarding challenges faced when investing in Addis Ababa.

**Table 22: Challenges of foreign investors in Addis Ababa**

Types of Challenges	Freq	%
Penetrate national and/or international market	38	100
Advertise product or service	38	100
Cultural shock	29	76.3
Language barrier	22	57.8
Running the business	38	100
Physiological adjustments to a new environment	12	31.5
Isolation from country of birth	26	68.4
Build positive image of the country	15	39.4

As it is illustrated in the above table, penetrating the national and/or international market, advertising their services and products and running their investments are the challenges of all the foreign investors in Addis Ababa. Cultural shock is also designated as a challenge of FDI by 76.3% of the respondents. According to more than half of the investors (57.8%), understanding barrier due to language in between the society and the investors was a challenging situation in the FDI climate.

The general climate of Addis Ababa, which is characterized by high daily range of temperature, is denoted to be one of the challenges of FDI. This group of investors who takes 31.5% indicated that adjusting to the general climate of the city is also a challenge.

Building positive image of the country is a challenge for 39.4% of the investors who are exporting their products. Some investors of this group disclosed that they had to persuade their mother company abroad to fund their expansion projects here by building positive image of the country.

Most of the investors (68.4%) explained that departure from motherland and working in another country is a challenge which foreign investors have to face, as they faced it here in Addis Ababa.

To sum up, there are eight types of challenges which are faced by most of the foreign investors. However, penetrating markets, advertising products and running their business are the challenges faced by all the respondents.

### **4.3 Opportunities of FDI in Addis Ababa**

Though almost all the investors are unaware of the business opportunities available in Addis Ababa, this section presents the summary of the business opportunities gathered from different sources. They are gathered from published books, articles, journals and bulletins which are written about the investment opportunities of Ethiopia and Addis Ababa. In addition, the opinion of few foreign investors, officials of the GOs already mentioned and experts of different organizations, unions and higher learning institutions were also incorporated.

#### **4.3.1 Opportunities in Agriculture and Agro-processing**

The first business opportunity which can be enjoyed by both foreign and domestic investors is the export of meat and processed animal skin. According to Investment Guide for Ethiopia (2004), Ethiopia is one of the top ranking countries in Africa and among the first ten in the world in terms of livestock resources. Therefore investors can use this huge resource as a raw material, process the raw material and export it to the international market.

Since Ethiopia is endowed with wide ranging agro-ecological zones and diversified resources, the growth of all types of cereals, fiber crops, oil seeds, coffee, tea, flowers, fruits and vegetables is possible. Therefore, considerable opportunities exist for new private investments in the production and processing of the above-mentioned agricultural crops.

Interestingly, oil crops such as rapeseed, linseed, groundnuts, sunflower, ginger seed and cotton seed which abundantly grow in Ethiopia serve as raw material inputs for the edible oil industry. Apart from generating income, exporting the products has a good package of incentives, which will be discussed at the end of this section.

Besides, Ethiopia has a huge potential for producing maize in the various agro-ecological zones. Therefore, producing, processing and exporting products of maize are possible business opportunities.

Coffee is Ethiopia's gift to the world. The country is Africa's leading producer of Coffee Arabica. Though it is not allowed for foreign investors to export raw coffee, there is still a possibility of exporting processed coffee to the world market.

The door is also open for foreign investors to use the diversified agro-ecological zones and produce cotton for both domestic and international markets. Apart from selling to the international market, the domestic textile industries which import lint cotton would also absorb the products, of course if producers produce it. On their way, investors who grow cotton can also participate in the textile industry.

Ethiopia's diversified agro-climatic conditions makes it suitable for the production of a broad range of fruits, vegetables and flowers, including banana, mango, papaya, avocado, grapes, pineapple, passion fruit, apples, potatoes, tomatoes, onions, water melons, carrots, green beans and cut flowers. Cut flower and vegetable production are fast growing export businesses. Therefore, investors can involve themselves in the agro-production of fruits and vegetables which can be parallelly done along with processing industries.

Investment in the provision of agricultural support services such as pest and disease control, technical consultancy, agricultural machinery rent, cold storage, transport and marketing services offer a considerable business opportunity within the urban agricultural sector.

Urban agriculture, which is categorized under agriculture sector, has also a wide variety of business opportunities. Dairy products, cattle fattening, hen breeding, animal health care service and abattoir service can be mentioned to further elaborate what is contained within the phrase "urban agriculture".

### 4.3.2 Opportunities in Manufacturing Sector

Manufacturing is now at an early stage of development and until 2001 it accounted for about only 7% of GDP and 5.3% of employment (CSA Report in FIAS 2001). Therefore, it may not amaze to identify all the following business opportunities within the manufacturing sector.

1. **Tannery, Leather Goods and Articles:** tanning up to the finished product and manufacturing of leather products mainly for export purpose.
2. **Textile and Garments:** spinning, weaving and finishing textile fabrics and production of garments.
3. **Glass and Ceramics:** table and sanitary ware, sheet glass and manufacturing of containers.
4. **Chemicals and Chemical Products:** production of basic chemicals based on local raw materials, including PVC granules from ethyl alcohol, formaldehyde from methanol, manufacture of caustic soda and chlorine-based chemicals, carbon black; activated carbon; precipitated calcium carbonate and ball-point ink.
5. **Drugs and Pharmaceuticals:** manufacturing of pharmaceutical, medicinal, chemical and botanical products in the form of tables, capsules, syrups and injectables.
6. **Paper and Paper Products:** production of pulp paper and paper products from indigenous raw materials.
7. **Building Materials:** manufacture of cement, lime, gypsum, marble, granite, limestone, ceramic products, roofing tiles, corrugated sheets, tubes, pipes and fittings.
8. **Electrical and Electronic Products:** production of office accounting and computing machinery; manufacturing of electric motors, generators, transformers, capacitors, resistors, switch gears, electrical fittings and integrated circuit boards; manufacture of radio, television, printers, communication and other equipment and apparatus for the domestic and export market.
9. **Metallurgy:** Ethiopia is blessed with good deposits of iron ore, coal, copper, silica, diatomite and etc (Investment Guide for Ethiopia 2004). Therefore, the production of basic iron, steel and recycling of metal waste and scrap would incur good sum of money.
10. **Machinery and Equipment:** assembly and production of agricultural, industrial, transport, construction and mining machineries; as well as the production of accessories, components and parts of these machineries is a business sector which is one of the profitable manufacturing sectors within Ethiopia.

### 4.3.3 Opportunities in Construction Sector

According to the publication of Addis Ababa City Government Housing Agency, there is high demand for residential houses within the city. It is indicated that within the next six years only, it will be necessary to construct about 468,668 houses to meet the increasing demand of the city's dwellers. This means that on the average, it will be necessary to construct more than 78,000 houses annually. In addition, according to "Addis Zemen" a daily published Amharic journal of March 23, 2007, the government of Ethiopia has allotted 43 billion birr for the construction of roads.

Therefore, it is quite clear that there is high business potential within this sector both in terms of real estate production and consultancy services in the area of construction.

### 4.3.4 Opportunities in Other Sectors

The following table presents the business opportunities available in Addis Ababa from all other sectors except the already discussed ones.

**Table 23: Business Opportunities from Various Sectors**

Sector	Business opportunity
Hotel and tourism	<ul style="list-style-type: none"><li>- Star designated hotels</li><li>- Cultural restaurants</li><li>- International restaurants</li></ul>
Sport and Music	<ul style="list-style-type: none"><li>- Producing sport materials</li><li>- Preparation of gymnasium places.</li><li>- Swimming centers</li><li>- Production and recording of musics and films</li></ul>
Health	<ul style="list-style-type: none"><li>- Hospitals</li><li>- Clinics</li><li>- Pharmacies</li></ul>
Chemical Products	<ul style="list-style-type: none"><li>- Insecticide</li><li>- Pesticide</li></ul>
Education	<ul style="list-style-type: none"><li>- Advanced universities</li><li>- Various vocational training centers</li></ul>
Information Technology	<ul style="list-style-type: none"><li>- Software development</li><li>- Establishing computerized libraries</li></ul>

Moreover, Development Bank of Ethiopia which provides long term loan of 70% without any collateral to investors who apply for loan with feasible projects and National Bank of Ethiopia which provides 80% loan only to feasible export projects under its new program called Export Credit Guaranty Scheme are there to further smoothen the discussed business opportunities. Besides, there will be market for the products of the investors since Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) agreement which embraces 20 countries in Eastern and Southern Africa with a population of approximately 380 million. Ethiopia is also a beneficiary of Everything But Arms (EBA) agreement of the European Union. Due to this privilege, all Ethiopian export products, except arms, can enter the European Union market free of duty and without any quota restriction.

African Growth and Opportunity Act (AGOA) is also the other agreement which Ethiopia signed. According to this agreement, Ethiopia is entitled to duty free and quota free access to U.S. market. In addition, Ethiopia has already been eligible for duty and quota free treatment for its wide range of manufactured products in many countries including Canada, Japan, Australia and most of European Union countries. Therefore, the export oriented business opportunities discussed above will therefore be accelerated if the investors exploit the duty and quota free privileges in the international markets.

Furthermore, a foreign investor who wishes to invest in a partnership with domestic investor/s in the areas of engineering, architecture, accounting and auditing services, project studies or business and management consultancy services or publishing he/she is required to invest only \$25,000 per project. Interestingly, the investor can satisfy this minimum equity capital either in cash and/or in kind. Apart from this, a foreign investor who reinvests his/her profit or dividends, or who exports 75% of his/her outputs, is not required to allocate a minimum capital. Lastly, it should be mentioned that no taxes are levied on export products and services from Ethiopia.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

This part of the paper presents, conclusions and recommendations forwarded based on the summary of the major findings.

#### 5.1 Summary

The overriding objective of this study was to investigate the constraints, challenges and opportunities of FDI in Addis Ababa since 1991. To this end, some basic questions were raised which addressed the issues in focus.

The study was carried out on thirty eight foreign investors who were selected on random sampling technique. In addition, five GOs working in the area of FDI and ten experts who have either duties related to or know how about FDI were also selected on purposive sampling so as to gather all-rounded, balanced and unbiased information.

The data and information were collected by using six different questionnaires. The questionnaires for the foreign investors and the experts were the same whereas each one of the four GOs had to respond to a questionnaire which was specifically prepared to it. The data and information gathered were qualitative and quantitative in nature. Therefore, the analysis of qualitative and quantitative data was done by using SPSS Software Programme and narration respectively. Based on the result of the analysis, the following major findings are presented as follows.

It was evidenced in the study that most of the respondents (84%) are highly satisfied by the provision of visa in light of time, cost and energy. But the other 11% are just satisfied. It was also identified that the government of Ethiopia has allowed nationals of 33 countries to take their visa on arrival to Ethiopia in an effort to make the FDI climate pleasant. Apart from this, some of the respondents indicated that it is hard to locate residential house in the well developed parts of the city at reasonable rent price. However, contrary to the above finding, most of the respondents (71%) disclosed that they are highly satisfied by the easy access to residential houses within the city.

