

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**IMPLEMENTATION OF THE NATIONAL INVESTMENT
POLICY OF ETHIOPIA IN THREE SELECTED ZONES OF
SOUTHERN NATIONS, NATIONALITIES AND PEOPLES
REGIONAL STATE (SNNPRS):**

(KAFFA, GAMO GOFA AND SIDAMA ZONES)

BY: MESELECH WODAJO

**A Thesis Submitted to the School of Graduate Studies, Addis Ababa University,
Faculty of Business and Economics, Department of Public Administration and
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Abbreviations

EPRDF	Ethiopian Peoples Revolutionary Democratic Front
FDRE	Federal Democratic Republic of Ethiopia
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
HoF	House of Federation
IDE	Industrial Development Strategy of Ethiopia
MDG	Millennium Development Goal
MoFA	Ministry of Foreign Affairs
PHB	Policy Hand Book
OECD	Organization for Economic Co-operation and Development
RIA	Regional Investment Agency
SEE	South East Europe
SNNPRS	Southern Nations, Nationalities and Peoples Regional State
TIUDC	Trade Industry Urban Development Collaboration
TIB	Trade and Industry Bureau
UNESCO	United Nations Educational, Scientific and Cultural Organization
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
ZIA	Zonal Investment Agency

Abstract

This study examined the implementation of the national investment policy of Ethiopia in SNNPR. The research was aimed to assess investment policy implementation achievements and challenges in Southern Nations, Nationalities, and peoples Region with a specific focus on Sidama, Kafa and Gamo Gofa zones and recommending possible solutions to it.

Hence, the method that was found to be appropriate to this study was longitudinal study method. Accordingly, the three study zones were selected purposively. The technique used to gather data were open & closed ended questionnaire, unstructured interview, focus group discussions and non participant observation. About the respondents, 10 key informants were interviewed and their responses were recorded. These were: the head of regional investment agency, head of regional chamber of commerce, head of Sidama zone investment desk, two investors, chief administer of Dela kebele and one religious leader from Aletawondo woreda of Sidama zone were interviewed. Inaddition, manager of Arbaminich town administration was interviewed. Furthermore, public relation officer of Kaffa zone investment desk and a manager of Tegana Tula organic coffee producers PLC were interviewed. The above mentioned respondents were selected because of their responsibility and their understanding about the subject matter. A total of 60 questionnaires were distributed and 37 were collected back by the researcher from the region, Sidama zone, Gamo-Gofa zone and Kaffa zone respectively using purposive selection. The selection was made taking their profession and institution in to consideration. Atotal of 48 participants were included in FGDs, the FGD was conducted in the three study zones separately. The selection process targeted on investors, professionals from the investment agency, trade and industry bureau, regional revenue authority, Agriculture and rural development bureau, zonal investment offices, work and urban development department, lobar and social affairs department and town administrations of the three respective zones. The researcher approached the heads of the institutions by submitting the letter from the Addis Ababa University. By so doing three main group discussions and 9 sub group discussions were held. The researcher visited 10 project sites and 20 people were communicated at the time of direct (non participant) observation. The composition of the respondents was owners, managers and employees in the investment and some community members from the surrounding.

The findings of the study divulged that human and material resources, especially at the zonal level and the assignment of competent professionals in the sector found to be less satisfactory. In terms of material resource the agencies, especially zonal agencies, have no adequate financial resource for the facilitation of office work and to oversee investment projects sited in different directions of the zones. Vertical and horizontal coordination between different stakeholders was very unsatisfactory. There was also lack of skill, know-how and commitment in local level leaders about investment policy implementation.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Public policy is a course of action adopted and perused by government, ruler political party etc. so as to show future course of action for the best interest of the public. It is the knowledge with theories, Models, disciplines built in it and it is a practical activity. Public policy can be understood as the public solutions that are implemented in an effort to solve public problems.

Public policy focuses on what Dewey 1927 cited in Parsons 1995 once expressed as the public and its problems'. It is concerned with how issues and problems come to be defined and constructed and how they are placed on the political and policy agenda. But it is also the study of how, why and to what effect governments' pursue particular courses of action and inaction'.

As stated in Theodoulou (1995:86), the commonly agreed-on stages of public policy making are: Problem recognition and issue identification, agenda Setting, policy Formulation, policy Adoption and Policy Implementation. Of these stages the fifth stage in public policy making is the implementation stage. Instruments useful for policy making (adoption) are useful for analyzing the implementation process. Implementation starts after the decision to adopt a particular course of action is made and ends successfully when the goals sought by the policy are achieved and the costs are within reasonable expectation. Thus implementation can be defined as the directed change that follows a policy adoption often a decision by government to "do something" is seen by the general public as the end of the matter.

Invest means to commit money in order to earn a financial return, to expand for future benefits or advantages, to make an investment. Investment is, without doubt, one of the primary engines of growth in all economies. However, its effectiveness rests on strong complementarities with other elements in the growth process, most notably technological progress, skills acquisition and the development of innovative capability. These elements make investment a natural point of departure for governments seeking to formulate a robust development strategy UN (2002).

Ethiopia, awakened in May 1991 from its centuries of slumber has been able to relay its peoples on the road to new economic prosperity and democratic culture. Since the overthrow of the Derg tyrannical regime by EPRDF in 1991, several policies and laws have been issued to build democracy in the country, and extricate the country from extreme poverty by ensuring sustainable development. In particular since the establishment of a federal form of government in the country, all policies and laws including the FDRE Constitution have been adopted following in-depth public discussions

(FDRE Policy Hand Book 2005:1). As a result, investment in the country since 1992 has shown a tremendous leap which is the result of the implementation of investment-friendly policy and the prevalence of other favorable situations in the country. A great deal has been achieved since 1992 in moving from a highly centralized economy to a more liberal market economy. Particularly, as a result of such liberalization, the economy has showed a marked improvement.

Under the protectorate of the Ethiopian Parliament investment policy of Ethiopia that is functional to date was designed first in 1992 with the objectives of improving the living standards of the peoples of Ethiopia through the realization of sustainable economic and social development. The investment policy was reenacted in 1996, 1998, and 2002 but again in 2003 the proclamation was revised and is serving until now. This revised proclamation was referred to discuss the structures and responsibilities of the legal institution of investment at different levels. In addition to Federal investment policies and laws there are also SNNPR laws and directives inline with the federal law with the objectives of improving the living standards of the peoples of the region through the realization of sustainable economic and social development.

According to the policy the private investor is the propeller of Ethiopia's industrial development and this requires creating a situation where the domestic investor becomes the principal actor and the foreign investor, the important participant. Accordingly, the integrated participation of both the local and foreign investor accelerates the country's industrial development through their combined resources.

Within the existing world the realities of encouraging and widening private investment is the main solution to enhance the overall economic growth and to detach from multifaceted problems. Therefore, to pull in, the domestic and foreign investors in greatest quantity, uses for creation of capital accumulation, to fight unemployment, eradicate poverty and to enhance quick economic growth, it is very mandatory to lay the key foundation for the distribution of investment and take out the problems that hinder the development. It is also very necessary to create a stable macro-economic atmosphere, establish a modern financial system suitable for development, and provide reliable infrastructural services, effective human resource development and set-up an efficient and development-oriented public administration as well as judicial system.

It is, thus, with in the current investment policy perspective that this thesis attempted to examine and analyze the implementation of the national investment policy of Ethiopia in SNNPR (in three selected zones) in a comparative fashion. The thesis therefore, confined its focus to the issue of examining & identifying policy achievements, challenges and recommending possible solutions to it.

1.2 Statement of the Problem

In Ethiopia the economic history is stated with the variability of the growth performance and different contents of the policy for the last three decades. In the Imperial regime the government has largely presumed a market based economic policy and in the Derg regime the economy is based on socialist economic policy. Though, Derg at the end tried to change to the mixed economic policy to make the government policy attractive for the private investment, this did not stop the declining of the economy. After the overthrow of the Derg tyrannical regime in 1991, however the economic policy shows a marked departure from the Derg and during this period the economy starts growing up. This time several policies and laws have been issued to build democracy in the country, and extricate the country from extreme poverty by ensuring sustainable development through the development of the private sector (EIDS, 2002: 33).

Since then, though, the government of Ethiopia issues different laws, directives and made timely revisions to overcome the problems there are still implementation gaps in local governments which affect the public and private investment. Even though SNNPR investment agency conducts a study in order to develop private investment development program and with this identifies some problems which hinder the development of private sector investment still there is investment policy implementation gap. Even problems identified in the assessment study are not solved. Still the policy objective is far more than its achievements. The flow of domestic as well as foreign investment is not as expected. The researcher did not find overall and detailed investment policy implementation studies supported with scientific standards in SNNPR. The assessments conducted before were not able to solve the basic implementation problems.

The notion of innovation, as defined in Investment and Innovation Policy Review: Ethiopia report (2002); refers to “a process by which firms, master and implement the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competitors – domestic or foreign”. To this end in SNNPR efforts for innovation in the local level investment is very less. There are bureaucratic ups and downs seen contrary to policy guidelines. In the local level leaders there is no clear know-how in the area of investment and they are not even ready to facilitate conditions for the investors in line with investment code. There are also investors own problems in using the given chances effectively and achieving the goal that they set in their project. There was a Coordination problem between RIAs and local level investment offices and other actors of investment policy implementation. Challenges on monitoring and evaluation of the policy implementation and over all application of laws, rules and directives enacted by the concerning body.

Local level offices are retarding back to play their responsibility given by the law. Lack of owning and realizing the occurrence of problems emanated from different direction and shortage to develop correcting ideas till it breaks the bridge and comes out as the issue of open air discussion. In light of the above general statements and problems, therefore, there was strong case for investigating more closely about the implication of investment policy implementation in the region.

The area selected to this study was SNNPR for which Kenya borders this region in the South, Sudan, the Gambella Regional State and Oromia border it in the Southwest, West, Northwest and East respectively. The Region has a total area of 110,900 square kilometers which accounts for 10 per cent of Ethiopia's total area. The SNNPRS, whose administrative organ consists of 13 Zones, 8 special districts, 133 districts and about 3540 sub-districts, has a population of 15.042 million in 2008. The region has also 22 reform towns. While 92.8 per cent of the SNNPRS's population resides in the rural areas, the remaining 7.2% dwells in urban centers (Hibre Biher: 2007).

The SNNPR, which is home to no less than 56 Nations, Nationalities and Peoples, is also known for its breath taking natural sceneries like Maze, Chebera, Churchura, Nech Sar, Omo, and Mago national parks as well as several lakes, which are widely believed to have been places of human origin like the Omo Sheleko, Konso, Awassa, Abaya, Chamo and Turkana areas. The region shares waterfalls of huge significance for water development like the Omo, Gibe, Baro, Akobo and Genale-Dawa with other Regions. Apart from its Awe-inspiring waterfalls and lakes, the Southern Region is a place of exquisite natural and historical values some of which like the Tiya Megalithic Stones have been registered by UNESCO as world heritage sites (ibid). The region has the topography of the lowest area of 375 meters and the highest of 4207 meters above sea level with climate of the mean annual rainfall of 400 to 2000 mm and temperature of 10°C to 30°C Report (2009).

For this study the three zones are selected from the four centers with in the SNNPR which are classified by the agency as the follow up and control centers of the investment activities, in order to easily handle challenges related to stakeholders and investors. These are Arbaminich, Mizan Teferi and Dilla centers. Gamo Gofa, Kaffa and Sidama were selected as respectively. From each center only one zone was selected. The fourth center, Hawassa is out of the choice because it covers areas around the town Hawassa. The selection of the three zones was made purposely, because each three zones are grouped in three different centers and are located in different directions. The three zones have different potential, capacity and opportunity. In addition to its potential and breath taking sceneries the area was selected because it was very known by the researcher and this helps to dig out cases in a systematic manner.