With regard to the issuance of work permit, the large majority of the respondents (89.4%) confirmed that they are highly satisfied by the service. The rest 5.2% are just satisfied. On the other hand, the study witnessed that no foreign investor is dissatisfied by the hospitability of the residents of Addis Ababa. They further indicated that they faced no security threat so far.

Based on the results of the study, it was found out that all the respondents considered the political stability, security for investors and investments, economic stability, extent of corruption, policy environment and efficiency of government bureaucracy, before they invested in Addis Ababa. Besides, the study indicated that the investors considered a wide variety of considerations from more than two sources, since they were suspicious about Ethiopia's investment climate.

It was also evidenced in the study that more than 90% of the respondents have managed to get their investment license in less than two days. However, the other GOs operating in the area of FDI were found to have either unsatisfactory or poor bureaucracy. One of the GOs operating in the area, Ethiopian Customs Authority-Addis Ababa Office, disclosed that it is trying its level best to improve the service delivery by doing the following:

- Organize a committee to evaluate its service delivery and handle internal problems;
- List custom-free items to dispatch them immediately to importers;
- Open an "Export Window" to facilitate the exporting process of the investors; and
- Keep imported goods of the investors in their store to avoid mishandling of goods in the crowded stores of the authority.

Apart from these, the authority disclosed that it has financial constraints to further improve its service delivery. Plus, high turn-over of experienced staffs and shortage of huge stores were mentioned to be the problems of the authority.

The study stands to witness that no foreign investor has designated the service delivery of Federal Inland Revenue Authority to be either excellent or very good. The authority on its part disclosed that though it is trying its' level best to satisfy its' customers, due to the limited number of auditors and the manual work deployed in the authority, its services were not up to the expectation of its customers.

With regard to the issuance of land for investors, the study evidenced that the service delivery of Addis Ababa City Government Land Administration is poor. In line with this issue, almost all the experts also confirmed that the city land administration bureau provides poor service. The study also noted that the land administration bureau of the city fails to carry out the following.

- Prepare land for investments before investors request.
- Design short and effective bureaucracy.
- Respect Article 36 of the 1996 Investment Proclamation which orders the delivery of land for investors within 60 days.
- Arrange complaints hearing office.
- Respect supporting letters written from other GOs.
- Design incentive packages to foreign investors.
- Protect investment sites from illegal settlers.
- Provide the necessary infrastructure within at least a month.

It was found out in the study that most of the investors preferred to invest in Addis Ababa (not in the regions) because of the existence of better market potential, labor quality and availability and existence of better infrastructure.

Concerning the FDI Policy of Ethiopia, the study identified that all the investors were aware of it before they invested in Addis Ababa. The great majority of the investors (89.4%) were detected to consult two and more sources so as to evaluate the FDI Policy of Ethiopia. However, almost all the investors (97.4%) are not fully satisfied by the FDI policy because of the following reasons.

- The policy lacks implementation.
- The policy lacks clarity with regard to exemptions from customs duty on all capital equipments.
- The policy does not clearly state what is allowed and what is not to each and every investment sector. It is presented in a too generalized way.
- The policy restricts many sectors to domestic investors.
- The policy puts minimum capital requirements on foreign investors to join some business sectors.

Nevertheless, the study reveals that no foreign investor is totally unsatisfied by the policy in focus. This is a promising sign for the FDI climate of the country.

It is one of the findings of the study that the government did not manifest any initiation of letting most of the investors to comment on the investment policy by organizing a discussion forum. Most of the investors have complained on the issue. Apart from this, they complained that the Addis Ababa City Government Investment Authority does not have clear incentive packages to foreign investors. They also indicated that a considerable time, which ranges between one month up to one year is wasted to begin the actual business after taking investment license.

Pertaining to the level of coordination among the stakeholders in the FDI climate, the study confirmed that the different GOs are not carrying out their activities in a coordinated manner. The GOs were identified to carry-out their tasks in a fragmented manner.

As most of the respondents, the study indicated that the government has to improve the bureaucracy in the GOs, provide land quickly, set up the necessary infrastructures in the newly issued investment sites, fight corruption, improve the policy; conduct regular discussion with all the investors from all the business sectors and improve the legal framework so as to make the FDI climate pleasant.

Relating to the life span of their business, it was evidenced in the study that the investors, of course, for the time being, do not have a plan of shutting down their business. However, they indicated that their activity may stop if the government fails to assist them in their needs.

With regard to the challenges of FDI in Addis Ababa, the study revealed that cultural shock, language barrier, home sickness, managing the investment, penetrating both the national and international market, building positive image of Ethiopia and adjusting to a new environment are the challenges which every foreign investor may face in Addis Ababa.

As it is one of the objectives of the study, the opportunities for FDI are presented. According to the information from various published and unpublished documents, the investors' and the experts' response, the study identified urban agriculture and agro- processing, real estate, construction of roads, consultancy service in the area of construction, meat export, exporting processed coffee, leather and hide, manufacturing of garments, ceramics, chemicals, paper products, building materials, electronic products and machinery and their parts and education, especially, higher learning institutions in the area of engineering, information technology to be potential investment opportunities for FDI. Besides, it was identified in the study that there is huge market potential due to international agreements like AGOA, EBA and COMESA. Plus,

there are credit facility packages available to investors to further enable the FDI climate. Moreover, quick issuance of visa and exemptions from income tax, especially for exporters, can also be considered as opportunities which should not be missed.

## **5.2. Conclusion**

Based on the major findings presented here above and a thorough analysis of important sections of this study, the following conclusions are drawn.

### **5.2.1 Constraints of FDI in Addis Ababa since 1991**

The frequently changed and amended regulations and proclamations of FDI characterized the FDI climate of the country to be unstable. This might have pushed foreign investors from investing in Ethiopia.

Except Ethiopian Investment Agency, all other contacted GOs working in the area of FDI have discouraging bureaucracy. Due to this, the number of licensed investment projects is by far more than the number of operational investment projects. Moreover, the bureaucracy of the GOs is criticized by most of the investors. It can be designated as "inefficient". Further, securing a plot of land for investment is a very long and complicated process. This has greatly affected FDI. It appears that the Addis Ababa City Government Land Administration Bureau is inefficient organization.

Though Addis Ababa has infrastructural superiority over the rest of the regions, the city itself is poor in the provision of the necessary infrastructures in the newly issued investment sites. Plus, the city's investment climate is dark shaded since there is wastage of a considerable time which ranges from 1 month up to 1 year in between the investment permit and the commencement of the actual business due to mainly sluggish GOs bureaucracy, poor provision of land and insufficient infrastructural facilities in the newly issued investment sites.

Based on the findings of the study, it appeared that the government of Ethiopia has failed to remove corruption from most of the GOs involved in the area of FDI. Moreover, it has never invited all the investors to discuss on issues like FDI policy of the country, problems faced by the investors, comments of the investors on GOs, and the like.

It appears in the study that there are no clear incentive packages for each and every business sector. The incentives in the form of exemptions from customs duty and tax holidays are presented in broad terms without referring to each and every business sector. Moreover, one of the major investment incentives which reads as "100% exemptions from the payment of import customs duties, and other taxes levied on imports is granted to an investor to import all investment capital goods, such as plant machinery, equipment and construction materials" is not practically implemented since some of the materials were taxed.

The FDI policy which looks attractive on the paper lacks clarity. More elaborately, the policy does not clearly list which capital equipments are free from customs duty and which ones are not. Moreover, the policy is not written in one document. It is a collection of incentives, rules, regulations and concepts from different proclamations and regulations. This by itself contributes to its unclarity.

A simple observation on the list of the operational foreign investments shows that the number of foreign investments is very few in the years after May 2005. Therefore, it seems that what happened after the last National Election has spoiled the image of Ethiopia since any real or perceived political instability keep away investments.

### **5.2.2 Challenges of FDI in Addis Ababa**

Based on the responses from the investors, experts and published materials, there are seven major challenges to foreign investors in Addis Ababa. Penetrating national and/or international market, advertising product or service, facing cultural shock and language barrier, running the business, adjusting to the city's climate, facing home sickness and building the positive image of the country are the major challenges.

### **5.2.3 Opportunities of FDI in Addis Ababa**

This section presents the possible as well as profitable business opportunities which appear to be available in Addis Ababa since the FDI policy, the five year development plan and the international agreements which Ethiopia is part of would welcome investments in the following sectors. Currently, according to the study, the major profitable sectors are manufacturing of textile and textile products for export purpose, real estate, urban agriculture, agro-processing primarily for export purpose, construction of roads, consultancy services in the area of

construction, meat export, exporting processed coffee, leather and hide, exporting leather products and education (especially higher learning institutions in the area of engineering, information technology and health).

### 5.3 Policy Implications

Based on the aforementioned conclusions, the researcher forwarded the following recommendations.

The FDRE Government should avoid the inefficient bureaucracy from the GOs which are mainly involved in the FDI climate. More elaborately, the sluggish bureaucracy in Addis Ababa City Government Land Administration, the very slow service delivery in the Federal Inland Revenue Authority and the inconsistent clearance process in the Ethiopian Custom Authority Addis Ababa Office should be removed or at least minimized. There is also a need to set up the necessary infrastructural facilities especially in the newly issued investment sites by the concerned GOs.

Apart from setting Federal Anti-Corruption Commission, government officials at all levels should fight against corruption by setting themselves as a role model. More elaborately, senior government officials should be voluntary members of the commission. In an effort to fight corruption and smoothen service delivery, it is important to replace the manual service delivery in the GOs with computerized service delivery.

The government of Ethiopia should be engaged with "image building" activities. Apart from showing the virgin culture to the world, it is also important to show the ample business opportunities available and the huge resource bases of the country. The pertinent GOs which are engaged in the promotion activities should be aware of the following techniques of promotion.

1. What to promote
2. How to promote
3. Where and when to promote.

The pertinent GOs should first know what to promote. So as to build the image of the country, it should be the resource base, business opportunities, economic, social and political stability, the

policy environment, market potential, hospitability of the society, infrastructural facilities, and the like should be promoted.

The concerned GOs should also know how to promote the above mentioned features. Short, powerful and impressive phrases with beautiful pictures should be used to promote them. For example, "mother of endless livestock" with a background picture, to promote huge livestock resource; "a HOME away from HOME" with a background picture, to promote the hospitability of Ethiopians; "cradle of organic coffee" with a background picture, to promote our coffee, "land of wonders" to promote tourist attractions and the like can be used to promote the country. Therefore, the old but historic logo which is every time used to promote Ethiopia, "Thirteen Months of Sunshine" should be replaced with well-studied various logos.

These promotional activities should be released in trade fairs, business meetings, worldwide business TV channels, Electronic Medias, popular business journals, and the like.

The government should make Ethiopian Investment Agency (EIA) a "One -stop-Agency" which registers, licenses, and provides land for investment. It is recommendable that the agency should take land from land administration bureaus before demands for land are raised; and then give it to the investors immediately when the question is raised. This would greatly minimize the number of investors who would frustrate due to the sluggish bureaucracy they face in the Addis Ababa City Government Land Administration. Otherwise, improving the service delivery of EIA would be facilitating the process only at the beginning.

To avoid the unstable nature of the FDI climate, the government has to stop changing and amending the regulations and proclamations frequently. It is recommendable that a well-studied, inclusive and marketable policy should be designed to avoid frequent rectifications and modifications.

In the process attracting FDI, mobilizing resources from Ethiopians in Diaspora should be sought. They could help accessing new technologies, markets, and finance through their accumulated wealth of knowledge and expertise. They could also demonstrate the business climate to be favorable to FDI and change the perception of foreign investors towards spending their capital in Ethiopia: a favorable climate for nationals is usually favorable for foreigners as well.

It is good if senior government officials invite all the investors to discuss about the FDI climate of the country. By doing so, for one, the government may win their heart to be in its side, for another, the problems of FDI may be heard from the right source.

Though there are incentives packages to foreign and domestic investors, the incentives are found scattered on different documents. Therefore, it is logical to recommend that the incentive packages should be presented in one document by referring to each and every sector.

Based on one of the conclusions, the writer of this study recommends that one of the major investment incentives which states 100% exemptions from custom duties should be made either practicable or modified to send the true signal.

It is recommended that restrictions on foreign participation in certain activities should be further relaxed. Large foreign-owned trading houses, if permitted perhaps as joint ventures, could use their greater purchasing power and wider knowledge and experience, to lower the prices paid. The steadily rising cost of living may be stopped if foreign investment is allowed in this sector.

If banking investment, one of the financial business sectors, is allowed to foreign investors, new foreign banking skills and practices will be introduced to Ethiopia along with financial resources. This would actually enhance the development activities of the country.

Exclusion of private investment from electric power generation has no benefit to the industrial sector in particular and the entire nation in general. Therefore, the writer of this study recommends that the government has to revise its policy which restricts private investment in this less politically sensitive area.

The minimum investment capital which is required by foreign investors to join some of the investment sectors should be further lowered. FIAS (2001) indicated that foreign investment projects of a relatively poor developing country comparable to Ethiopia suggests that some 45% of FDI projects approved in that country would not have qualified in Ethiopia. These projects included some projects for which its Investment Board has strong expectations of significant, subsequent investment. The same source indicated that similarly in a developed country such as Wales, some 36% of all new, foreign investments made over the 1994-9 period involved investments of less than \$ 400,000. Therefore, it is compatible with the above finding to

recommend that it is necessary to reduce the minimum capital required to join some of the investment sectors.

Though the policy towards FDI is generally appreciable, the policy that affects market factors needs further improvement. The policy on land can be mentioned as a perfect example. It is known that land is one of the factors of production. However, land is not liberalized in Ethiopia. Land is owned by the state and anyone who wants to have it should buy it from the government for long-term lease. The lease price per square meter is expensive as one goes deep into cities. Plus, in all the regions except Tigray, compound interest is paid after an individual leases a plot of land by paying a certain per cent of the total price of the land. This situation has made all investments done by leasing land expensive. FIAS (2001) reported that foreign investors' perception towards Ethiopia is discouraging as a result of the above mentioned problem. Therefore, the writer of this study recommends that liberalization of land is important to enhance both domestic and foreign investments.

It is discussed in the study that privatization of government enterprises to private investors pulls FDI. Though Ethiopia began privatizing enterprises, it is, however, selling only the unprofitable enterprises. This type of privatization does not manifest the pure characteristics of privatization concept. Therefore, the writer of this study recommends that the government should have a policy of privatizing all its non-politically sensitive enterprises so as to attract more foreign and domestic investors who can be used to accelerate the pace of the on going development activities.

The government should conduct a detailed study to identify, list, compile and advertise the major natural resource bases, tourist attractions, hydroelectric power potential sites, and the like to provide quick and tangible source of information to investors.

The government should decide to be a member of World Trade Organization (WTO). By doing so, it can get the trust of foreign investors since member countries can not change their investment and trade related rules as they wish. Besides, the tariff on products has minimum and maximum amounts. Furthermore, if disputes arise, it is possible to appeal to WTO for the verdicts. Therefore, the business climate of Ethiopia would be predictable to the investors. This may consequently pull them to invest here. In addition to attracting more FDI, being a member of WTO would enable the country to participate in various capacity building programs like

trainings on institutional management, international trading techniques and laws, etc. Therefore it is recommended that Ethiopia should be a member of WTO.

The government of Ethiopia should independently call for international investors' conference to be held here in Addis Ababa so as to promote the country as an FDI destination by discussing the policy, incentives and business opportunities entertained in this study.

A thorough examination in the China's and Mauritius's FDI success reveals that the respective governments have made a strong political decision so as to attract FDI. Therefore, it is safe to recommend that the government of Ethiopia should pass this type of strong decision by improving the policy, the bureaucracy, the incentives, the image and other aspects of the business climate. Besides, apart from several evidences, FIAS (2001) indicates that the involvement of the ruling party in a number of business activities has made foreign investors who were surveyed by FIAS to develop negative attitude towards Ethiopia's investment climate. This, according to the report, sends a signal that the "judge", who was supposed to seat at the top place in the court to preach justice is harassing innocent people. More elaborately, the party which is expected to oversee the business activities of the nation is doing business itself. Therefore, the ruling party should abandon from this activity.

Peace and stability is one of the considerations of all investors. Therefore, the government should work towards peaceful resolutions to border conflicts. It is logical to recommend that the government should end war with Somalia and military confrontation with Eritrea. Internally, the government has to deal with Ogaden Liberation Front, Oromo Liberation Front and Afar Rebels to seek "true peace" within the country.

The Ethiopian Investment Agency (EIA) and the other GOs which operate in the area of FDI should keep on servicing the investors to establish a good reputation and thereby attract more FDI. These GOs, as stakeholders of the FDI climate, should organize regular meeting so as to better service the investors in focus. The Foreign Investment Advisory Council which was set up recently must continue its activities of attracting as many investors as possible. All the rest measures taken by the government to accelerate the pace of FDI should also be strengthened.

Last but not least, the writer of this study recommends that further studies should be carried out in the following areas to accelerate the pace of FDI in Addis Ababa in particular and Ethiopia in general.

" What blocks all the licensed investments from actualizing their business?"

" What are the constraints, challenges and opportunities of FDI in the other regions of Ethiopia?"

" Why is the flow of FDI minimized after the last few months of the year 2005?"

## References

- Addis Ababa City Administration Investment Authority. ( ). **Services Rendered by the Authority**. Pamphlet. Berhane and Selam Printing Press: Addis Ababa City Administration Investment Authority.
- Addis Ababa City Administration Investment Authority. (2006). **Addis Ababa and Its Investment Opportunities**. Bulletin No. 5. Addis Ababa: Addis Ababa City Administration Investment Authority.
- Addis Ababa City Administration Investment Authority. (2006). **Addis Investment**. Yearly Bulletin No. 1. Addis Ababa: Addis Ababa City Administration Investment Authority.
- Addis Ababa City Administration Investment Authority. (2006). **Time to Invest in Addis Ababa**. Bulletin No. 3. Addis Ababa: Addis Ababa City Administration Investment Authority.
- Addis Ababa City Government. (2005). **Investment Guide**. Addis Ababa: Addis Ababa City Government Investment Authority.
- Alemayehu Geda & Berhanu Nega. (1999). **The Ethiopian Economy: Performance and Evaluation**. Ethiopian Economic association, Addis Ababa: Ethiopia.
- Alemayehu Geda. (1999). **Finance and Trade in Africa; Modeling Macro Economic Response in the World Economy Context**. London: Macmillan.
- Alemayehu Geda. (1999). **Theories of the Determinants of FDI and their Relevance in African Context**. Economic Focus. Vol. 2. No. 3. Ethiopian Economic Association : Addis Ababa.
- Alula Pankhrust, (2001). **Natural Resource Management in Ethiopia**. Forum for Social Studies (FSS) in Collaboration with the University of Sussex: Addis Ababa.
- Arega Hailu. (1999). **Attracting Foreign Investment in Ethiopian; What Needs to be Done from the Customs Perspective?** Economic Focus. Vol. 2. No.3. Ethiopian Economic Association: Addis Ababa.

- Befekadu Degfe, (1983). **"Industrialization, Investment Policy and Foreign Capital in Ethiopia, 1950-1974"** In Proceedings of the Seminar on Industrial Transformation in Ethiopia. Institute of Development Research: Addis Ababa University.
- Berhanu Nega. (1999). **Foreign Investment in Ethiopia: Operation and Expansion.** Economic Focus. Vol 2. No 3. Ethiopian Economic Association: Addis Ababa.
- Chen, C. (1995). **The Role of Foreign Direct Investment in China's Post- 1978 Economic Development.** World Development. Vol. 23, No. 4 PP. 619-703. Pergamon: Great Britain.
- D. Salvatore. (1992) **International Economics.** (4<sup>th</sup> Ed). New York.
- De Mello L.R.Jr. (1999). **FDI-Led Growth: Evidence from Time Series and Panel Data.** Oxford Economic Papers. Vol. 51,133-151.
- Edwards Joseph. (1999). **Attracting Foreign Investment in Ethiopia: What Needs to be Done?** Economic Focus. Vol. 2. No.3. Ethiopian Economic Association: Addis Ababa.
- Elthebeth Aseidu (2002). **On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?** Department of Economics: University of Kansas.
- Ethiopian Chamber of Commerce. (2007). **National Business Agenda 2006-2007.** Addis Ababa: Ethiopian Chamber of Commerce.
- Ethiopian Foreign Investment Promotion Strategy Framework. (2001). **Ethiopian Foreign Investment Promotion Strategy Framework (EFIPSF)** in Collaboration with World Bank and International Finance Corporation. Addis Ababa: World Bank
- Ethiopian Investment Agency. (1995). **Investment Review.** Annual Bulletin: Addis Ababa. Ethiopia.

Ethiopian Investment Agency. (1995). **Investment Review**. Vol IV, No. 2 Addis Ababa: Ethiopia.

Ethiopian Investment Agency. (2006). **Investment Review**. Quarterly Newsletter. Vol. 9 No. 20. Addis Ababa: Ethiopian Investment Agency.

Ethiopian Investment Agency. (2006). **Statistics on Investment in Ethiopia**. Vol. 2 No.8. Addis Ababa: Ethiopian Investment Agency.

Ethiopian Investment Agency. (2007). **Statistics on Investment**. Yearly Bulletin. Addis Ababa: Ethiopia.

Ethiopian Investment Authority. (1998). **Invest in Ethiopia**. Addis Ababa: Ethiopia.