1.3 Research questions

- What level of vertical and horizontal coordination between various relevant stakeholders of investment in promoting, expanding and facilitating investment implementation process between regional investment agency and zonal agencies to apply the effectiveness of the present national effort?
- Are RIAs applying their responsibility in accordance with the given proclamation?
- What overall challenges and limitations of all actors, are found in the investment policy implementation process?
- Does the dynamic conditions such as human and material resource, adequate financial resources, commensurate political and administrative power, physical and technological infrastructure, horizontal and vertical linkages between key institutions dealing with investment exist simultaneously and their reinforcement on one another for viable investment opportunities and technological development?

1.4 Objective of the Study

1.4.1 General Objective

The general objective of this research study is to assess investment policy implementation achievements and challenges in South Nations, Nationalities, and peoples Regional State with a specific focus on Sidama, Kafa and Gamo Gofa zones and recommending possible solutions to it.

1.4.2 Specific Objectives

- To assess the level of vertical and horizontal coordination between various relevant stakeholders of investment in promoting, expanding and facilitating investment implementation process between regional investment agency and zonal agencies to apply the effectiveness of the present national effort.
- To assess whether RIAs are applying their responsibility in accordance with the given proclamation.
- To dig out the overall challenges and limitations of all actors, in the investment policy implementation process.
- To examine the existence of dynamic conditions such as human and material resource, adequate financial resources, commensurate political and administrative power, physical and technological infrastructure, horizontal and vertical linkages between key institutions

dealing with investment, and their reinforcement on one another for viable investment opportunities and technological development.

- To indicate possible solutions or recommendations for the identified problems.

1.5 Research Methodology

1.5.1 Methods of the Study

As the study was intended to examine the application of the investment policy in a comprehensive and comparative fashion, a longitudinal study method was selected as it appears to be more relevant than others. A type of longitudinal study method selected for this study was a time series research method in which the same type of information is collected on a group of people or other units across multiple time periods. Here it is possible to observe stability or change in the features of the units or can track conditions overtime.

1.5.2 Rational for Choosing the Study Area

The researcher chooses this study area in the reason that she has developed a strong personal interest and high enthusiasm for the subject. As a matter of her job behavior she continuously visited the selected region and always follows how investment and its policy application going on and also she have strong believe that investment can bring sustainable economic and social development of the country. Moreover she also deeply knows the region with its huge investment opportunities, breathtaking sceneries and she came from one of the three selected zones. For all these reasons she identify and choose the subject matter of the study area and the place were the study have been taken in order to learn by throwing some light for future detail studies which will help to tackle investment policy implementation challenges and to achieve policy objectives in order to change the living standards of the people of the region.

1.5.3 Techniques of data Collection and Sources of Data

This research focused on a systematic gathering of adequate information from the three zones (Kaffa, Gamo-Gofa and Sidama) in Southern Region. Data were gathered through questionnaire, interview, FGD and direct (non participant) observation technique. To gather data through different techniques, the selection of respondents have been through purposive (convenient) sampling technique from Regional and zonal level. In qualitative and quantitative type of study approaches, primary and secondary data source was used.

Here both qualitative and quantitative data analysis techniques have been employed. Three Zones namely, Kaffa, Gamo-Gofa and Sidama were purposely selected because the three have different

situation, sited in different direction (centers), and different proximity from the center of the region. Therefore comparison between the three may give better result for the study.

Primary data was collected through closed ended as well as open ended questionnaires. Focus group discussion and non-participant observation (direct observation) were also used as data collection system. Interviews were conducted for qualitative input. The researcher believes that such combination of different data collection mechanisms help for triangulation purpose.

Secondary data like performance report and other relevant information have been also collected from the regional office as well as branch offices. Moreover country investment related assessments, strategic plan, performance report, necessary investment related websites, World Bank investment related assessment reports etc. were explored as a secondary data sources.

1.5.4 The Study Population and Sampling Method

About the respondents, 10 key informants were interviewed and their responses were recorded. These were: the head of regional investment agency, head of regional chamber of commerce, head of Sidama zone investment desk, two investors, chief administer of Dela kebele and one religious leader from Aletawondo woreda of Sidama zone were interviewed. In addition, manager of Arbaminich town administration was interviewed. Furthermore, public relation officer of Kaffa zone investment desk and a manager of Tegana Tula organic coffee producers PLC were interviewed. The selections of these respondents were made because of their responsibility that they have and by understanding their knowledgablity through information's gathered from the area by the researcher.

The target selection area for FGD held in Hawassa were 6 investors, 4 professionals from the investment agency, 3 professionals from trade and industry bureau, 2 participants from regional revenue authority, 1 from Agriculture and rural development bureau, and 1 from sidama zone investment desk. The sampling method was purposive, it is because the participants are drawn from the identified institutions which have horizontal linkage with the agency for the investment policy implementation and the specific participants drawn from each institution were because of the position that they holds. To bring respondents together the researcher appoacheed the head of the institution by use of the letter from the Addis Ababa University in order the participant to be assigned. By so doing one main group discussion was held with three sub group discussions under it. For sub group discussion two groups holds 6 participants each and one group constitutes 5 participants. At the end of sub group discussion members of the group came together to hear the report from each sub group. The researcher recorded all issues raised in the discussion.

In Gamo-Gofa zone FGD participants were 16 in number. They are drawn from the following institutions as 3 participants from investment desk, 2 from trade and industry department, 1 from Agriculture and rural development department, 1 from work and urban development department, 1 from revenue branch office, 1 from zone administration office, 1 from labor and social affairs department and 6 investors. The process taken to make the discussion was the same with the discussion made at Sidama zone. The only difference is the participants for two subgroups were 5 each and for 1 subgroup the number of participants were 6.

In Kaffa zone a total of 16 participants were participated the discussion. They were drawn from different institutions as 3 from Agriculture and rural development, 2 from trade and industry department, 3 from investment desk, 1 from work and urban development, 1 from revenue branch office, 1 from labor and social affairs department and 5 investors. The same step has been used as Sidama and Gamo-Gofa zones were taken to invite participants and to made discussions.

For questionnaire the details were here under:

Table 1.1: The Number of Questions Distributed and Collected

No.	No. of Questioner	At region level	Sidama zone	Gamo-Gofa zone	Kaffa zone	Total
1	Distributed	22	10	18	10	60
2	collected	12	6	11	8	37
3	Discarded	5	2	3	-	10
4	Not collected	5	2	4	2	13

Source: Own data (Survey, 2010)

A total of 60 questionnaires were distributed at the region and zonal level. Out of which 13 questionnaires were not collected and 10 were discarded during data cleaning phase. The distributions of the questioner were made fore purposely selected respondents. The selection was made keeping their profession and institution in to consideration.

In addition, a total of 10 different investment sites were visited by the researcher. Through these visits, 20 respondents were communicated at the time of direct (non participant) observation. The types of the respondents were composed of owners, managers and employees of the investment, and some members of the community from the surrounding.

1.5.5 A Conceptual Framework of the Investment Policy Implementation Process

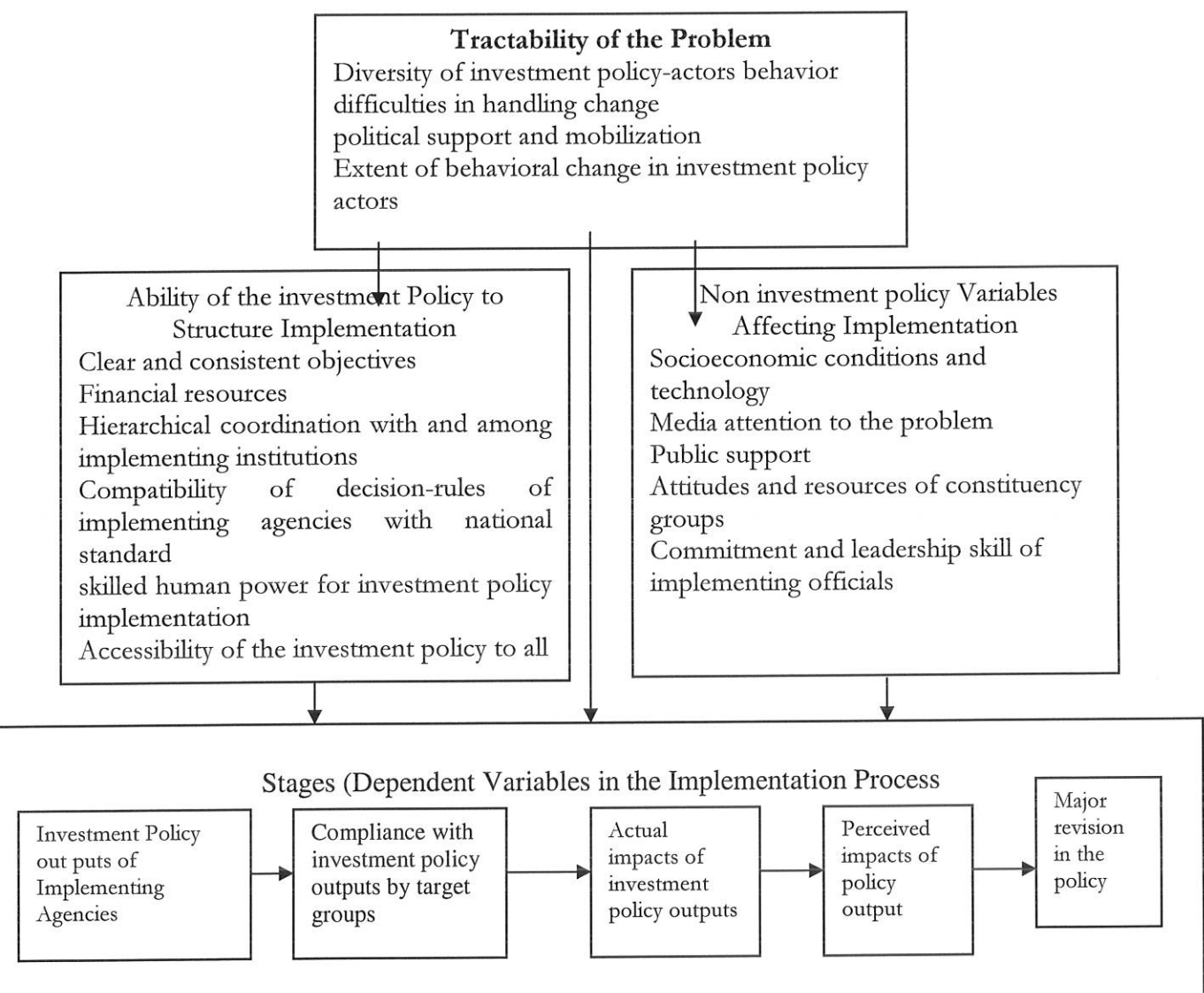
This conceptual framework depicts the nexus among investment policy implementation process. These can be divided into three broad categories as a composite of statutory (policy) structures, problem for successful implementation of the policy (problem tractability) and non statutory forces. From the perspective of this framework, a policy constitutes the fundamental policy decision being implemented in that it identifies the problems to be addressed, stipulates the objectives to be pursued, and, in a variety of ways, “structures” the investment policy implementation process, through its selection of the implementing institutions ;through providing legal and financial resources to those institutions; through biasing the probable policy orientations of agency officials; and through regulating the opportunities for the participation by non agency actors in the implementation process. In the case of an investment policy regulating private economic behavior, the implementation problem normally runs through number of stages beginning with passage of the investment policy, followed by the policy outputs (decisions) of the implementing agencies, the compliance of target groups with those decisions, the actual impacts-both intended and unintended- of those outputs, the perceived impacts of agency decisions, and, finally, important revisions (or attempted revisions) in the basic policy.