Fantahun Melles et al. (Ed). (2004). **Investment Guide for Ethiopia**. Ethiopian Business Development Services Network (EBDSN) in Collaboration with Ethiopian Investment Agency (EIA), Ethio-German TVET Programme (TVE T-GTZ) and Ethio-German Micro and Small Enterprises Development Project (GTZ). Addis Ababa: EBDSN.

FDRE Council of Ministers Regulation No. 116/1998 Addis Ababa.

FDRE Council of Ministers Regulation No. 35/ 1998. Addis Ababa.

FDRE Council of Ministers Regulation No. 36/1998 Addis Ababa.

FDRE Council of Ministers Regulations. (1996). **Investment Incentives Council of Ministers Regulations No. 7/1996**. Addis Ababa: Ethiopia.

FDRE Council of Ministers Regulations. (2003). **Investment Incentives and Investment Areas Reserved for Domestic Investors Council of Ministers Regulations No. 84/2003**. Addis Ababa: Ethiopia.

FDRE Proclamation No. 168/1999, Addis Ababa.

FDRE Proclamation. (1996). **Investment Proclamation No. 37/1996**. Addis Ababa: Ethiopia.

FDRE Proclamation. (2002). **Investment Proclamation No, 208/2002**. Addis Ababa: Ethiopia.

- Federal Inland Revenue Authority. (2005). **Manual for Tax Payers**. Bulletin of Tax Payers' Series No. 8. Berhane and Selam Printing Press: Federal Inland Revenue Authority.
- Feuchtwang S. et al. (1988). **Transforming China's Economy in the Eighties**. Pergamon: Great Britain.
- Foreign Investment Advisory Service (FIAS). (1997). **Ethiopia, Improving the Investment Approval Process**. The World Bank: Washington D.C.
- Foreign Investment Advisory Service. (FIAS). (2001). (Rev). **Foreign Investment Promotion Strategy Framework (FIAS)** in collaboration with International Finance Corporation and World Bank: Washington, D.C.
- Gerald, M. (1995). **Private Foreign Investment in Developing Countries: Policy Perspectives**. Paper No. 59. An International Center for Economic Growth Publication. San Francisco: California.
- International Monetary Fund. (2000). **Financial Statistics Year Book 2000**. Washington, D.C.
- Mekonen Bekele, (2001). **FDI in Sub- Saharan Africa and Its Contribution to the Economic Growth**. Unpublished MA Thesis. Addis Ababa University: Addis Ababa
- Mekonnen Bekele, (2005). **Contribution of FDI to the Economic Growth of Sub-Saharan African Countries**. In Alemayehu Seyoum et al **Ethiopian Economic Association Proceedings of the Second International Conference on the Ethiopian Economy**. Vol 3: Addis Ababa.
- Mengistu Bessir, (2006). **The Effect of FDI on Trade Balance: The Case of Sub-Saharan Africa**. Unpublished MA Thesis: Addis Ababa University.
- Ministry of Trade and Industry. (1986). **Ethiopia's Investment Policy Review**. Ministry of Trade and Industry: Addis Ababa.

- Morrisset, J. (2001). **Foreign Direct Investment in Africa: Policies Also Matter**. World Bank IFC Policy Research Paper No. 2481
- National Bank of Ethiopia. (2006). **Annual Report 2004-2005. Economic Research and Monetary Policy Directorate**. Addis Ababa: National Bank of Ethiopia.
- Organization for Economic Cooperation & Development (OECD). (1990). **OECD Report**.
- Paul R. Krugman & Maurice Obstfeld. (1998). **Interventional Economics**. Reading: Elsevier.
- Robert A. Haugen. (1993). **Modern Investment Theory**. Longman: UK.
- Robson, C. (1993). **Real World Research**. Blackwell Publishers Inc. Cambridge: U.S.A.
- Shan, K. et al (1997). **Private Investment and Economic Growth in Developing Countries**. World Development. Vol. 18. No. 1. Pergamon: Great Britain.
- Tadesse Haile. (1999). **Attracting FDI in Ethiopia**. Economic Focus. Vol. 2. No.3 Ethiopian Economic Association: Addis Ababa.
- Tagese Sugebo, (2001). **An Analysis of FDI Pattern and Its Implications in Ethiopia**. Unpublished MA Thesis: Addis Ababa University.
- Tariku Assefa. (2007). **Foreign Investment in Ethiopia**. The Daily Monitor. Vol. XIV. No 64 Thursday March 13, 2007: Addis Ababa.
- Todaro, M.P. (1989). **Economic Development in the Third World**. New York and London: Longman.
- Todaro, MP. & Smith, S.C. (2003). **Economic Development**. (8<sup>th</sup> Edition) Pearson Education Limited: U.K.
- Tsegaye Teklu. (1994). **Foreign Investment Possibilities and Constraints in Ethiopia**. A Paper Presented in the Annual Conference of the Ethiopian Economy. In Abdulhamid Bedri and Getachew Yoseph (Eds.) (1994). **Public Enterprise Reform and Privatization in Ethiopia**. Addis Ababa University Press. Addis Ababa. Ethiopia.

UNCTAD. (1999). **FDI in Africa**. New York and Geneva: UNCTAD.

UNCTAD. (1999). **World Investment Report 1999**. Foreign Direct Investment and the Challenges of Development: UNCTAD.

UNCTAD. (2002). **World Investment Report 2002**. Geneva: United Nations Conference on Trade and Development.

UNCTAD. (2004). **Prospects for Foreign Direct Investment and the Strategies of Transnational Corporations. 2004-2007**. Geneva: UNCTAD.

United Nations (UNCTAD). (2002). **Investment and Innovation Policy Review Ethiopia**. Geneva: UNCTAD.

Worku Gebeyehu, (2004). **FDI in Ethiopia: Size, Nature, and Performance**. Working Paper No.2/2004: Ethiopian Economic Policy Research Institute (EEPRI).

World Bank. (2005). **African Foreign Direct Investment Indicator**. Washington D.C: World Bank.

World Development Report. (2005). **A Better Investment Climate for Everyone**. Oxford University Press: UK.

World Investment Report. (2000). **World Investment Report**. New York and Geneva: UNCTAD.

World Investment Report. (2005). **World Investment Report**. New York and Geneva: United Nations (UNCTAD).

World Investment Report. (2006). **FDI from Developing and Transition Economies: Implications for Development**. New York and Geneva: United Nations.

World Investment Report. (2006). **World Investment Report**. New York and Geneva: United Nations (UNCTAD).

Yohannes Zelalem, (1999). **Foreign Direct Investment as an Instrument to Economic Integration: An Assessment of the Ethiopian Situation Since 1991**. In

Alemayehu Geda and Berhanu Nega (Ed.) **The Ethiopian Economic Performance and Evaluation.** Addis Ababa University: Addis Ababa.

Yohannes Zelalem. (1991). **FDI as an Instrument to Economic Integration: An Assessment of the Ethiopian Situation since 1991.** In Alemayehu Geda and Berhanu Nega. (1998). **The Ethiopian Economy Performance and Evaluation.** Proceedings of the Eighth Annual Conference on the Ethiopian Economy. Oct. 30-Nov. 1, 1998 Nazereth: Ethiopia.

([http://www.atkearney.com/main.taf? P= 1, 5, 1,151](http://www.atkearney.com/main.taf?P=1,5,1,151)).

([http://www.atkearney.com/main.taf? P=1, 5, 151](http://www.atkearney.com/main.taf?P=1,5,151)).

(<http://www.imfdatabase.fdi.africa>).

([http://www/imf.org/external/np/tr/2002/tr02502.htm](http://www.imf.org/external/np/tr/2002/tr02502.htm)).

Appendix A: Interview Questions for Foreign Investors

**Addis Ababa University**  
**School of Graduate Studies**  
**Department of Environment and Development**

(Prepared for Foreign Investor in Addis Ababa)

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_

Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

## Interview Questions for foreign investors

### Part I. Basic Information

Type of Investment \_\_\_\_\_

Years of Service \_\_\_\_\_

Nationality \_\_\_\_\_

Location of the business \_\_\_\_\_

How many employees do you have? Permanent \_\_\_\_\_

Temporary \_\_\_\_\_

### Part II Detailed Information

1. Did you easily get visa to come to Ethiopia?
2. Did you face any problem to get residential house? If yes, what?
3. Did you efficiently get your work permit in light of time, cost and energy?
4. How did the people of Addis Ababa welcome you?
5. Depending upon the very nature of your business, what are the factors that you consider before you invest in a certain country? With explanations.

Factors considered before investing in Addis Ababa	Tick in the box	
	Yes	No
Political stability		
Security for investors and investments		
Economic stability		
Market potential and purchasing power of the people		
Labor:		
Quality and availability		
Regulation		
Cost		
Infrastructure:		
Road		
Rail		
Ports		
Air transport		
Electric supply and cost		
Telecommunication		
Cold stores		
Hospitals		
Schools		
Higher institutions		
Banks		
Policy environment		
Incentives		
Natural resources		
Land:		
Access to land		
Cost of land		
Corruption		
Image of the country		
Efficiency of government bureaucracy		
Information from business partners		
Information from diplomatic missions of Ethiopia		

6. How come you get interested to invest in Addis Ababa?

Reasons for choosing Addis Ababa for investment	Tick if it is your reason, leave blank, if not
Market potential	
Labor quality, availability and cost	
Infrastructure – road rail way air transport electric power Banks telecommunication facilities learning institutions recreational centers	
Nature of my investment requires large cities	
Family reasons	
Partners' advise and choice	

7. Why didn't you invest in the regions (out of Addis Ababa)?

8. Have you already had adequate knowledge about the investment policy of the country before you invested in Addis Ababa?

If yes, indicate the source of your information.

9. Are you satisfied with the investment policy?

If No, why?

If Partially satisfied, why?

If Yes, how?

10. Were you given a chance to comment on the investment policy?

11. Are there incentives which you are provided with from Addis Ababa City Government Investment Authority?

If yes, what are they?

12. Are you satisfied by the incentives from Addis Ababa City Government Investment Authority?

If No, what other incentives do you need?

If Yes, How?

13. Were there obstacles (constraints) which you faced from governmental institutions?

If yes, from which ones? What are these problems?

14. How many working days did it take you to get your investment license?

15. How long did it take you to get land for investment?

16. Do you get a land which is suitable for business making?

17. How many working days did it take you to clear your imported goods from Customs Authority?

18. How do you rate the services rendered by Addis Ababa City Government Investment Authority?

Excellent

Very good

Good

Unsatisfactory

Poor

Not applicable

Why do you say so?

19. How do you rate the services rendered by Ethiopian Customs Authority-Addis Ababa Office?

Excellent

Very good

Good

Unsatisfactory

Poor

Not applicable

Why do you say so?

20. How do you rate the services rendered by Federal Inland Revenue Authority?

Excellent

Very good

Good

Unsatisfactory

Poor

Not applicable

Why do you say so?

21. Do you think that the tax you are paying is appropriate?

If No, why?

If Yes, how?

22. How do you rate the services rendered by Addis Ababa City Government Land Administration?

Excellent

Very good

Good

Unsatisfactory

Poor

Not applicable

Why do you say so?

23. How long did it take you to begin the actual business after you got your investment license? And what are the reasons for the wastage of time?

24. Do you find the general investment climate of the city to be conducive?

If no, what should be done to make it more conducive?

25. What other investment (business) opportunities do you observe in the city?

26. For how long do you plan to operate your business in Addis Ababa?

27. Do you have a plan of shutting down your business?

If yes, why?



28. In general, which ones are your challenges when investing in Addis Ababa?

Types of Challenges	Tick in the box
Penetrate national and/or international market	
Advertise product or service	
Cultural shock	
Language	
Running the business	
Physiological adjustments to a new environment	
Isolation from country of birth	
Build positive image of the country	

29. Do you observe any coordination failures among the stakeholders which have a role in the investment atmosphere? (Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Custom Authority and Addis Ababa City Government Land Administration)

If yes, what are these?

30. Do you believe that there is future government actions needed to be taken to positively address the foreign investment climate of the country?

If Yes, What are these?

Thank you!

Appendix B<sub>1</sub>: Interview Questions for GOs

*Addis Ababa University*  
*School of Graduate Studies*  
*Department of Environment and Development*

(Prepared for Addis Ababa City Government - Land Administration)

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_  
Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

## Interview Questions for Addis Ababa City Government Land Administration)

# Position in the Addis Ababa City Government Land Administration \_\_\_\_\_

# Years of service \_\_\_\_\_

1. Is there any special arrangement for FDI by your office?  
If yes, what?
2. Do you have any incentive mechanism for FDI?  
If yes, what are they?  
If No, why?
3. How long will it take for a foreign investor to secure a plot of land?
4. Do you consider the location interest of the investors before giving a land?  
If No, why?
5. Have you ever let foreign investors to comment on your service delivery in a standardized manner?  
If No, why?  
If yes, what did they say?
6. Have you ever evaluated your service delivery by yourself to check if there are bureaucratic obstacles?  
If yes, what bureaucratic obstacles were identified?  
If No, why?
7. Do you have complaints hearing office on your service delivery?  
If No, why?  
If yes, how many foreign investors complain in a month?
8. Do you have any internal problem which hinders you from satisfying foreign investors?  
If yes, what are the problems?
9. What are the major obstacles related with FDI in the country through your office?
10. Did you have any opportunities to discuss with FDI groups?  
If yes, what points were raised?  
If No, why didn't you discuss?
11. Can you comment on improving the land delivering policy of the country?

12. Was there any discussion forum organized among the stakeholders to facilitate FDI in the country? (Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Addis Ababa Custom Authority and Addis Ababa City Government Land Administration)

If yes, what was the consensus reached?

If No, why didn't you organize?

13. In general, what would you comment to improve FDI in the country?

**Thank you!**

ለመንግስታዊ ድርጅቶች የተዘጋጀ የቃለ መጠይቅ ጥያቄዎች

አዲስ አበባ ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት  
የአካባቢና ልማት ትምህርት ዘርፍ

ለአዲስ አበባ ከተማ መሬት አስተዳደር ቢሮ የተዘጋጀ

ቀን \_\_\_\_\_

ቦታ \_\_\_\_\_

አዳም የወንድወሰን

የሁለተኛ ዓመት የድህረ ምረቃ ተማሪ

መግቢያ

እኔ የሁለተኛ ዓመት የድህረ-ምረቃ ትምህርት ተማሪ የሆንኩ በአሁኑ ሰዓት የመመረቂያ ጽሁፌን በአዲስ አበባ ውስጥ መዋዕለነዋያቸውን በቀጥታ በተለያዩ የኢንቨስትመንት መስኮች ላይ ያፈሰሱ ባለሀብቶች ያለባቸውን እክሎች፣ ፈተናች እንዲሁም የንግድ አማራጮች በማጥናት ላይ ነኝ። ጥናቱ የሚያተኩረው ከ1983 ዓ.ም ጀምሮ ሲሆን ለዚህ ጥናት የሚሰጡት ማንኛውም መረጃ ለትምህርታዊ ጉዳይ ብቻ የሚውል መሆኑን በአክብሮት እገልጻለሁ። ለሚደረግልኝ ትብብር ከወዲሁ አመሰግናለሁ።



ከሴሳ ለምን ለመወያየት አልሞከራችሁም?

11. መስሪያቤታችሁ የመሬት አሰጣጥ ፖሊሲው እንዲሻሻል የሚሰጠው አስተያየት ካለ ቢገልጹልኝ?

12. መዋዕለነዎቻቸውን በቀጥታ ለኢንቨስትመንት ያዋሉ የውጭ ባለሀብቶችን ግልጋሎት በሚሰጡ መንግስታዊ ድርጅቶች መሀከል የውጭ ኢንቨስትመንትን ከማበረታታት አኳያ የተደረገ ውይይነት ነበር?

(የፌዴራል አገር ውስጥ ገቢ ባለስልጣን፣ የአዲስ አበባ ጉምሩክ ባለስልጣን፣ የአዲስ አበባ ከተማ መሬት አስተዳደር፣ የአዲስ አበባ ከተማ አስተዳደር ኢንቨስትመንት ባለስልጣን እና የኢትዮጵያ ኢንቨስትመንት ኤጀንሲ)

ውይይት ከነበረ ምን ዓይነት ስምምነት ላይ ተደረሰ? \_\_\_\_\_

ውይይት ካልነበረ ለምን ውይይት አልተደረገም? \_\_\_\_\_

13. በአጠቃላይ የውጭ ኢንቨስትመንትን በአገራችን ለማሳደግ ምን ቢደረግ ጥሩ ነው ይላሉ? \_\_\_\_\_

አመሰግናለሁ!

**Addis Ababa University**  
**School of Graduate Studies**  
**Department of Environment and Development**

*(Prepared for Federal Inland Revenue Authority)*

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_

Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

Interview Questions for Government Bodies (Federal Inland Revenue Authority)

# Position in the Federal Inland Revenue Authority \_\_\_\_\_

# Years of service \_\_\_\_\_

1. How do you assess the income of foreign direct investors and set their income tax?
2. Do foreign direct investors enjoy the advantage of tax holidays?  
If No, why?  
If yes, for how long?  
If there are conditions? What are these?
3. Do you have any incentives to foreign direct investors?  
If No, why?  
If yes, what are these?
4. How many days does it take you to audit the income of foreign direct investors?
5. Have there been any forms of tax disagreement between your bureau and foreign direct investors?  
If yes, what were the issues? \_\_\_\_\_
6. Do you have any accepted financial principles (balance sheet, bank statement, etc) between your bureau and foreign direct investors?  
If No, why?  
If yes, explain it.
7. Have you ever evaluated your service delivery by yourself?  
If No, why? \_\_\_\_\_  
If yes, what issues were improved? \_\_\_\_\_
8. Did your bureau let foreign investors to comment on your service delivery in a standardized manner? \_\_\_\_\_  
If No, why?  
If yes, what issues were raised?
9. What are the major obstacles related with FDI in the country through your office?
10. Did you have any opportunities to discuss with FDI groups?  
If yes, what points were raised?  
If No, why didn't you discuss?

11. Was there any discussion forum organized among the stakeholders to facilitate FDI in the country? (Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Addis Ababa Custom Authority and Addis Ababa City Government Land Administration)

If yes, what was the consensus reached?

If No, why didn't you organize?

12. Can you comment on improving taxing policy of the country so as to attract more foreign investors?

**Thank you!**

ለመንግስታዊ ድርጅቶች የተዘጋጀ የቃለ መጠይቅ ጥያቄዎች

አዲስ አበባ ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት  
የአካባቢና ልማት ትምህርት ዘርፍ

(ለፌዴራል አገር ውስጥ ገቢ ባለስልጣን የተዘጋጀ)

ቀን \_\_\_\_\_  
ቦታ \_\_\_\_\_

አዳም የወንድወሰን  
የሁለተኛ ዓመት የድህረ ምረቃ ተማሪ

መግቢያ

እኔ የሁለተኛ ዓመት የድህረ-ምረቃ ትምህርት ተማሪ የሆንኩ በአሁኑ ሰዓት የመመረቂያ ጽሁፌን በአዲስ አበባ ውስጥ መዋዕለነዋያቸውን በቀጥታ በተለያዩ የኢንቨስትመንት መስኮች ላይ ያፈሰሱ ባለሀብቶች ያሉባቸውን እክሎች፣ ፈተናች እንዲሁም የንግድ አማራጮች በማጥናት ላይ ነኝ። ጥናቱ የሚያተኩረው ከ1983 ዓ.ም ጀምሮ ሲሆን ለዚህ ጥናት የሚሰጡት ማንኛውም መረጃ ለትምህርታዊ ጉዳይ ብቻ የሚውል መሆኑን በአክብሮት እገልጻለሁ። ለሚደረግልኝ ትብብር ከወዲሁ አመሰግናለሁ።

ለፌዴራል ሀገር ውስጥ ገቢ ባለስልጣን

# በመስሪያቤቱ ውስጥ ያሉት ሀላፊነት \_\_\_\_\_

# የአገልግሎት ዘመን \_\_\_\_\_

1. በቀጥታ መዋዕለነዎቻቸውን በኢንቨስትመንት ላይ ያፈሰሱ የውጭ ኢንቨስተሮችን የገቢ ግብር እንዴት ነው የምትተምኑት?

2. በቀጥታ መዋዕለነዎቻቸውን በኢንቨስትመንት ላይ ያፈሰሱ የውጭ ኢንቨስተሮችን ከገቢ ግብር ነፃ የመሆን መብት አላቸው?

ከሌላቸው ለምን? \_\_\_\_\_

ካላቸው ለምን ያህል ጊዜ? \_\_\_\_\_

ማሟላት የሚገባቸው መስፈርቶች ካሉ ምንድን ናቸው? \_\_\_\_\_

3. በቀጥታ መዋዕለነዎቻቸውን ላፈሰሱ የውጭ ኢንቨስተሮች መስሪያቤታችሁ የሚሰጠው ማበረታቻዎች አሉ?

ከሌላ ለምን? \_\_\_\_\_

ካሉ ምንድን ናቸው? \_\_\_\_\_

4. በቀጥታ መዋዕለነዎቻቸውን ያፈሰሱ የውጭ ኢንቨስተሮችን ገቢ ኦዲት ለማድረግ ምን ያህል ጊዜ ይወስድባችኋል?

5. ከዚህ ቀደም የገቢ ግብርን በተመለከተ በመስሪያቤታችሁና በውጭ ኢንቨስተሮች መካከል አለመግባባት ተከስቶ ያውቃል?

ተከስቶ ካወቀ ቢያብራሩልኝ፤ \_\_\_\_\_

6. በመስሪያቤታችሁና በቀጥታ መዋዕለነዎቻቸውን ባፈሰሱ የውጭ ኢንቨስተሮች መሀከል ስምምነት ላይ የደረሳችሁበት የሂሳብ ሰነዶች መመዘገቢያ ቅጽ አለ?