Ability of the policy to structure implementation process according to its stated guidelines is concerned with examining the extent to which a policy causes a change in the intended direction. To the extent that the policy stipulates a set of clear and consistent objectives, hierarchical among policy implementers, decision-rules of implementing agencies, skilled human power for policy implementation and accessibility of the policy to all, incorporates a sound theory relating behavioral change to those objectives and then structures the implementation process in a fashion conducive to obtaining such behavioral change, the possibilities for attaining policy objectives are enhanced. This requires the specification of operationally defined policy goals, delineation of criteria of success, and measurement of progress toward the stated goals.

Apart from the difficulties universally associated with the implementation of the governmental programs, some social problems are much easier to deal with than others. In short, some problems are far more tractable than others. Tractability of the problems constitutes diversity of policy actors’ behavior, difficulties in handling change, political support and mobilization and extent of behavioral change of policy actors.

Non policy variables affecting investment policy implementation are socio economic conditions of the constituency, the amount and continuity of media attention to the problem, public support to influence the implementation process, changes in the resources and attitudes of constituency groups toward policy objectives and commitment and leadership skill of supportive implementing officials. Through implementation analysis it is possible to identify the factors that affect the achievement of policy objectives and to find possible solutions to it. But all these processes must be viewed in terms of its several stages: the policy outputs (decisions) of the implementing agencies; the compliance of target groups with those decisions and the actual impacts of agency decisions. Each of these stages can be thought of as an endpoint or dependent variable. Each is also, however, an input in to successive stages. Therefore, the dynamic conditions such as hierarchal coordination, human and material resource, stable political situation, financial resource, infrastructure and simultaneous existence of all these conditions in a reinforcing fashion can positively affect the implementation of investment policy, whereas the opposite hampers the achievement of the intended policy objectives.

FIGURE 1: Skeletal Flow Diagram of the Variables Involved in the Investment Policy Implementation Process



Source: adopted from Sabatier and Mazmanian (1980:154)

1.6 Scope of the Study

The investment policy has been implemented all over the country with the view of re-enacted and amended investment proclamation. The study about the challenges or problems (gaps) of the implementation process, therefore, was carried out in the Southern Nation, Nationalities and Peoples’ Regional State with three selected zones (Kaffa, Gamo Gofa and Sidama). The study covers the timeframe for the last five years (2004/2005 up to 2008/2009). The reason for the selection of this time frame is because of time and money constraint and investment in the region was very much activated since 2004/05, it is because of the new millennium that different Ethiopians living abroad came to visit their home country and at that time they decided to invest their money by using

Ethiopia's suitable situation for investment. The effect of the investment policy implementation gap has been evaluated from different perspective. However, due to time and money constraints this study was delimited with in few zones.

1.7 Limitation of the Study

During the study the researcher faced different limitations. As the study area was far away from the residence of the researcher, remote and very wide, the researcher faced time and money constraint. Another difficulty were some respondents in the surrounding of the investment area are illiterate (or at the lower education level) and few of the respondents are failed to give back questionnaire. In addition to these the researcher faced problems to found ample respondents because of few member of expertise with the general knowledge about the subject matter in key institutions and the other reason was the researcher's commitment and engagement in the 4th round country election (2010). But, maximum effort were made to tackle these problems by handling all the activities as per the schedule set in the proposal before and by contacting the institutions' key resource persons.

1.8 Significance of the Study

As investment is an engine for development and investment policy is given due attention by Ethiopian government, identifying current investment policy implementation problems in selected zones and trying to fill the gap can help all actors to correct some ambiguities and confusion in implementing the policy. Besides, the experience (findings) drawn from the study may be relevant to other zones and special woredas too. Moreover, the study can be used as a reference for those who will be interested in conducting similar research and it will also find ways of improving the performance of the policy implementation process.

1.9 Organization of the Study

The paper has four chapters. Chapter one contains the introductory part. Chapter two reviews the related theoretical and empirical literatures in the area of the study. It is followed by chapter three which will be data presentation and analysis. And finally, summary of the findings, conclusion and recommendation are given in chapter four. In addition to these, annexes are attached to the last part of the study paper.

CHAPTER 2: LITERATURE REVIEW ON INVESTMENT POLICY AND IMPLEMENTATION

2.1 Introduction

This chapter reviews theoretical and empirical aspects of the literature about investment policy implementation, its achievements and challenges. The first part related to concepts that repeatedly come up in this study. The second part includes the role of investment in realization of sustainable economic development. The third part deals with state intervention on investment policy implementation. The fourth part about the relationship between private and public investment, and finally best practices of other countries especially on FDI and Ethiopia's experience on policy implementation is discussed.

2.2 Concepts of Public policy, Investment and Investment policy

Public policy is declaring State objectives related to health, moral and well being of the citizenry. In the interest of public policy, legislatures and courts seek to nullify any action, contract, or trust that goes counter to these objectives even if there is no statute that expressly declares it void. Public policy can be generally defined as the course of action or inaction taken by governmental entities (the decisions of government) with regard to a particular issue or set of issues. Other scholars define it as a system of "courses of action, regulatory measures, laws, and funding priorities concerning a given topic promulgated by a governmental entity or its representatives." Public policy is commonly embodied "in constitutions, legislative acts, and judicial decisions." Public policy, is a broader notion, and public policy (law) discusses the use of the phrase "public policy" in legal doctrine (<http://www.businessdictionary.com/definition/public-policy.html> Accessed Feb 27/2010).

Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in form of interest, income, or appreciation of the value of the instrument. Investment depends on savings and savings require a sacrifice of current consumption so as to release the resources to finance investment. "<http://en.wikipedia.org/wiki/Investment>".

Factors' usually influence investment decisions are: the rate of interest, the cost and productivity of capital goods, business expectations, profits, process innovations, product innovations and the level of income (Mukherjee, 1990: 185).

Investment policy is a law for an investment in action adopted and perused by government, ruler political party etc. so as to show future economic development.

2.3 The Role of Investment in Realization of Sustainable Economic Development

Mobilizing private investment, both foreign and domestic, is recognized as a priority area for development so that no countries are left behind. But reaping the maximum benefits of investment is not automatic it is rather a matter of sound Policies. A key challenge is how to frame investment policies in a way that supports and reinforces economic development. OECD Investment Committee co-operation with non-member economies aims to create the policy environments needed to unleash the full benefits from investment, in terms of economic growth, poverty reduction and sustainable development (OECD, 2006).

Investment is input to economic growth. Recent empirical studies (Hernandez-Cata 2000, Ndikumana 2000, Ben-David 1998, Chari, Kehoe and McGrattan 1997, Barro and Lee 1994, Collier and Gunning 1999, Barro 1995, Ghura and Hadjimichael 1996, Khan and Reinhart 1990, Kormendi and Mcguire 1985) conducted in Africa, Asia and Latin America have established beyond a doubt, the critical linkage between investment and the rate of growth. Throughout the 1990s, the ratio of total Gross Domestic Investment (GDI) to Gross Domestic Product (GDP) in Asia, which experienced a high average rate of growth compared with the rest of the world, was about 27 per cent, while in Latin America and sub-Saharan Africa the corresponding ratios were 20 per cent and 17 per cent, respectively (Seruvatu and Jayaraman, 2001:2).

It is estimated that the ratio of private investment to GDP in the sub-Saharan African countries which had experienced poor rates of growth in the 1990s was less than 10 per cent, compared with 16 per cent in Latin America, 18 per cent in advanced countries and 16.5 per cent in newly industrialized countries in Asia (Hernandez-Cata 2000 cited in Seruvatu and Jayaraman, 2001:2).

Sustainable economic growth is highly determined by the rate of investment which in turn is mainly determined by the national saving level. The national savings level of countries in Africa is quite low. Foreign direct investment (FDI) is an alternative source of capital to bridge the gap between savings and the required investment level.

In recent times, however, most empirical studies conclude that FDI enhances factor productivity, the efficiency of resources use and national income of the host country (OECD, 2002). A study on 58 developing countries also concludes that FDI enhances private domestic investments. As a result of this, in the present globalize world, many countries spend enormous resources and time to design policies that encourage the inflows of FDI, as appropriately designed policy plays important role in

promoting FDI inflows. Besides, the 1990s official development assistance sharp decline would have forced developing countries to open their economy to foreign investors (Douglas et al, 2003).

Following the collapse of the left-oriented systems, most African countries have undertaken numerous policy measures to create hospitable investment climate for FDI. The major policy measures are: Liberalizing controls on foreign exchange & price, liberalizing investment regulations & privatization of public enterprises and creating a stable macroeconomic environment. OECD (2005) indicated that the policy frameworks for FDI of African countries are on average not more restrictive than other developing nations. Despite their notable efforts, FDI flows to Africa are extremely small compared to the other developing nations. Africa 's share in the total FDI flows to developing economies fell from 1 per cent in the 1970s, to 11 per cent in the 1980s to 8 per cent in 2000-2006.

Foreign direct investment (FDI) is considered as a key ingredient for economic growth in developing countries. Since a host should clean the house before inviting guests, many countries are trying to create a hospitable environment for FDI. Several studies have been conducted on the determinants of FDI, as it is a key step to understand what the guests want.

2.4 State/Government Intervention in the Development Strategies

The role of the state in economic development is one of the oldest topics in economics. Scholars from Latin America, Africa, and Asia have examined the roles of states in instituting comprehensive political reforms and shaping national economic development. In the Advanced industrial countries too, people have invested a lot of energy and resource in studying social programs and the role of governments in managing domestic and international economic problems. State may formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes, or society within their territories. This is what is usually called "state autonomy" (Seid, 2002:23).

As cited in (Seid, 2002:25) Effective state intervention is now assumed by many to be an integral part of successful economic intervention. There are a number of theoretical arguments as to why state intervention is necessary for economic transformation. One argument is that state intervention is required to rectify market failures, that is, the inability of a market economy to reach certain desired outcomes in resource use (Rueschemeyer and Putterman, 1992:243). It is argued that without state intervention, "collective goods will be inadequately provided, negative externalities will not be controlled, and the rate of accumulation will suffer correspondingly" (Rueschemeyer and Evans, 1992:45). The state should therefore undertake activities that would compensate these and other market failures. State intervention may also be needed when markets fail to instigate industrial or

economic development. At times, the private sector may not initiate industrialization because it may be undercapitalized and hence unable to take short-term losses due to the underdevelopment and inefficiency of capital markets. Or future profits may not compensate for current losses, or investing in manufacturing may be less profitable than, say, speculating in land or importing foreign products. In all of these instances, State intervention of one form or another may be needed (Amsden, 1992:59).

Another argument that may apply mainly to developing countries is that late industrialization would not be possible without effective State intervention. Governments must protect and subsidize their domestic industries for them to develop in a far more pervasive fashion and become competitive in the world market (Amsden, 1992:53).

Proponents of state intervention further argue that protection of infant industries in developing countries from the competition of industries in already developed countries is essential for national development. Proponents of infant industry protection, on the other hand, argue that resources should be allocated inefficiently in the short-term in order to achieve more rapid long-term growth (Grabowski, 1994:416 cited in Seid, 2002: 25-26).

Governments have been taking, in various degrees, a leading role in the allocation of investment, controlling the “commanding heights” of the economy, and otherwise intervening to compensate for market failures. Such interventions have brought mixed results. Industrial success stories like Japan, South Korea and Taiwan grew through effective state intervention. South East Asia is another example. By contrast, the outcomes were different in many other countries. Governments in most of the countries where intervention failed embarked on fanciful schemes, such as high-cost public sector enterprises and a variety of manufacturing and other economic activities not traditionally associated with the public sector (Seid, 2002: 25-26).