ከሌላ ለምን? \_\_\_\_\_

ካለ ቢያብራሩልኝ? \_\_\_\_\_

7. መስሪያቤታችሁ የራሱን አገልግሎት አሰጣጥ በራሱ ገምግሞ ያውቃል?

ካልገመገመ ለምን? \_\_\_\_\_

ከገመገመ ምን የእርምጃ እርምጃዎች ተወሰዱ?

8. መስሪያቤታችሁ በቀጥታ መዋዕለነዎቻቸውን ያፈሰሱ የውጭ ኢንቨስተሮችን የምትሰጡትን ግልጋሎት እንዲገመገሙ የተዘጋጀ ቅጽ እንዲሞሉ ጋብዛችኋቸው ታውቃላችሁ?

ካልገመገማችኋቸው ለምን? \_\_\_\_\_

ካልገመገማችኋቸው ምን አስተያየት ሰጡ? \_\_\_\_\_



**Addis Ababa University**  
**School of Graduate Studies**  
**Department of Environment and Development**

(Prepared for Ethiopian Customs Authority- Addis Ababa Office)

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_  
Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

Interview Questions for Government Bodies (Addis Ababa Customs Authority)

# Position in the Addis Ababa Customs Authority \_\_\_\_\_

# Years of Service \_\_\_\_\_

1. Are there any special privileges for foreign investors?  
If Yes, what?  
If No, why?
2. Do you have a special arrangement for imported goods of foreign investors which are fragile and perishable?  
If Yes, explain it.  
If No, why?
3. How long does clearance of imported goods take?
4. Do you have any form of incentives to foreign investors?  
If No, why?  
If yes, what are the incentives?
5. Have you ever let foreign investors to comment on your service delivery in a standardized manner?  
If No, why?  
If yes, what did they say?
6. Have you ever evaluated your service delivery to check if there are bureaucratic obstacles?  
If yes, what bureaucratic obstacles were identified?  
If No, why?
7. Do you have complaints hearing office on your service delivery?  
If No, why?  
If yes, how many foreign investors complain in a month?
8. Do you have any internal problem which hinders you from satisfying foreign investors?  
If yes, what are the problems?
9. What are the major obstacles related with FDI in the country through your office?
10. Did you have any opportunities to discuss with FDI groups?  
If yes, what points were raised?  
If No, why didn't you discuss?

11. Can you comment on improving the property handling policy of your office in an effort to attract more foreign investors?
12. Was there any discussion forum organized among the stakeholders to facilitate FDI in the country? (Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Addis Ababa Custom Authority and Addis Ababa City Government Land Administration)
  - If yes, what was the consensus reached?
  - If No, why didn't you organize?
13. In general, do you have any comment on ways of improving FDI?
  - If yes, what?
  - If No, why?

**Thank you!**

ሰመንግስታዊ ድርጅቶች የተዘጋጀ የቃለ መጠይቅ ጥያቄዎች

አዲስ አበባ ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት  
የአካባቢና ልማት ትምህርት ዘርፍ

(በኢትዮጵያ ጉምሩክ ባለስልጣን ለአዲስ አበባ ቅርንጫፍ ጽ/ቤት የተዘጋጀ)

ቀን \_\_\_\_\_

ቦታ \_\_\_\_\_

አዳም የወንድወሰን

የሁለተኛ ዓመት የድህረ ምረቃ ተማሪ

መግቢያ

እኔ የሁለተኛ ዓመት የድህረ-ምረቃ ትምህርት ተማሪ የሆንኩ በአሁኑ ሰዓት የመመረቄያ ጽሁፌን በአዲስ አበባ ውስጥ መዋዕለነዎቻቸውን በቀጥታ በቀበተለያዩ የኢንቨስትመንት መስኮች ላይ ያፈሰሱ ባለሀብቶች ያሉባቸውን እክሎች፣ ፈተናች እንዲሁም የንግድ አማራጮች በማጥናት ላይ ነኝ። ጥናቱ የሚያተኩረው ከ1983 ዓ.ም ጀምሮ ሲሆን ለዚህ ጥናት የሚሰጡት ማንኛውም መረጃ ለትምህርታዊ ጉዳይ ብቻ የሚውል መሆኑን በአክብሮት እገልጻለሁ። ለሚደረግልኝ ትብብር ከወዲሁ አመሰግናለሁ።



8. መስሪያቤታችሁ መዋዕለ ነዋያቸውን በቀጥታ በአገሪቱ ላይ ያፈሰሱ የውጭ ኢንቨስተሮችን ፍላጎት እንዳያሟሉ ማነቆ የሆኑ ድርጅታዊ የውስጥ ችግሮች አሉብት?  
ካሉ ቢያብራሩልኝ \_\_\_\_\_
9. በናንተ መስሪያ ቤት በኩል በቀጥታ መዋዕለነዋያቸውን ያፈሰሱ የውጭ ኢንቨስተሮች ችግሮች ምንድን ናቸው? \_\_\_\_\_
10. በናንተ መስሪያቤት በኩል በቀጥታ መዋዕለነዋያቸውን ያፈሰሱ የውጭ ኢንቨስተሮችን ያወያያችሁበት መድረክ አለ?  
ካለ ምን ጉዳዮች ተዳሰሱ? \_\_\_\_\_  
ከሌለ ለምን ለመወያየት አልሞከራችሁም? \_\_\_\_\_
11. መስሪያቤታችሁ የሚከተለው የንብረት አያያዝ ፖሊሲ እንዲሻሻል ብሎም ከውጭ የሚደረግ ኢንቨስትመንትን ለማበረታታት በፖሊሲው ላይ ምን ማሻሻያ እርምጃዎች ቢደረጉ ጥሩ ነው?  
\_\_\_\_\_
12. መዋዕለነዋያቸውን በቀጥታ ለኢንቨስትመንት ያዋሉ የውጭ ባለሀብቶችን ግልጋሎት በሚሰጡ መንግስታዊ ድርጅቶች መሀከል የውጭ ኢንቨስትመንትን ከማበረታታት አኳያ የተደረገ ውይይት ነበር?  
(የፌዴራል አገር ውስጥ ገቢ ባለስልጣን፣ የአዲስ አበባ ጉምሩክ ባለስልጣን፣ የአዲስ አበባ ከተማ መሬት አስተዳደር የአዲስ አበባ ከተማ አስተዳደር ኢንቨስትመንት ባለስልጣን፣ እና የኢትዮጵያ ኢንቨስትመንት ኤጀንሲ)  
ውይይት ከነበረ ምን ዓይነት ስምምነት ላይ ተደረሰ? \_\_\_\_\_  
ውይይት ካልነበረ ለምን ውይይት አልተደረገም? \_\_\_\_\_
13. በአጠቃላይ የውጭ ኢንቨስትመንትን በአገራችን ለማሳደግ ምን ቢደረግ ጥሩ ነው ይላሉ? \_\_\_\_\_

አመሰግናለሁ!

**Addis Ababa University**  
**School of Graduate Studies**  
**Department of Environment and Development**

*(Prepared for Ethiopian Investment Agency and Addis Ababa City  
Government Investment Authority)*

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_

Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

## Interview Questions for Government Bodies

# Position in Ethiopian Investment Agency \_\_\_\_\_

Position in Addis Ababa City Government Investment Authority-----

# Years of service \_\_\_\_\_

1. When is the current Foreign Investment Policy put into effect?
2. Was it (the Foreign Investment Policy) designed by drawing lessons from other successful countries?  
If No, why?  
If yes, from which country/countries?
3. Was it (the foreign investment policy) commented up on by foreign investors?  
If yes, what did they say?  
If No, why?
4. How many working days does it take for a foreign investor to get investment license?
5. Do you try to collect the opinion of the foreign investors about your service in a standardized manner?  
If No, why?  
If yes, how did they rate the service?
6. What activities did your agency/bureau perform to enable foreign investors develop positive attitude towards Ethiopia's investment atmosphere?
7. How do you try to attract foreign investors?
8. What business opportunities do you prepare for foreign investors?
9. What incentives do you provide to foreign investors?
10. Are there adverse consequences resulting from FDI?
11. What are the business sectors which are not open to foreign investors?
12. Why are they closed?
13. Are there foreign investors who have shut down their business and gone back to their country?  
If Yes, how many? why? and when? \_\_\_\_\_

14. Does the flow of foreign investment show increment year to year?

If yes, why?

If No, why?

15. Was there any discussion forum organized among the stakeholders to facilitate FDI in the country? (Ethiopian Investment Agency, Addis Ababa City Government Investment Authority, Federal Inland Revenue Authority, Addis Ababa Custom Authority and Addis Ababa City Government Land Administration)

If Yes, what was the consensus reached?

If No, why didn't you organize?

16. From your experience, what are the reasons inhibiting huge foreign direct investment in Ethiopia in general and Addis Ababa in particular?

17. In general, do you believe that there are further actions needed to be taken to positively address the foreign investment climate of the country?

If yes, what \_\_\_\_\_

Thank you!

ለመንግስታዊ ድርጅቶች የተዘጋጀ የቃለ መጠይቅ ጥያቄዎች

አዲስ አበባ ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት  
የአካባቢና ልማት ትምህርት ዘርፍ

(ለኢትዮጵያ ኢንቨስትመንት ኤጀንሲና ለአዲስ አበባ ከተማ አስተዳደር  
ኢንቨስትመንት ባለስልጣን የተዘጋጀ)

ቀን \_\_\_\_\_

ቦታ \_\_\_\_\_

አዳም የወንድወሰን

የሁለተኛ ዓመት የድህረ ምረቃ ተማሪ

መግቢያ

እኔ የሁለተኛ ዓመት የድህረ-ምረቃ ትምህርት ተማሪ የሆንኩ በአሁኑ ሰዓት የመመረቂያ ጽሁፌን በአዲስ አበባ ውስጥ መዋዕለነዎቻቸውን በቀጥታ በተለያዩ የኢንቨስትመንት መስኮች ላይ ያፈሰሱ ባለሀብቶች ያሉባቸውን እክሎች፣ ፈተናች እንዲሁም የንግድ አማራጮች በማጥናት ላይ ነኝ። ጥናቱ የሚያተኩረው ከ1983 ዓ.ም ጀምሮ ሲሆን ለዚህ ጥናት የሚሰጡት ማንኛውም መረጃ ለትምህርታዊ ጉዳይ ብቻ የሚውል መሆኑን በአክብሮት እገልጻለሁ። ለሚደረግልኝ ትብብር ከወዲሁ አመሰግናለሁ።