The World Bank study, however suggests that getting the fundamental right should be the first job of every State. The study singles out five fundamental tasks as the core of every government’s mission establishing a foundation of law; maintaining a non-distortion policy environment, including macroeconomic stability; investing in basic social services and infrastructure; protecting the vulnerable; and protecting the environment (World Bank, 1997:4).

To make development stable and sustainable, the State has to keep its eye on these fundamentals. Since lawlessness is often related to a sense of marginalization, public policies can ensure that growth is shared and that it contributes to reducing poverty and inequality. They must aim not merely to deliver growth but to ensure particularly through investments in basic education and

health. They must also ensure that people are protected against material and personal insecurity. Where poverty and economic marginalization stem from ethnic and social differences policies must be carefully crafted to manage these differences (World Bank, 1997:6).

The second stage of the path of effective state intervention is raising the state's capability by reinvigorating public institutions. This is done through designing effective rules and restraints, to check arbitrary state actions and combat entrenched corruption, subjecting state institutions to greater competition to increase their efficiency, increasing the performance of state institutions, improving pay and incentives, making the state more responsive to people's needs, bringing government closer to the people through broader participation and decentralization (World Bank, 1997:3).

2.5 The Relationship between Public and Private Investment

Studies by Greene and Villanueva (1991) for a panel of developing countries, Ramirez (1994) for Mexico, Odedokun (1997) for forty-eight developing countries, and Ramirez (2000) for a panel of Latin American countries found that public investment stimulates private investment. Blejer and Khan (1984) for a panel of developing countries and Oshikoya (1994) for a panel of African countries presented evidence that public infrastructure (represented by the expected public investment) has a positive impact on private investment, while non infrastructure investment (the unexpected component) has a negative impact on private sector investment. Meanwhile, Wai and Wong (1982) for five developing countries and Nazmi and Ramirez (1997) for Mexico found that public investment crowds out private investment. The empirical literature suggests that public investment does affect private investment in developing economies; however, the question of whether public investment stimulates or crowds out private investment remains ambiguous (Erden & Holcombe, 2005:577-578).

Several competing mechanisms through which public capital investment may influence private sector investment have been identified in the literature, for example, by Barth and Cordes (1980), Blejer and Khan (1984), Aschauer (1989a, 1989b), and Ramirez (1994). Potentially the most significant mechanism and the most compelling argument supporting public investment is that public infrastructure investment may have substantial spillover benefits for private investment. If public infrastructure investment is complementary to private investment, the rate of return to private sector investments will increase, leading private sector investors to undertake more capital investment. However, public investment may crowd out private investment if they compete for the same resources, and the crowding out may be more significant if public investments are made in

state enterprises that produce output that is in direct competition with the goods and services provided by private sector. Sound theoretical arguments point in both directions, so whether public investment actually helps or hinders private investment is an empirical question (ibid).

Gross Domestic Investment (GDI) is classified into public investment which includes investment by government and public enterprises and private investment which includes investment by domestic investor and FDI (Seruvatu and Jayaraman, 2001:2).

2.5.1 Public Investment

Public investments are investments in public services such as health centers, education centers, etc. or investment made by government with tax money. It is an investment for the society to provide goods and services and to lay suitable condition for better performance of private investment.

As cited by (Chhibber, Dailami and Shafic, 1992:1) Ogura and Yohe (1977) have argued that public investment not only provides direct consumption benefits to the private sector but reduces costs of the private sector. They classify public investment in to three categories:

- a) that which competes with private investment and should be discounted at the marginal rate of productivity of capital in the private sector,
- b) that which provides services independent of the private sector & should be discounted at the social rate of time preference, and
- c) Public investments that are complementary to private investment & ought to be discounted at a rate below the social rate of time preference.

As has already been known state investments are the most important means of plan implementation in developing countries. Their share varies from country to country, but in most countries, in fact in the majority of the developing world, it exceeds 50 per cent of total investments. The structure of state investments is also different. In most developing countries over 50 per cent of state investments are of the infrastructural type in its broadest sense. In some countries the share of productive investments is often 60 to 70 per cent (Nyilas, 1977: 286).

As to implementation problems of state investments usually two deficiencies are criticized in connection with execution of investment projects in the public sector: implementation takes more time, and the costs are substantially higher than envisaged in the plan. The crucial deficiencies and bottlenecks originate in the developing countries themselves as lack of skill, obsolete organizational methods, red tape, inefficiency, disruptions or occasionally deliberate sabotage in certain fields. As a result, in completed investments grow at a much faster rate than new investments. The first and

most frequent difficulty in the execution of investment project is the lack of co-ordination (Nyilas, 1977: 287).

2.5.2 Private Investment

Private investment is most often used as a general term for investment that comes from an individual or group of individuals, rather than from a large organization. It may also be used to contrast investment raised by issuing stock publicly. In either case, it is distinguished by the fact that it is individuals making the investment directly with the company or individual, and although certain regulatory statutes may still affect the exchange, they are generally quite a bit different from those that regulate public offerings. Therefore, private investment is investment from domestic and foreign investment.

The importance of private investment for growth in the developing countries is emerging with particular clarity from the convergence of two strands of empirical and policy concerns. One is the evidence that domestic investment has borne the brunt of the aggregate demand contraction in many developing countries associated with the process of external adjustment. The second, which is related to the first, is the growing agreement on the desirability of increasing the private sectors' share in total capital formation through increased reliance on market forces and incentives. It is now widely accepted that expansion of private investment should be the main impetus for economic growth, allowing public investment resources to focus on public goods, including the alleviation of poverty and the upgrading of the social capital & services (Chhibber, Dailami and Shafic, 1992:1).

This strategy, which is gaining widespread acceptance from both academics and policy-makers, stems from dissatisfaction with public sector dominated investment programs. Private domestic investment in developing countries needs to be seen not only as a contributor to economic growth and employment generation, but also as a catalyst to attract foreign direct capital. In the absence of a strong revival of indigenous private investors in developing countries, it seems unlikely that there will be a significant flow of foreign investment to these economies (ibid).

Of the many types of FDI one is government initiated FDI, which is an investment where governments of developing countries invite and give incentives to direct foreign investors to invest in specific sectors and industries with a view of addressing socio-economic problems like unemployment, regional disparities and deficits in the balance of payment (Accolley et al, 1997).

Theories, economic or otherwise, play an important role in shaping legal attitudes. With regard to FDI, neoclassical economic theory seems to have played a dominant role in shaping the legal regimes both nationally and internationally.

Neoclassical economic theory propound that FDI contributes positively to the economic development of the host country (Bergten et. al., 1978:355). Foreign investors usually bring capital into the host country, there by influencing the quality and quantity of capital formation in the most host country. The inflow of capital and reinvestment of profits increases the total savings of the country and increases Government revenue via tax and other payments (Bureau of Industry Economics, 1995:7). It also ensures that domestic capital available for use could be redirected to other uses (Sornarajah, 1994:38). Moreover, it reduces the balance payments constraints of the host country. In general, FDI increases the level of economic activity, and hence the level of social wellbeing (Seid, 2002:10).

The other principal argument in favor of the neoclassical theory is that FDI, particularly in developing countries, replaces the inferior production function in developing countries by a superior one from advanced industrialized countries through transfer of technology, managerial and marketing skills, market information, organizational experience, innovation in products and production techniques, and the training of workers (Kojima, 1978:152) (ibid).

According to Antonelli, the cost of adoption is affected by the following five factors (Antonelli, 1991): (Seid, 2002: 10-11) the availability of: information about the technology from other users, trained and skilled manpower, technical assistance and maintenance, complementary equipment and software, and complementary innovations, both technological and organizational. In developing countries all of these factors are likely to be relatively scarce and, hence, the cost of adopting a new technology could be high (ibid).

The proponents of neoclassical theory further argue that FDI increases competition in an industry with a likely improvement in productivity (Kojima, 1978:153: Bureau of Industry Economics, 1995:7). FDI can also widen the market for host country producers by linking the host country industry more closely to world markets, leading to even greater competition and opportunities to technology transfer (Bureau of Industry Economics, 1995:7) (ibid).

It is said that FDI generates employment, influences favorably the distribution of income and power within the host country, and generates foreign exchange thereby easing the balance of payments constraints of the host country (Reuber et. al. 1973:22: Sornarajah, 1994:38: Bergten 1978:355). Indeed, if the proper regulatory mechanisms are not in place, FDI may not be beneficial to the host country. It can for example, cause considerable environmental damage that includes pollution of rivers and ground water, damage to fishing and farming, disruption of local population and damage to the health of workers and local population (Atkinson, 1995:80 cited in Seid, 2002:13).

At their meeting held in Sofia on 10 June 2005, South East Europe (SEE) Ministers mandated the Investment Compact “to prepare a regional investment framework which they will consider at the 2006 meeting. This regional framework should draw upon OECD principles and consolidate the progress achieved by the Investment Compact in policy areas related to investment”. Investment policy has to be:

- Clear and transparent national policies, laws, regulations and administrative practices that do not impose unnecessary burdens
- Coherence and stability of laws, regulations and administrative practices
- National treatment for foreign investors at both the pre-and post-establishment stage; exceptions to be clearly formulated and brought to the attention of the Investment
- Compact and periodically reviewed with a view of phasing them out
- Promotion of an effective services sector, in particular through the removal of remaining obstacles to foreign investment in the areas of financial and professional services
- Timely and unrestricted transfer of the proceeds of the investment
- Guaranteed repatriation of the capital when the investment is terminated
- Timely and efficient means of ownership registration and full protection of property and contractual rights including intellectual property and the right to own land; high standards on expropriation and compensation
- Access for investors to effective dispute settlement mechanisms including government ratified and binding instruments such as arbitration
- Movement of key personnel for the investment and simplification of visa regulations
- Transparency and non-discrimination of investment incentives; systematic review of cost/benefits of existing and planned incentives according to the OECD Checklist on Incentives
- Ratification of international treaties on the promotion and protection of investment

The macro-level determinants of FDI include any host country's situations that affects the inflow of FDI, like the size of domestic market, sufficient deposit of some natural resources, infrastructure, low labor cost, inflation, exchange rate variability, geographical proximity and cultural and linguistic affinities, political stability, investment promotion strategy and incentive structure on encouraging investment (Birhanu and Kibre, 2003).

National laws and policies on FDI have varied widely from time to time and from place to place. This variation could be attributed partly to the influence on national law/policy-makers of the theories and partly to other factors. Investment laws and policies, however, have a common aspiration: the desire to make the most of foreign investment. As a result, policy makers are obliged to confront at least the following three common problems (Solomon and Mirsky, 1990-91:257,259 as cited by Seid, 2002:33-34).

- How to attract foreign investment without incurring a damaging drain on domestic foreign exchange savings and other resources
- How to preserve the foreign investor's legal right and give it adequate protection while, at the same time, keeping its domination and negative effects to a minimum and
- How to design their laws and tax systems in such a way as to simultaneously foster economic growth and attract foreign investment while concurrently raising enough revenue to meet the budgetary requirements of the government.

Investment laws could, therefore, be seen as a means as well as a consequence of state intervention in the economic process, designed to keep the balance between the above three problems. Sometimes, the concerns of home and host states behind their natural laws and policies could be different (ibid).

In addition, FD investors can consider the following:

- ✦ Constitutional and legislative safeguards offered by host country
- ✦ Investment protection agreements with the host government
- ✦ Joint venture with good local partner
- ✦ The inclusion of appropriate provisions in contracts aimed at stabilizing the contractual relationship by restricting legislative power of the state to amend or abrogate the agreement.

2.6 Lessons and Experiences of Other Countries

2.6.1 The Experience of Singapore

FDI has played a critical role in Singapore's economic development since before the country's independence in 1965. In power since independence, the people's action party (basically a labor party) has consistently centered the country's highly successful export-oriented industrialization strategy on attracting FDI. The importance of FDI in Singapore is reflected in the country's ratio of inward FDI stock to GDP: at 72 per cent, the ratio is the highest in the world. That importance is also reflected in the fact that 90 per cent of value added in Singapore's electronics industry is

accounted for by foreign investors, and that FDI accounts for fully two-thirds of equity capital in the country's manufacturing sector. Indeed, with less than 1 per cent of the nine ASEAN countries combined population Singapore hosts a third of their combined inward FDI stock. FDI flows to Singapore have grown from an annual average of \$ 3 billion in 1985-90 and \$ 4.3 billion in 1991-94, to \$ 8 billion in 1995, \$ 9 billion in 1996 and \$ 10 billion in 1997 about 40 per cent of the ASEAN countries' combined FDI inflows in 1997 (Oman, 2000: 45).

In the early 1960 and following independence, Singapore's government felt it could not count on local capital and entrepreneurship to industrialize the economy and thus create the jobs needed to absorb the economy sizeable and growing unemployment not only because they were in short supply, but because they were steeped in the traditions of entrepot & retail trade and had no experience in manufacturing for international markets. Singapore did not have a domestic market potentially large enough to absorb the learning costs of infant manufacturing firms and industries (Oman, 2000: 45-46).

From the outset, then, Singapore's government turned to FDI as the key to enabling the economy to industrialize quickly and effectively there by creating jobs and raising long-term living standards. The financial inflow that came with FDI in those early years also helped to close the gap between investment and domestic savings, to finance net imports, and to cover current account deficit (Oman, 2000: 46).

By the 1980s, Singapore's GDP and export capabilities had grown significantly, and raised wage and income levels substantially. Domestic saving had risen to over 40 per cent of GDP, exceeding the rate of investment and thus reducing the financial need for FDI as Singapore became a net exporter of capital. Yet the economy's reliance on inward FDI has not diminished. Private local enterprises remain relatively weak, and the economy continues to rely on FDI for entrepreneurship, management capabilities, technology, and marketing networks; since 1988, Singapore's current account has registered a strong and growing surplus reflecting the country's very high domestic saving rate (49 per cent of GNP, as compared to an investment rate of 35 per cent in 1995). This surplus, which averaged over \$ 13 billion per year in 1994-96, combined with high capital inflows, has followed Singapore's international reserves and outward investment to increase steadily. It has also helped, insofar as possible, to shield Singapore from the current crisis that so many of Singapore's neighbors face (ibid).

To attract the highly competitive export-oriented manufacturing FDI that Singapore has sought since the early 1960s and to enable that investment right from its infancy, in Singapore to be

competitive in global markets, it introduced wide-ranging measures from the outset to enhance the business environment. In 1980s, Singapore has increasingly targeted its investment promotion efforts on attracting FDI by smaller, but highly innovative, foreign firms (Oman, 2000: 46, 48).

These measures included: (Oman, 2000: 46-49) close attention to the maintenance of political and macro economic stability; measures to foster labor discipline and peaceful industrial relations; revamping the educational system and labor training programme to emphasize engineering, technical skills and industrial skills; development of industrial infrastructure; active investment promotion; and the provision of generous fiscal incentives. Liberal trade and FDI policies have also been hallmark of Singapore's economic policy from independence, and there is no specific law on foreign investment.

2.6.2 The Experience of China

Over the last several decades, China's economy has moved from a centrally planned system that was largely closed to international trade to a more market-oriented system. Since 1978 China's GDP has increased more than 1,000 per cent. According to U.S. State Department officials, the development of Chinese investment regulations has not kept pace with the development of its markets, and the complexity of the foreign investment review process reflects vestiges of China's past as a planned economy. Since the period of economic reform began, China has continued to review inward investment to ensure proposed projects conform to China's industrial policy and national interests. Foreign investment in China typically began in the form of equity joint ventures in the manufacturing sector and, according to industry officials, has progressed to the point where foreigners can merge with or acquire entire Chinese companies (GAO, 2008:42).

According to CUTs Center for Competition investment and Economic Regulation briefing paper issue No. 3/2003 China leads the percentage shares of the top 10 developing countries recipients in total FDI inflows to developing countries by holding 19.2 per cent with share of 2.4 per cent of Cayman Islands. China is the third largest recipient of FDI in the world, ranking behind the United States and the United Kingdom in terms of the average value of FDI inflows between 2000 and 2006. In 2006, FDI in China totaled \$292.6 billion, an increase of 51 percent since 2000. FDI stock in China as a proportion of GDP was 11.1 percent in 2006.

One of the reasons why China may be getting a higher public profile in the area of foreign investment is that in the past couple of years it has accounted for a large share of the proposals put to the Foreign Investment Review Board (FIRB).

According to Chinese officials, China's system of written law can be broken into different categories according to their level. Chinese laws that are broad and general form the highest level. They are passed by the Chinese legislative body, the National People's Congress, during its annual meeting in Beijing. At the next level are regulations that are issued by individual state ministries and are intended to interpret and characterize laws. Below that are guiding opinions. According to Chinese officials, opinions are not binding and are used as planning documents. In 2006, China began to adopt laws and regulations to describe the procedures it uses to review, and potentially block, proposed foreign acquisitions that it deems are not in China's national interest. According to Chinese officials, two regulations provide the primary framework for China's foreign investment review. First, the 2006 Provisions for Merger and Acquisition of Domestic Enterprises by Foreign Investors are the most important rules for managing foreign investment. Second, the Chinese Catalog for the Guidance of Foreign Investment Industries restricts foreign investment in specified sectors. A revised version of the Catalog was issued by the NDRC in November 2007. According to them, the Catalog is a reflection of industrial policy and is intended as a guide for foreign investors. It assigns industry sectors to one of three categories: "encouraged," "restricted," and "prohibited." Investment in unlisted sectors is automatically considered "permitted."

Based on a broader definition of national security, sectors including film, television, book publishing, and other media production are prohibited. Other prohibited sectors appear completely unrelated to national security, including processing special Chinese teas, preparation of traditional Chinese medicines, and production of enamel products and rice paper. China has a nominal process for reviewing all foreign mergers and acquisitions. The standards that China uses to conduct reviews of foreign investment are opaque, and have resulted in a system that is not fully transparent.

2.7 Overview of Investment Policy of Ethiopia

2.7.1 The Economic Background of Ethiopia

Ethiopia is classified as being among the least developed countries in the world. Its economy, already structurally deficient and backward, has been declining during the past decades. This is observed from such economic indicators as the growth rates of the gross domestic product and per capita income, the rates of investment and saving, the balance of payments and foreign exchange reserves, government revenue and expenditure and the modes of financing, and money supply and credit. In addition to these parameters, the level of unemployment, inflation and the conditions of infrastructure all point to the economic backwardness of the country Ethiopia's Economic Policy (1991:5).

The growth performance of the Ethiopian economy has shown variability and in general poor performance over the past decades. In the imperial regime the government has already pursued a market based economic policy and the economy during that period(1960-1974) as measured by real GDP has grown on average by 4 per cent per annum (the per capita growth being 1.5 per cent). As opposed to this, the derg regime has attempted to establish a socialist economy in which the socialized sectors as opposed to private sectors started to attract the focus of the government policy. During this period (1974/75-1989/90) the average growth rate of real GDP has decelerated to 2.3 per cent (the per capita growth being -0.4 per cent). The economic policy emphasis in the post-derg regime however shows a marked departure from the derg regime, and during this period (1991/92-2001/02) the real GDP has grown on average by 3.6 per cent per year. This implied a 1.5 per cent increment in per capita income Muhamed (2006:4-5).

Ethiopia has shown a fast-growing annual GDP and it was the fastest-growing non-oil-dependent African nation in 2007 and 2008. Since 1991, there have been attempts to improve the economy; however, there has been some political opposition to the policies as well as a 2008 drought which slowed progress. The effectiveness of these policies is reflected in the ten-percent yearly economic growth from 2003-2008. Despite these economic improvements, urban and rural poverty remains an issue in the country. (<http://en.wikipedia.org/wiki/Ethiopia>" Feb. 24/2010)

Agriculture accounts for almost 41 per cent of the gross domestic product (GDP), 80 per cent of exports, and 80 per cent of the labor force. Many other economic activities depend on agriculture, including marketing, processing, and export of agricultural products. Production is overwhelmingly carried out by small-scale farmers and enterprises and a large part of commodity exports are provided by the small agricultural cash-crop sector. Principal crops include coffee, pulses (e.g., beans), oilseeds, cereals, potatoes, sugarcane, and vegetables. Exports are almost entirely agricultural commodities, and coffee is the largest foreign exchange earner. According to a recent UN report the GNP per capita of Ethiopia has reached \$1541 (2009). The same report indicated that the life expectancy had improved substantially in recent years. The life expectancy of men is reported to be 52 years and for women 54 years (ibid).

The economic growth (GDP at constant basic price) for 2001_{EFY} is estimated to be 9.9 per cent. As per the estimates, annual growth rates of the major sectors, i.e. agriculture, industry, and service were 6.4 per cent, 9.9 per cent and 14.0 per cent respectively and their shares out of the total GDP were 43 per cent, 13 per cent and 44 per cent respectively. Over the last consecutive years; i.e. during 1996-2001 EFY the economy has registered rapid growth. Accordingly, in this period the annual

average growth rate of GDP was 11.5 per cent. The agriculture, industry and service sectors' annual average growth was 10.8 per cent, 10.1 per cent and 13 per cent respectively. In this period a slight structural change is observed in the economy. The agricultural sector's annual growth rate and its share of GDP are decreasing while those of industry and service sectors are increasing (MoFED, 2010: i).

It is, thus, within the current Investment policy perspective that this thesis attempted to examine, and assess the implementation of the investment policy on the areas of its application which was conducted in case study fashion. The thesis, therefore, confined its focus on the issue pertaining to the real (true) application of the policy in accordance with given laws such as proclamation No. 280/2002, proclamation No. 375/2003 and Council of Ministers Regulation No. 84/2003 and other directives enacted by Federal investment agency and laws and directives by SNNPR.

2.7.2 Evolution of Investment Policy of Ethiopia

i) The Imperial Era

Between 1950 and 1960, the imperial government of Ethiopia enacted legislation and implemented a new policy to encourage foreign investment. This new policy provided investor benefits in the form of tax exemptions, remittances of foreign exchange, import and export duty relief, and the provision of financing through the Ethiopian investment corporation and the development bank of Ethiopia http://en.wikipedia.org/wiki/Industrial_development_policy_of_Ethiopia (Accessed today, January 04/2010).

In 1963, with the Second five year plan under way, the government enacted Proclamation No. 51. The proclamation's objective was to consolidate other investment policies enacted up to that period, to extend benefits to Ethiopian investors (previous legislation had limited the benefits to foreigners only), and to create an Investment Committee that would oversee investment programs. In 1966 the Ethiopian government enacted Proclamation No. 242, which elevated the Investment Committee's status as an advisory council to that of an authorized body empowered to make independent investment decisions. Thus, by the early 1970s, Ethiopia's industrialization policy included a range of fiscal incentives, direct government investment, and equity participation in private enterprises (ibid).

The government's policy attracted considerable foreign investment to the industrial sector. For instance, in 1971/72 the share of foreign capital in manufacturing industries amounted to 41 percent of the total paid-up capital. Many foreign enterprises operated as private limited companies, usually as a branch or subsidiary of multinational corporations.