ኢትዮጵያ ኢንቨስትመንት ኤጀንሲ

አዲስ አበባ ከተማ ኢንቨስትመንት ባለስልጣን

# በመስሪያቤታችሁ ውስጥ ያሉት ሀላፊነት

# የአገልግሎት ዘመን

1. በአሁኑ ጊዜ ተግባራዊ በመደረግ ላይ ያለው የኢንቨስትመንት ፖሊሲ መቼ ነው ተግባራዊ መሆን የጀመረው? \_\_\_\_\_
2. የኢንቨስትመንት ፖሊሲያችን ሲቀረጽ በመስኩ አድገዋል ከሚባሉ አገሮች ተሞክሮ ተወስዷል? \_\_\_\_\_  
ካልተወሰደ ለምን? \_\_\_\_\_  
ከተወሰደ ከየትኞቹ አገሮች? \_\_\_\_\_
3. የኢንቨስትመንት ፖሊሲያችን አገሪቱ ውስጥ በሚንቀሳቀሱ የውጭ ኢንቨስተሮች አስተያየት እንዲሰጥበት ተደርጓል? \_\_\_\_\_  
ካልተደረገ ለምን? \_\_\_\_\_  
ከተደረገ ምን አስተያየት ሰጡ? \_\_\_\_\_
4. አንድ የውጭ ኢንቨስተር የኢንቨስትመንት ፈቃድ ለመውሰድ ምን ያህል ጊዜ ያስፈልገዋል? \_\_\_\_\_
5. በቀጥታ መዋዕለነዎቻቸውን ያፈሰሱ የውጭ ኢንቨስተሮችን የምትሰጡትን ግልጋሎት እንዲገመገሙ የተዘጋጀ ቅጽ እንዲሞሉ ጋብዛችኋቸው ታውቃላችሁ? \_\_\_\_\_  
ካላስገመገማችኋቸው ለምን? \_\_\_\_\_  
ካስገመገማችኋቸው ምን አስተያየት ሰጡ? \_\_\_\_\_
6. የኢትዮጵያ መልካም የኢንቨስትመንት ገጽታች ለውጭ ኢንቨስተሮች ከማግኘት አኳያ መስሪያቤታችሁ ምን አይነት ተግባራትን አከናውኗል? \_\_\_\_\_
7. መስሪያቤታችሁ የውጭ ኢንቨስተሮችን የሚስበው እንዴት ነው? \_\_\_\_\_
8. መስሪያቤታችሁ ለውጭ ኢንቨስተሮች ያዘጋጃቸው የኢንቨስትመንት አማራጮች አሉ? ካለ ቢዘረዝሩልኝ \_\_\_\_\_
9. መስሪያቤታችሁ ለውጭ ኢንቨስተሮች ምን ማበረታቻዎችን ይሰጣል? \_\_\_\_\_
10. በቀጥታ መዋዕለነዎን በማፍሰስ ከሚደረግ የውጭ ኢንቨስትመንት የሚመነጭ አገርን የሚጎዳ ክስተት አለ? \_\_\_\_\_
11. ለውጭ ኢንቨስተሮች ዝግ የሆኑት የትኞቹ የንግድ መስኮች ናቸው? \_\_\_\_\_
12. ለምን ዝግ ሆኑ? \_\_\_\_\_
13. የኢንቨስትመንት እንቅስቃሴያቸውን በመዘጋት ወደ ትውልድ ሀገራቸው የተመለሱ የውጭ ኢንቨስተሮች አሉ? \_\_\_\_\_

ካሉ ምን ያህል ናቸው? ለምንስ ዘገ? መቼ ተዘገ?

14. በውጭ ኢንቨስተሮች የሚደረግ ኢንቨስትመንት ከአመት አመት መሻሻልን አሳይቷል ይላሉ?

መሻሻል ካላየ በምን ምክንያት?

መሻሻል ካላሳየ ለምን?

15. መዋዕለነዎቻቸውን በቀጥታ ለኢንቨስትመንት ያዋሉ የውጭ ባለሀብቶችን ግልጋሎት በሚሰጡ መንግስታዊ ድርጅቶች መሀከል የውጭ ኢንቨስትመንትን ከማበረታታት አኳያ የተደረገ ውይይት ነበር?

(የፌዴራል አገር ውስጥ ገቢ ባለስልጣን፣ የአዲስ አበባ ጉምሩክ ባለስልጣን፣ የአዲስ አበባ ከተማ መሬት አስተዳደር የአዲስ አበባ ከተማ አስተዳደር ኢንቨስትመንት ባለስልጣን፣ እና የኢትዮጵያ ኢንቨስትመንት ኤጀንሲ)

ውይይት ከነበረ ምን ዓይነት ስምምነት ላይ ተደረሰ?

ውይይት ካልነበረ ለምን ውይይት አልተደረገም?

16. ካሉት ልምድ በመነሳት በቀጥታ የሚደረግ የውጭ ኢንቨስትመንት በአገሪቱ ብሎም በዋና ከተማዎች እንዳይስፋፋ እክል የሆኑ መንስኤዎች ምንድን ናቸው?

17. በአጠቃላይ በውጭ ኢንቨስተሮች የሚደረግ ኢንቨስትመንት በአገሪቱ እንዲስፋፋ መንግስት መውሰድ አለበት የሚሉት እርምጃዎች አሉ ብለው ያምናሉ? አዎ! ካሉ ቢያብራሩልኝ

አመሰግናለሁ!

*Addis Ababa University*  
*School of Graduate Studies*  
*Department of Environment and Development*

*(Prepared for Experts)*

Adam Yewondwossen  
Senior Graduate Student

Date \_\_\_\_\_

Place \_\_\_\_\_

**Introduction**

I am a postgraduate student in Addis Ababa University carrying out a research under the topic "Foreign Direct Investment in Addis Ababa Since 1991: Constraints, Challenges and Opportunities.

The principal purpose of this questionnaire/interview is to obtain data for the study intended to investigate the challenges, constraints and opportunities of foreign direct investment in Addis Ababa since 1991. Therefore, your cooperation in providing the data collected through this questionnaire and interview will be used strictly for academic purpose.

**Thank you in advance!**

## Interview Questions for Experts

# Current Position \_\_\_\_\_

# Nationality \_\_\_\_\_

1. How is foreign direct investment in Ethiopia? How is foreign direct investment in Addis Ababa?
2. What do you say about the foreign direct investment atmosphere of Ethiopia in general and Addis Ababa in particular?
3. How do you evaluate the investment policy of the country?
4. How do you compare our investment policy with our neighbors and other successful countries?
5. What attractive features does our investment atmosphere have?
6. What are the bureaucratic constraints which should be avoided to positively address the foreign investment atmosphere of Ethiopia in general and Addis Ababa in particular?
7. What does the foreign investment atmosphere of Ethiopia lack as compared to its neighbors?
8. To which countries of east Africa is foreign direct investment flowing significantly? Why and what lessons do you draw for Ethiopia?
9. When you evaluate the investment atmosphere of the country, what investment opportunities are there?
10. Are there adverse consequences resulting from FDI?  
If No, why?  
If yes, what are these?
11. Are there benefits resulting from FDI?  
If No, why?  
If yes, what are these?
12. How do you compromise the advantages and disadvantages of having foreign investors here?

13. Do you believe that there is future government actions needed to be taken to positively address the foreign investment climate of the country?

If No, why?

If yes, what are these?

Thank you!

# የኤክስፐርቶች መጠይቅ

አዲስ አበባ ዩኒቨርሲቲ  
የድህረ ምረቃ ትምህርት ቤት  
የአካባቢና ልማት ትምህርት ዘርፍ

(ከውጭ ኢንቨስትመንት ጋር በተያያዘ ሙያዊ አስተያየት ሊሰጡ ለሚችሉ  
ኤክስፐርቶች የተዘጋጀ)

ቀን \_\_\_\_\_  
ቦታ \_\_\_\_\_

አዳም የወንድወሰን  
የሁለተኛ ዓመት የድህረ ምረቃ ተማሪ

መግቢያ

እኔ የሁለተኛ ዓመት የድህረ-ምረቃ ትምህርት ተማሪ የሆንኩ በአሁኑ ሰዓት የመመረቂያ ጽሁፌን በአዲስ አበባ ውስጥ መዋዕለንዋያቸውን በቀጥታ በተለያዩ የኢንቨስትመንት መስኮች ላይ ያፈሰሱ ባለሀብቶች ያሉባቸውን እክሎች፣ ፈተናች እንዲሁም የንግድ አማራጮች በማጥናት ላይ ነኝ። ጥናቴ የሚያተኩረው ከ1983 ዓ.ም ጀምሮ ሲሆን ለዚህ ጥናት የሚሰጡት ማንኛውም መረጃ ለትምህርታዊ ጉዳይ ብቻ የሚውል መሆኑን በአክብሮት እገልጻለሁ። ለሚደረግልኝ ትብብር ከወዲሁ አመሰግናለሁ።

# በአሁኑ ጊዜ ያሉት ሀላፊነት \_\_\_\_\_

# ዜግነት \_\_\_\_\_

1. በውጭ ኢንቨስተሮች በቀጥታ የሚደረግ ኢንቨስትመንት በሀገራችንና በዋና ከተማዋ ውስጥ ያለው ሁኔታ እንዴት ነው?
2. በአገሪቷ ብሎም በዋናነት በዋና ከተማዋ ውስጥ ያለው በውጭ ኢንቨስተሮች የሚደረግ ኢንቨስትመንት ድብብን እንዴት ይገልጽታል?
3. የአገሪቱን የውጭ ኢንቨስትመንት ፖሊሲ እንዴት ይገመግሙታል?
4. የኢንቨስትመንት ፖሊሲያችን ከጎረቤት አገር ፖሊሲዎች ጋር ሲነፃፀር ምን ይጎለጻል?
5. የእኛን አገር የኢንቨስትመንት ፖሊሲ ከሌሎች ጎረቤት ሀገሮች ጋር ሲነፃፀር እንዴት ይገመገማል?
6. የእኛ ኢንቨስትመንት ፖሊሲ ምን ማራኪ ገጽታዎች አሉት?
7. የአገሪቱ ኢንቨስትመንት ድብብ እንዲሻሻል ሊወገዱ ይገባሉ የሚሏቸው ቢሮክራሲያዊ ማነቆዎች ምንድን ናቸው?
8. ከውጭ በቀጥታ የሚደረገው ኢንቨስትመንት ወደየትኞቹ የምስራቅ አፍሪካ ሀገሮች ያዘነብላል? ለምን? ሀገራችንን ከዚህ ምን ትማራለች?
9. የሀገሪቱን የኢንቨስትመንት ድብብ በመገምገም ለውጭ ኢንቨስተሮች ክፍት የሆኑ ትርፋማ የኢንቨስትመንት አማራጮችን ቢገልጹልኝ?
10. በቀጥታ መዋዕለነዋይን በማፍሰስ ከሚደረግ የውጭ ኢንቨስትመንት የሚመነጭ ሀገርን የሚጎዳ ክስተት አለ ብለው ያምናሉ?  
ካለ ምን?  
ከሌለ በምን ሁኔታ?
11. በቀጥታ መዋዕለነዋይን በማፍሰስ ከሚደረግ የውጭ ኢንቨስትመንት የሚመነጭ አገርን የሚጠቅም ክስተት አለ ብለው ያምናሉ?  
የለም ካሉ ለምን?  
አለ ካሉ ምን?
12. በቀጥታ መዋዕለነዋይን በማፍሰስ ከሚደረግ የውጭ ኢንቨስትመንት የሚመነጩ በጎና ጎጂ ውጤቶችን እንዴት ማስታረቅ ይቻላል?
13. በአጠቃላይ በውጭ ኢንቨስተሮች የሚደረግን ኢንቨስትመንት በአገሪቱ እንዲስፋፋ መንግስት መውሰድ አለበት የሚሉት እርምጃዎች አሉ ብለው ያምናሉ?  
አዎ! ካሉ ቢያብራሩልኝ \_\_\_\_\_

አመሰግናለሁ!