Since mid 20th century when organized economic development programme was launched, Ethiopia has gone through different phases of economic development from a market-oriented mixed economy (pre 1974), to an extreme state controlled central planning (1975-1991), and since 1992 to a hybrid of state-controlled and market-oriented economic development Cuts International (2008:3).

ii) The Derg Era

Following the takeover of power by a pro-socialist regime in 1974, all modern economic establishments, including land (the most fundamental means of production), banks and insurance companies, medium and large scale manufacturing, transport, trade enterprises, commercial farms, urban rented houses, etc., were nationalized. With regulated markets and controlled prices, even the traditional sector came under the control of the centrally planned economic regime. (ibid).

In 1975 the Derg nationalized most industries and subsequently reorganized them into state-owned corporations. On February 7 1975, the government released a document outlining Ethiopia's new economic policy, which was explicitly socialist in philosophy and intent. The policy identified three manufacturing areas slated for state involvement: basic industries that produced goods serving other industries and that had the capacity to create linkages in the economy; industries that produced essential goods for the general population; and industries that made drugs, medicine, tobacco, and beverages. The policy also grouped areas of the public and private sectors into activities reserved for the state, activities where state and private capital could operate jointly, and activities left to the private sector http://en.wikipedia.org/wiki/Industrial_development_policy_of_Ethiopia (Assessed today, January 04/2010).

The 1975 nationalization of major industries scared off foreign private investment. Private direct investment, according to the National Bank of Ethiopia, declined from 65 million birr in 1974 to 12 million in 1977. As compensation negotiations between the Ethiopian government and foreign nationals dragged on, foreign investment virtually ceased. The United States Congress invoked the hickenlooper amendment, which had the effect of prohibiting the use of United States funds for development purposes until Ethiopia had settled compensation issues with United States nationals. During 1982 and 1983, the Ethiopian government settled claims made by Italian, Dutch, Japanese, and British nationals. Negotiation to settle compensation claims by United States nationals continued until 1985, when Ethiopia agreed to pay about US\$ 7 million in installments to compensate United States companies (ibid).

Issued in 1983, the Derg's Proclamation No. 235 (the Joint Venture Proclamation) signaled Ethiopia's renewed interest in attracting foreign capital. The proclamation offered incentives such as

a five-year period of income tax relief for new projects, import and export duty relief, tariff protection, and repatriation of profits and capital. It limited foreign holdings to a maximum of 49 percent and the duration of any joint venture to twenty-five years. Although the proclamation protected investors' interests from expropriation, the government reserved the right to purchase all shares in a joint venture "for reasons of national interest." The proclamation failed to attract foreign investment, largely because foreign businesses were hesitant to invest in a country whose government recently had nationalized foreign industries without a level of compensation these businesses considered satisfactory (ibid).

In 1989 the government issued Special Decree No. 11, a revision of the 1983 proclamation. The decree allowed majority foreign ownership in many sectors, except in those related to public utilities, banking and finance, trade, transportation, and communications, where joint ventures were not allowed. The decree also removed all restrictions on profit repatriation and attempted to provide more extensive legal protection of investors than had the 1983 proclamation (ibid).

President Mengistu Haile Mariam's March 1990 speech to the Central Committee of the Workers Party of Ethiopia was a turning point in Ethiopia's recent economic history. Acknowledging that socialism had failed, Mengistu proposed implementing a Mixed _ economy. Under the new system, the private sector would be able to participate in all parts of the economy with no limit on capital investment (Ethiopia had a US\$ 250,000 ceiling on private investment); developers would be allowed to build houses, apartments, and office buildings for rent or sale; and commercial enterprises would be permitted to develop industries, hotels, and a range of other enterprises on government-owned land to be leased on a concessionary basis. Additionally, state-owned industries and businesses would be required to operate on a profit basis, with those continuing to lose money to be sold or closed. Farmers would receive legal ownership of land they tilled and the right to sell their produce in a free market. Whereas there were many areas yet to be addressed, such as privatization of state enterprises and compensation for citizens whose land and property had been confiscated, these proposals generated optimism among some economists about Ethiopia's economic future. However, some observers pointed out that Mengistu's proposals only amounted to recognition of existing practices in the under ground economy (ibid).

With markets regulated and the modern private sector marginalized, market competition as a mechanism for economic development and a motivation for successful business was reduced considerably. Hence, a sort of one-size fits-all socio-economic management was the prevailing model of the central planning regime (Cuts International 2008:3).

As such, free competition had been ruled out. However, controlled competition between associations (farmers, producers and service associations) in agricultural, manufacturing and service enterprises, and also between individual workers in an enterprise, had been introduced. For such competition the reward was regulated, and came not from the market but from the state. In the same tune, and unlike market competition, there was no cost or punishment for uncompetitive enterprises. No enterprise would be closed down or even operate at below capacity because of being less competitive. In a similar manner, international trade within centrally planned economies had been regulated with little or no competition but much of cooperation. Therefore, competition served very little to motivate managers to innovate or improve the efficiency of enterprises as the management and technology, and in turn, the mechanism to enhance productivity, had to come from the centre (Cuts International 2008:3-4).

iii) During Transitional Government

The Transitional Government of Ethiopia has been established and new Economic Policy of the transitional government of Ethiopia has been launched and this new Economic Policy put the following directions in place:

- Gradual withdrawal of the state from wholesale trade activity
- Paving the way for domestic private capital to involve in wholesale trade, the state will limit itself to issue and enforce laws and policies to regulate private wholesale trade practices
- The state may engage itself in the wholesale trade of basic goods of mass consumption to stabilize prices
- The state will pull out from the retail trade activity and create the necessary conditions for private capital and cooperatives to freely engage themselves in such activities
- In the retail trade activity, the major concern of the state will be to issue appropriate regulation and directives and enforce them
- The state facilitates all conditions to foster the participation of private capital both individually or through partnerships. The state may also participate in limited areas jointly with domestic or foreign investors
- Foreign trade activities will be left to private capitalists except those which require special consideration and those areas will be studied and defined by law. In addition to this the state will regulate foreign trade by issuing foreign exchange and import-export regulations.

Foreign trade will be promoted by providing fiscal incentives to exporters and export oriented undertakings. Attempts will also be made to minimize bureaucratic procedures and trade information will be provided.

The state will ensure the prudent utilization and allocation of foreign exchange and help diversify exports so that foreign currency shortage will be eased. The current government has also embarked a program of economic reform, including privatization of state enterprises and rationalization of government regulation. While the process is still ongoing, the reforms have begun to attract much-needed foreign investment. Despite recent improvements, with an exploding population Ethiopia remains one of the poorest nations in the world.

iv) During EPRDF

In previous times investment in Ethiopia was ceased and especially foreign investment has decreased in a greatest degree during the last two regimes until the introduction of recent policy by the government in 1992.

The Government has successfully implemented a series of reform programmes in order to transform the economy from command to market economy, speed up the integration of the economy into the world economy and encourage the wider participation of the private sector in the development of the national economy. Such reforms include, among others, the following short-term economic stabilization and structural adjustment measures:

- ✦ Deregulation of domestic prices
- ✦ Liberalization of foreign trade
- ✦ Privatization of public enterprises
- ✦ Abolition of all export taxes and subsidies
- ✦ Devaluation of the exchange rate followed by the introduction of inter-bank foreign currency market and the determination of exchange rates based on market forces
- ✦ Enhancing private sector development and private-public partnership through providing effective industry association; and creating a forum for consultation between the private sector and the government
- ✦ Promulgation of a liberal investment law for the promotion and encouragement of private investment, both foreign and domestic
- ✦ Issuance of a new labour law
- ✦ Strengthening and enhancing institutional support for the export sector through strengthening/revitalizing existing institutions and establishing such new institutions as :

- The Ethiopian Livestock Marketing Authority
- The Ethiopian Leather and Leather Products Technology Institute
- The Ethiopian Export Promotion Agency.

As a result, a great deal has been achieved since 1992 in moving from a highly centralized economy to a more liberal market economy. Particularly, as a result of such liberalization, the economy has showed a marked improvement growing at annual average rate of 6.4 percent in the last several years. The rate of inflation declined from around 20 per cent in 1992 to an annual average rate of below 4 per cent for the last ten years. The country's foreign exchange has improved, the budget deficit has declined to acceptable level and above all private investment activities have flourished. More than 25,000 investment projects with an aggregate capital of nearly 311,235,000,000 birr have gone operational in between July 1992 - July 2007. The numbers of citizens that have got job opportunity as a result of those investments are more than 3,126,000 including over 2,000,000 in permanent labors. As the country is suitable for investment, national and foreign investors have been investing billions of dollars in different sectors and are carrying out extensive development activities. Foreign investors have witnessed that the country is one of the most conducive for all types of investment, including floriculture Profile Guide (2007).

Ethiopia's domestic producers are expected to join the competition on an equal footing with big foreign companies with advance technology and strong managerial capacity. On the other hand, it is evident that local producers are characterized by considerable capital limitation and lack of technological capacities and modern management. Apart from this, there is also the propensity to be a rent seeker rather than engaging in innovative businesses of producing goods and services that could compete in the world market. To change this trend in a dependable manner, it is necessary to change the objective situation in such a manner as to block all possibilities for parasitical activities. If there has a private sector determined to engage in the development endeavor, it should get all necessary assistance to enable it to be competitive in the global market. Thus, enabling the private sector to play its role as a key player in developmental activities is one of the basic principles of industrial development strategy of Ethiopia (ibid).

It is evident that a foreign investor has a huge capital and in most cases a strong, worldwide market outlet. The foreign investor has advantages in transferring sophisticated technology and very modern management systems. Thus, foreign investment should be a factor in accelerating industrial development strategy, as it will make a great contribution for solving the capital limitation in Ethiopia. Moreover, as the country lacks experience or the capacity to penetrate into the global

market, the foreign investor could serve as one avenue in achieving this access to market. More importantly, it is one appropriate means of acquiring a modern management system and adopting suitable technology utilization (EIDS, 2002: 33).

Although a foreign investor can solve the capital limitation from which Ethiopia suffers, it is true that a foreign investor will remit abroad the profit he makes out of the investment. Yet, the benefit outweighs the disadvantages as it greatly helps to alleviate the problem of lack of capital at initial stages, which is very difficult for local investors to secure. Besides, the industrial development strategy has to take into consideration the fact that domestic investors face serious problems in boosting productivity and ensuring competitiveness, as they have no global market outlet and modern management skill, on which a foreign investor has the advantage. Hence, the country needs to have a foreign investor involved in the economy by ensuring the legal and commercial framework that enables the private sector to supply the desired quality and competitive price and also that private property rights are fully protected and guaranteed. It would be difficult to attract a foreign investor unless these preconditions are fulfilled. It is also mandatory for the country to establish an efficient and credible judicial system so that property rights shall enjoy legal guarantees for the smooth operation of the undertakings (ibid).

The state should not go to the extent of engaging itself in those sectors where the private sector in the economy could effectively handle them. Its intervention is required to correct market failures. Market shortcomings are remedied by state intervention, according to their priority, taking the country's implementation and capital capacity into account. The state's intervention scheme should be designed, through consulting the experiences of countries that have achieved successful industrial development and should be modified to conform to the particular domestic realities in order to make its intervention only temporary, it should aim at regulating the market, and creating a situation for the private sector to eventually rectify the market by itself. In short, the state has to play a key role mainly in guiding/regulating economic activity.

Experiences of countries with a record of rapid economic development show that governments or private investors by themselves do not bring the desired result. Rather, success is achieved if the government, the private investors and, more importantly, the entire people strive with commitment and in coordination. It was not the individual but the united effort of the government and all people that created big industries such as Korea in Corporated, Malaysia in Corporated, etc. Hence, one decisive political pre-condition is the participation of all consequential actors and organization of work among these groups. To this end, the dependency of the government in a negative way on the

private sector should be avoided. If a government depends on the private investor for its existence it cannot play the role stated earlier. A government that secures a huge amount of money it needs to win an election from private investors will not be free from their influence (EIDS, 2002: 55).

The government has to be able to create a stable macro-economic atmosphere by eliminating the tendencies of rent seekers in order to strengthen and encourage developmental investors. It is when there is a stable and predictable economic situation that the real investors act on the basis of plans, confident in establishing a long-term investment. The policies the government maps out have to be instrumental in bringing this about, though it is the healthy development of economy that plays a vital role for the existence of a stable macro-economy. In this regard, a modern and development-oriented financial system was taken as an essential instrument. Such a financial system creates a conducive environment for an investor to save more, which leads to expansion of investment by establishing an efficient payment procedure in business transaction. The financial sector with this important role in the economy consists of banks, insurance companies and other micro financial institutions (ibid).

Other essential instruments as (EIDS, 2002):

- 1) Regarding the transport system, the government has adopted policies for the upgrading of existing roads and constructing of new ones to improve the road transportation service. However, since this project requires a huge financial resource, it is dependent upon foreign loan and assistance.
- 2) It is evident that expanding electric power supply, too, is a prerequisite for the development of the industry. To this end, the strategy by the government to build additional hydro-and geothermal electric power generating installations has to proceed with concerted efforts.
- 3) Rail transport also is another important consideration in creating sustainable industrial development in the country. Building a railway system that links the main transport corridors and connects the country with principal ports is indispensable for ensuring the achievements of development endeavors.
- 4) Air transportation, too, as a means of long distance travel and efficient conveyance of persons and goods, has an impact in speeding up industrial development. Along with efforts to keep up the competitiveness of the national airlines, building of new and the maintenance of existing terminals have to be undertaken.

5) Along with expanding developmental infrastructure, industrial sites with all facilities including water supply for investment have to be prepared in advance in each city so as to make them accessible without any inconvenience and within reasonable time.

6) The other significant consideration in the effort of industrialization is the presence of human resources that are disciplined and hardworking. The prevalence of an efficient labor force that creates jobs on its own initiation and has the competence to perform well will have a catalytic effect on our industrial development.

7) In order to extend infrastructure that encourages the investor and to realize the state's development strategy, there has to be a strong information network on agriculture which encourages the investor and eliminate a rent-seeking mentality.

8) Establishing a transparent and accountable development-oriented public administration and an efficient judicial system are decisive not only for the achievement of the industrial development strategy but also for the overall development.

Finally, the realization of a democratic order that ensures rule of law and lasting peace is a precondition and part of the development process.

2.7.3 The Current Investment Policy of Ethiopia (Proclamation No. 280/2002)

Under the protectorate of the Ethiopian Parliament investment proclamation that is functional to date was designed first in 1992. The investment proclamation was reenacted in 1996, 1998, and 2002 but again in 2003 the proclamation was revised and is serving until now. This revised proclamation will be referred to discuss the structures and responsibilities of the legal institution of investment at different levels.

The code states areas of investment reserved for the government or joint investment with the government, areas of investment reserved for domestic investors and areas of investment open for foreign investors.

Investment administration organs are the Ministry of Trade and Industry, the Investment Board, the Agency and regional investment organs to be defined by the laws of their respective Region. The administration of investment made by foreign investor, by foreign national taken for domestic investor, made in areas eligible for incentives by domestic investor who is required to obtain business license from concerned federal organs and Joint investment by domestic and foreign investor shall be under the jurisdiction of the agency and also investments other than these shall fall under the jurisdiction of regional investment organs.

The granting of incentives by way of exemptions from import taxes and customs duties shall fall under the exclusive jurisdiction of the Ministry of Revenues.

Where an investor with a permit from the authority or a regional investment organ applies for incentives of exemption from import taxes and customs duties, the authority or the regional investment organ shall, after examining and ascertaining its acceptability within 5 days, transmit the application to the Ministry of Revenues together with the necessary information. The Ministry of Revenue shall give its decision within 7 days of receipt of such complete information.

The basic principle of the code, one-Stop Shop Service states the issuance of business licenses, the granting of work permits to expatriate employees, and the registration of business organizations as required under the relevant laws shall, with respect to investors holding investment permits, be carried out by the FIA or by a regional investment organ as may be appropriate, representing the competent federal or regional executive bodies respectively. The FIA shall register and render a one-stop service to export-oriented non-equity based foreign enterprise collaborations. The FIA or a regional investment organ shall issue a license within 5 days after receiving an application and is in full conformity with the requirements of the relevant law.

Each regional investment organ shall transmit to the FIA information compiled with respect to the resource potential and investment opportunities of the region as well as periodic reports on investment activities therein.

Federal Investment Agency

The investment agency is an autonomous public institution having a legal personality but is accountable to the investment board. Some of the powers and duties that the proclamation gave to the investment authority at the federal level are;

- Collect, compile, analyze and disseminate information on the resource potential of the country for investment opportunities
- Liaise and coordinate between investors, public offices and regional governments to enhance investment
- Issue investment permits and monitor implementation of those investment projects
- Approve and register technology transfer agreements related to investment
- Give advice and technical support to regional investment organs with a view to build up their capacity

2.7.4 Review of Foreign Direct Investment in Ethiopia

The investment climate in general and FDI in particular was not encouraging during pre 1991 period. The problems of political instability, insecurity, and the nationalization of major industries severely discouraged foreign private investment. Realizing the importance of FDI, the government then attempted to revive FDI through the 1983 Joint Venture Proclamation. The proclamation offered incentives such as a five-year period of income tax relief, import and export duty relief, tariff protection and repatriation of profits and capital. However, the proclamation failed to attract foreign investors. In 1989, the government revised the 1983 proclamation by allowing majority foreign ownership in many sectors. It also attempted to provide more protection to investors. However, the political instability and the prolonged civil war at the time further discouraged FDI. The political instability got worse and it consequently led to the overthrow of the regime in 1991 Getinet & Hirut (2005).

Since 1996, with the objective of promoting private investment and the inflow of foreign investment, a series of investment proclamations have been issued. These proclamations impose some requirement and ownership limitation. There is a minimum entry capital for FDI for both wholly-owned operations and joint ventures with Ethiopian companies or individuals. In the case of joint venture the investment proclamation requires that domestic partners must hold a minimum of 27 percent equity ownership interest. Moreover both FDI and domestic investors are required to submit progress reports every six months. Apart from these requirements, investors are not required to meet specific goals like local content requirement or operational guidelines (UNCTAD-ICC, 2004). The investment legislation has also attempted to provide a favorable investment climate by offering fiscal incentives and investment guarantees to foreign and domestic investors engaged in new enterprise development and expansion. The major investment incentives for FDI include: 100 percent exemption from payment of import duties and import taxes levied on all capital equipments; exemption from payment of export taxes (except for coffee); income tax holidays varying from one to five years; tax deductible research and development expenditure; no taxes on the remittance of capital; the carrying forward of initial operating losses and investor choice of depreciation model of capital assets (ibid).

The Ethiopian investment codes also provide guarantees to create a reassuring business environment for potential foreign investors. Specific investment guarantees that have been issued for FDI include: full repatriation of capital and profits including dividends and interest payment on foreign loans; payments for technology transfer and management agreements; full repatriation of proceeds from sale or transfer of shares or liquidation of enterprises. Moreover, the investment

proclamation No.280/2002 provides investment guarantees against measures of expropriation and nationalization, except in major cases of public interest when full market value will be paid promptly.

Under the current regulatory framework, foreign participation in investment may be carried out either through the establishment of branches or through locally incorporated enterprises. Foreign investors are encouraged to invest in all economic sectors, except those currently reserved for domestic private and state investment.

The government of Ethiopia has established the Ethiopian Investment Agency (EIA) to promote, coordinate and facilitate foreign investment in the country. The establishment of the Ethiopian Privatization Agency (EPA) is also another significant step in the promotion of FDI. The government is keen to encourage the participation of foreign investors in the privatization programme, particularly in large state owned companies. Other government departments that are involved in the attraction of FDI to Ethiopia include: the Ministry of Trade and Industry; the ministries and agencies associated with specific sectors such as mining and tourism; the ministry of Foreign Affairs and ministries dealing with taxation remits including customs. Moreover there are regional investment promotion agencies that encourage FDI into their region. The establishment of the EIA and other investment promotion and support institutions is also a step forward in the right direction. This, however, necessitates high coordination among the various institutions to raise the effectiveness of the present national effort to attract FDI. That the Ethiopian Investment Agency has recently restructured itself to improve the efficiency and effectiveness of the service delivery processes for investors is a measure that recognizes the need for effective co-ordination.

In view of this important role of FDI, it is essential to understand the principal determinants of FDI in Ethiopia. Different factors including the level of development of an economy, the policy regime in place, social and political factors may play a role in determining the inflow of foreign direct investment. In recent years, Ethiopia has started encouraging the inflow of FDI by improving the investment climate and by providing different incentive packages (ibid).

2.7.5 Major Investment Incentives

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are granted to both domestic and foreign investors engaged in areas eligible for investment incentives:

One hundred per cent exemption 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 and equipment, construction materials, as well as spare parts worth up to 15 per cent of the value of

the imported investment capital goods, provided that the goods are not produced locally in comparable quantity, quality and price.

Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges. Some investment areas such as hotels (other than star designated), whole sale, retail and import trade, maintenance service, etc. are not eligible for exemption from customs duty. Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods. In accordance with the Proclamation No. 249/2001, three duty incentive schemes are available for exporters. They are Duty Draw-Back Scheme, Voucher Scheme and Bonded Manufacturing Warehouse Scheme. Taxes and duties paid on raw materials are drawn back at the time of export of finished products. The duty draw back scheme applies to all taxes at the time of importation, and those paid on local purchases.

Ethiopian products and services destined for export are exempted from the payment of any export tax and other taxes levied on exports. Any income derived from an approved new manufacturing and agro-industry investment or investment made in agriculture shall be exempted from the payment of income tax for the periods depicted in table 2.1, depending upon the area of investment, the volume of export, and the location in which the investment is undertake.

Table 2.1: Profit tax holiday is granted subject to Council of Ministers Regulation No.84/2003 issued on the basis of the Investment Proclamation No. 280/2002 as follows:

Areas and Periods of Tax Exemption		
Conditions for Profit Tax Eligibility	Profit Tax Exemption	Profit Tax Exemption for Investments Made In Underdeveloped Regions
An investor engaged in a new manufacturing or agro-industry activity		
If he exports at least 50% of its products	5 years	6 years
If he supplies at least 75% of its products, to an investor, as an input for the production of export items	5	6
If it exports less than 50% of its products	2	3
If the project is evaluated under a special circumstance by the BOI	up to 7	up to 8
If the production is for the local market	2	3
If the production mentioned above in (c) is considered by the BOI to be a special one	5	6
Expansion or upgrading of the above projects:		
If the expansion or upgrading increases the existing production by 25% , in value and 50% of the production is to be exported	2	3

Source, FIA website

Moreover, the Council of Ministers may also award profit tax holiday for greater than seven years. However, the Board of Investment may issue a directive to deny income tax exemption right granted to investors producing only for local market, as may be necessary. The period of exemption from profit tax begins from the date of the commencement of production or provision of services, as the case may be. Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period following the expiry of the exemption period.

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

- Profits and dividends accruing from an investment
- Principal and interest payments on external loans
- Payments related to technology transfer or management agreements
- Proceeds from sale or liquidation of an enterprise
- Proceeds from the sale or transfer of shares or of partial ownership of an enterprise to a domestic investor
- Compensation paid to a foreign investor
- Expatriates employed in an enterprise may remit, in convertible foreign currency, salaries and other payments accruing from their employment in accordance with the foreign exchange regulations or directives of the country.