## Appendix D

### List of GOs Contacted

Name	Position	Governmental Organization	Location/Address in Addis Ababa
Ato. Amanuel Mulugeta	Investment Promotion & Project Study Department Head	Addis Ababa City Government Investment Authority	Piassa, in the Municipality Building
Ato. Kassa Hailu	General Manager	Addis Ababa City Government Land Administration	Piassa, in the municipality Building
Ato. Fekade Mengistu	Land Lease Implementation Department, Head		
Ato. Tilahun Fenta	Foreign Investors' Support Unit Head	Ethiopian Customs Authority- Addis Ababa Office	Beherawi Theater, behind Ethiopia Hotel
Ato. Legesse Dima	Tax and Audit Department Head	Federal Inland Revenue Authority	Mexico square
Ato. Kelemework Bekele	Project Appraisal Division Head	Development Bank of Ethiopia	Kazanchis, near to supermarket
Ato. Girum Tadesse	Senior Investment Promotion Expert	Ethiopian Investment Agency	Bole, in front of Dembel City Center
Ato. Mohammed Seid	Policy, Research and Planning Department Head		

## Appendix E

### List of Experts Contacted

Name	Position	Organization	Location/Address in Addis Ababa
Ato. Mohammed Seid	Policy, Research & Planning Department Head	Ethiopian Investment Agency	Bole, In front of Dembel City Center
Mr. Magdi A. Amin	Private Sector Development Specialist: Sudan and Ethiopia	World Bank	Bole, WORBEK HOUSE
Ato. Zekarias Bezu	Senior Statistician	International Monetary fund (IMF)	Bole, near to Medhanealem Church
Ato. Belete Alemu	African and European Trade Contacts Department, Senior Expert	Ministry of Trade and Industry	Kazanchis, in the building of Development Bank of Ethiopia
Ato. Mesfin Shimelis	Secretary General	Ethiopian Chamber of Commerce	Mexico Square, in the building of Federal Inland Revenue Authority.
Ato. Benyam Sene	International Trade Promotion Services, Manager		
Ato. Amin Abdellah	Researcher	Ethiopian Economic Association	Gotera, Behind Alpaulo Building
Ato. Tefera Lemma	Economic Research & Monetary Policy Directorate, Division Head	National Bank of Ethiopia	National Bank of Ethiopia, behind Ministry of Defense
Ato. Mesfin Cherenet	Investment Team Leader	Ministry of Finance and Economic Development (MOFED)	Sidist Kilo, near to Addis Ababa University
Dr. Alemayehu Geda	Lecturer of Economics	Addis Ababa University	Sidist Kilo
Ato. Legesse Tamirat	World Trade Contacts, Expert IV	World Trade Organization (WTO)	Kazanchis, in the building of Development Bank of Ethiopia

Licensed operational Project Approved In Addis Ababa Region  
From 1992 - March 22 2007

Sector	Data	Operation	Grand Total
Agriculture, hunting and forestry	No proj	8	8
	Capital.	56056.4	56056.4
	Perm.emp	371	371
	Temp.emp	119	119
Construction	No proj	32	32
	Capital.	1373259.24	1373259.24
	Perm.emp	7386	7386
	Temp.emp	4722	4722
Education	No proj	15	15
	Capital.	306775.77	306775.77
	Perm.emp	1645	1645
	Temp.emp	462	462
Health and social work	No proj	10	10
	Capital.	73303.5	73303.5
	Perm.emp	951	951
	Temp.emp	31	31
Hotels and restaurants	No proj	22	22
	Capital.	218635.25	218635.25
	Perm.emp	899	899
	Temp.emp	222	222
Manufacturing	No proj	162	162
	Capital.	3240778.374	3240778.374
	Perm.emp	12589	12589
	Temp.emp	3411	3411
Mining and quarrying	No proj	2	2
	Capital.	23142.9	23142.9
	Perm.emp	121	121
	Temp.emp	0	0
Other community, social and housing	No proj	1	1
	Capital.	750	750
	Perm.emp	50	50
	Temp.emp	0	0
Real estate, renting and business activities	No proj	101	101
	Capital.	315306.26	315306.26
	Perm.emp	1508	1508
	Temp.emp	2435	2435
Transport, storage and communication	No proj	10	10
	Capital.	23657	23657
	Perm.emp	121	121
	Temp.emp	39	39
Wholesale, retail trade & repair	No proj	14	14
	Capital.	245996.22	245996.22
	Perm.emp	681	681
	Temp.emp	4350	4350
Total No proj		377	377
Total Capital.		5877660.914	5877660.914
Total Perm.emp		26322	26322
Total Temp.emp		15791	15791

ሠንጠረዥ

ለአገር ውስጥ ባለሀብቶች የተከለሉ የሥራ መስኮች

የሚከተሉት የኢንቨስትመንት ሥራ መስኮች በዘገር ውስጥ ባለሀብቶች ብቻ የሚካሄዱ ይሆናሉ፡

- ሀ. የትርጉም ንግድና የድላላ ሥራ፤
  - ለ. የጅምላ ንግድ (ነጻጅና የነጻጅ ምርቶችን ማቅረብ እንዲሁም የውጭ ባለሀብቶች በአገር ውስጥ ያመረቱትን በጅምላ መሸጥን ሳይጨምር)፤
  - ሐ. የገቢ ንግድ (ከቡታጋዝ፣ ቢትመን እና የሚኒስትሮች ምክር ቤት በሚወስነው መሠረት ለወጪ ምርት ግብዓት ካሉት ከሚውሉ በስተቀር)፤
  - ተ. ጥሬ ቡና፣ ጫት፣ የቅባት እህሎች፣ ጥሬጥሬ፣ ቆዳና ሌጦ ከገበያ በመግዛት እንዲሁም ኢንቨስተሩ ራሱ ካረባቸው ወይም ካደለባቸው በስተቀር በጎች፣ ፍየሎችና የቀንድ ከብቶች በቁም ወደ ውጭ መላክ፤
  - ሰ. በደረጃ እንደ ከሚመደቡት በስተቀር የኮንስትራክሽን ሥራ ተቋራጭነት፤
  - ላ. ቆዳና ሌጦ እስከ ክረስት ደረጃ ማልፋት፤
  - ሀ. የባለቤብ ደረጃዎችን የማይጨምሩ ሆቴሎች፣ ሞቴሎች፣ ፔንሲዮኖች፣ ሻይ ቤቶች፣ ቡና ቤቶችና መጠጥ ቤቶች፣ የምሽት ከበቦች፣ ዓለም አቀፋዊ ደረጃ ካላቸውና በተወሰነ አገር ምግብ አዘገጃጀት ከሚታወቁት በስተቀር ሌሎች የምግብ ቤቶች፤
  - ለ. የጉዞ ወኪልነት፣ የንግድ ረዳትነትና የቴኬት መሸጥ አገልግሎት ሥራ፤
  - ሐ. መኪና የማከራየትና የታክሲ አገልግሎት፤
  - ተ. የመንገድ የንግድ ትራንስፖርት እና የሀገር ውስጥ ውሃ ላይ ትራንስፖርት አገልግሎት፤
  - ሰ. ለሀገር ውስጥ ገበያ የሚቀርቡ የዳቦና የኬክ ምርቶች፤
  - ላ. የወፍራ ቤት አገልግሎት፤
  - ሀ. ሀገር ማስተካከል፣ የቁንጅና ሳሎን፣ የአንጥረኝነት ሥራ፣ በፋብሪካ ደረጃ የማይካሄድ የልብስ ስፈት
  - ለ. የሕንፃ እድሳትና የመኪና ጥገና አገልግሎት፤
  - ሐ. የእንጨት መሠንጠቂያና የጣውላ ሥራ፤
  - ተ. የጉምሩክ አስተላላፊነት ሥራ፤
  - ሰ. የመብረሃም፣ የቴያትርና የሲኒማ ማሳየት አገልግሎት፤
  - ላ. የማተሚያ ንግድ ሥራ።
- በዚህ አንቀጽ ንዑስ አንቀጽ (፩) የተዘረዘሩት የኢንቨስት መንት ሥራዎች እንደተጠበቁ ሆነው፣ የሚከተሉት የሥራ መስኮች አትዋጁም ቢሆኑም ባላቸው ባለሀብቶች ብቻ የሚካሄዱ ይሆናሉ፡
- ሀ. የባንክ፣ የኢንሹራንስ ሥራ እና አነስተኛ የብድርና ቁጠባ ተቋም ሥራ፤
  - ለ. የማስተላለፍና የመርከብ ውክልና አገልግሎት፤
  - ሐ. የብሮድካስቲንግ አገልግሎት፤
  - ተ. እስከ ፩ መንገዶች የመጫን አቅም ባላቸው ኤርካራ ፍቶች የሚካሄድ 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 rased 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.

\* electric power

ዘ. እዲስ

አዋጅ ቁ. የገጠር አዋጅ

የገቢ የኤሌክትሮኒክስ በብ. ድጋፍ በዐ የግል ባለ ለስፈላጊ ለዚህ ፈንድ ማቋ በኢ. መንግሥት

ሐ. አጭር ይህ አዋጅ ጅ. ትርጓሜ የቃሉ አዋጅ ስ. “

የንዱ ዋጋ Unit Price

## ETHIOPIAN INVESTMENT AGENCY CLIENT CHARTER

No.	Type of Service	Delivery time	Cost/fee (Birr)
1	Issuance of investment permit		
	• New investment	4 hours	600
	• Expansion investment	4 hours	300
2	Renewal of investment permit		
	• New investment	1 hour	200
	• Expansion investment	1 hour	100
3	Substitution of lost or damaged investment permit	1 hour	100
4	Issuance of trade registration certificate		
	• Principal registration	4 hours	80
	• Summary registration	2 hours	10
5	Issuance of business license	4 hours	80
6	Issuance of work permit	1 hour	600
7	Registration of technology transfer agreement	2 hours	200
8	Renewal of technology transfer agreement	1 hour	50
9	Registration of export oriented non equity based foreign enterprise collaboration	1 hour	100
10	Renewal of export oriented non equity based foreign enterprise collaboration	1 hour	50
11	Issuance of domestic status certificate to a foreign national permanently residing in Ethiopia taken for domestic investor	1 hour	100

*1 USD = 8.86 (October 2006)*