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

Moreover, Ethiopia provides other guarantees for investors which as a member of the World Bank-affiliated Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against non-commercial risks to enterprises that invest in signatory countries. Ethiopia is currently concluding bilateral investment promotion and protection agreements with a number of developed and developing countries and it is ready to conclude such treaties with any country at any time. Ethiopia has also signed the World Bank treaty, “the International Convention on Settlement of Investment Disputes between States and Nationals of other States (ICSID)”.

The principal taxes currently in place are profit tax; turn over tax (TOT), value-added tax (VAT), excise tax, customs duty and income tax from employment. VAT has replaced sales tax. TOT and withholding taxes have been introduced recently. Other taxes include corporate tax, dividend income tax, royalties and stamp duties. The Government has recently been introducing a series of measures to reform the tax system with a view to encouraging investment and foreign trade. On the whole, the reform process is to reduce the rates but broaden the base.

The corporate income tax (tax on profit) in Ethiopia is 30 per cent and Turn Over Tax (TOT) which is a 2 per cent tax is payable from supplying of goods to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the country. A 10 per

cent tax is payable on other sectors excluding the above mentioned services. Excise tax is levied on selected items when produced locally or imported from abroad. The tax rate ranges from ten per cent to hundred per cent.

Customs Duties are payable on imports by all persons and entities which have no duty-free privileges. The main regulation on customs duty has introduced a harmonized income tax from employment which is personal income tax payable as per Proclamation No.286/2002 system of classification of goods and the rate of customs duty ranges from 0 to 35 per cent. According to this law, the first Birr 150 of monthly personal income is exempted from payment of income tax. For monthly income of Birr 151 and above, the marginal tax rates range from 10 per cent to 35 per cent with 7 income brackets.

As to export taxes there are no taxes on export products and services from Ethiopia. Withholding tax is payable on import of goods and is set at 3 per cent of the same cost, insurance and freight. In case of organizations, having legal personality, government agencies, private non-profit institutions, and non-governmental organizations (NGOs), the amount withheld is 2 per cent of the gross amount of payment.

Value added tax is levied on those businesses whose turnover is over and above Birr 500,000 per year. They are expected to pay 15 per cent VAT. All export goods and basic services, however, are exempted from VAT. Principal taxes and its rates are given in the table 2.2 below.

Table 2.2: Principal Taxes and its Rates

Principal Taxes	Tax Rate
Corporate Income Tax	30%
Turn Over Tax (TOT)	2% and 10%
Excise Tax	10% up to 100%
Customs Duties	0% up to 35%
Income Tax from Employment	0% up to 35%
Export Taxes	---
With holding Taxes	2%
Value Added Tax	15%

Source: FIA website

Furthermore, Ethiopia has concluded tax treaties with a number of countries and is also ready to conclude similar treaties with other countries for the purpose of avoidance of double taxation.

2.7.6 Investment in Southern Nations, Nationalities and Peoples' Regional State (SNNPRS)

In the first place the regional investment agency has offered (stated) the following vision and mission in its investment guide book:

✦ **Vision-** To see the region become leading investment area through strong one stop shop service delivering organization in investment promotion.

✦ **Mission-** To improve the well being of the people by studying and promoting investment potentials of the region, delivering investment licenses, supporting investors to obtain land, following and setting encountered problems by using different approaches which makes the region ideal for investment.

SNNPR Investment Policy

In addition to Federal investment policies and laws there are also regional laws and directives inline with the federal law. These are, proclamation 81/2004, directive of rural land for investment activities (2004), permanent green plant incentive rule (1998), the resource potential and investment opportunities guide (2008), the private investment expansion programs and other brochures for promotion purposes.

The objectives of SNNPR investment policy is designed to improve the living standards of the peoples of the region through the realization of sustainable economic and social development, the detail of which is the following:

1. to promote the immense natural resources and comparative advantages and competitiveness
2. to encourage balance development and integrated economic activity among different places in the region and to strengthen between the economic sectors
3. to encourage investors utilize the opportunities of investing on exportable crops of the region and design a way for the people to make use of it
4. to enhance the role of private sectors in the acceleration of the development of regions economic and social activity.

As the base of the policy one-Stop-Shop Service can be under taken as follows:

- The bureau may undertake the issuance and operation license, registration of business organizations and concluding contract as required under the relevant laws with respect to

investors holding investment permits, by representing organs of the region, appropriate representative of the bureau

- The bureau may deliver rural and urban land reserved and prepared for investment when delegated by an appropriate organ. Details shall be decided by regulation.
- In allocation of Land if investing in rural areas, investors shall be granted rural land in accordance with the regulation on the lease of land for rural investment and investing in urban areas, investors shall be granted urban land in accordance with urban land allocation law.
- In addition to incentives specified by Federal government, the board may issue appropriate directives of incentives within regional level.

Investment administration SNNPR

Accordingly the SNNPR has designed regional investment proclamation in 2004. The investment administration organs in the region as per this proclamation are; Investment board, Trade, industry and urban development coordination bureau, Investment agency, Zonal/special woreda investment committee and Zonal investment desk.

The board is expected to consist of 7-9 members drawn from government as well as private sectors. Accordingly chief executive administrator of the region, head of trade, industry and urban development coordination bureau and investment bureau are designated respectively as chairperson, deputy chairperson and secretary of the board. On the other hand heads of rural development bureau, finance and economic development bureau, environmental protection and land use administration, culture and information bureau, Mayor of Awassa city and other two representatives of investors are members of the investment board for the region.

At zonal and special woreda level investment committee is established as executive body under the direct supervision of the investment board at regional level. The representative and responsibilities of the committee at zone and special woreda level is a direct replica of the structure of the board at regional level. However, the structure of the investment does not go down to woreda and Kebele levels.

SNNPR Investment Board

The SNNPR investment board is the highest authority to make a decision on the investment procedures of the region. Moreover as per the proclamation number 81/2004 of the region the board is give a certain power and duties as indicated below.

- Supervise the implementation of the proclamation 81/2004 and the activities of investment administration bodies of the region.
- Decide on policy issues that can be raised in relation to the proclamation
- Issue directives necessary for the implementation of the proclamation
- Decide on the provision of rural land to investors
- Decide on appeals submitted by investors against zonal investment desks
- Issue directives for investment that deserves special incentives
- Reward investors with better results
- Determine service fees to be charged by the bureau.

SNNPR Investment Agency

Having autonomy and legal personality, the SNNPR investment agency is accountable to the coordination bureau, regional council and the board. The proclamation also states that the head of the investment agency should be appointed by the regional council. The agency has a number of duties and powers and a few of them are enlisted below.

- Facilitate the provision of all-rounded services in collaboration with other sectors
- Based on the law and issue, suspend, renew and revoke investment licenses
- Initiate and implement policies that create conducive conditions for investment in the region
- Collect, analyze and disseminate information on investment opportunities
- Render pre and post investment consultancy services to investors
- Facilitate the provision of investment land in rural and urban settings
- Evaluate and submit land request to the board
- Coordinate and follow up the activities of investment desks, collect reports and give support if necessary.

According to RIA (2008), utilizing the advantage of natural resources for export of high-value agriculture products is the best strategy to achieve rapid economic growth for a country. In view of this, private initiatives are encouraged to focus on agriculture investments where they have the best

comparative advantage. To this end the SNNPRS has attempted to identify rural land according to their suitability or best use. Further more, based on the resource potential of the region, feasible industrial project profiles have been prepared for each zone and special woreda.

Zonal investment committee

The composition of investment committee at zone level is also a direct replica of the board at the regional level and also it is accountable to the regional investment board. Investment committee of special woredas also has structure and responsibility similar to that of zone investment committee. Major roles and powers of the committee are enlisted below:

- Facilitate conditions to expand investment including follow up of preparation of land for investors
- Conclude contract and deliver land for investors given by the regional board
- Address problems encountered at the grassroots level and transfer cases to the board if it's beyond its capacity.

Zonal investment desk

The zonal investment desk is accountable for the head office at regional level and Trade, Industry and Urban Development Cooperation (TIUDC) main department unit. Some of the powers and duties given to the desk by the regional investment proclamation 81/2004 include the following:

- Initiate policy issues; identify problems encountered during implementation of policies, proclamations and regulations and transfer to the bureau with corrective measures
- Facilitate jointly with concerned organs the preparation and development of rural land for investment
- Resolve problems encountered with concerned bodies during implementation
- Monitor the implementation of investment projects it has issued
- Deliver the land to investors within fifteen days following the approval of the investment board
- Facilitate the measuring of land given to the investor and prepare and hand over land holding certificate with approval of zonal trade industry and urban development department
- Submit work plan and report to the regional agency.

CHAPTER 3: DATA PRESENTATION AND ANALYSIS

3.1 Introduction

This part of the paper attempts to describe data collected through various techniques towards the assessment of the investment policy implementation in Kaffa, Sidama and Gamo gofa zones in SNNPR.

Demographic Characteristics of the Respondents for Questioner

This part of the study presents the questionnaire respondents profile from which the data were collected for the study. The general background of the sample respondents is presented here table 3.1 and 3.2.

Table 3.1 Institutional Distribution of the Respondents

No	Item	Number of respondents	In%
1.	Regional Investment Agency	4	10.81
2.	Zonal Investment Desk(3 zones)	9	24.32
3.	Investors(Sidama & Gamo-Gofa)	6	16.22
4.	Trade & Industry Bureau	2	5.41
5.	Agriculture and Rural Development Bureau	2	5.41
6.	Zonal Agricultural & Rural development Department(3zones)	5	13.51
7.	Regional revenue Authority	2	5.41
8.	Zonal revenue authority(Kaffa)	1	2.7
9.	Regional Employee and social affairs agency	1	2.7
10.	Zonal Employee and social affairs agency(Gamo-Gofa)	1	2.7
11.	Zonal work & urban development(Gamo-Gofa& Kaffa)	2	5.41
12.	Regional Administration	1	2.7
13.	Zonal Administration	1	2.7
14.	Total	37	100

Source: Own data (Survey, 2010)

Table 3.2: Demographic characteristics of the Respondents (Sex, Age, Martial status and Educational Status)

No.	Item		No. of respondents	In %age
1	Sex	Male	33	89.19
		Female	4	10.81
		Total	37	100
2	Age	18-30	2	5.4
		31-40	16	43.25
		40 and above	19	51.35
		Total	37	100
3	Martial Status	Single	6	16.22
		Married	31	83.78
		Divorced	-	
		Total	37	100
4	Educational Status	Degree and above	27	72.97
		Diploma	9	24.33
		Grade 1-8	-	-
		Grade 9-12	1	2.7
		Total	37	100

Source: Own data (Survey, 2010)

As it is indicated in the above demographic table 3.1 the numbers of institutions for horizontal linkages with investment agency were many. This is because the institutions have special rooms for investment. The number of respondents from each institution is minimal this is because participants are drawn in accordance with the responsibility they hold which is investment related authority. The demographic variable summery shows that the proportion of male and female respondents was very different with the proportion of male 89.19 per cent and female 10.81 per cent. This shows women’s less occupation in the area of investment related responsibilities. According to age distribution majority (51.35) lies in the range of 40 and above. While the remaining 5.4 % and 43.25 % of the respondents were in the age of between 18-40 years. With regard to educational status the majority

(72.97) were degree and above degree holder. The rest 24.33 % was diploma holder and 2.7% in status 9-12 grades.

In line with this 37 questionnaires were distributed for purposefully selected sample respondents from investment agency, investors as well as other relevant government offices such as trade and industry, agriculture and rural development and finance and economic development. Three Focus Group Discussions (FGDs) were also conducted in each zone consisting 16 participants per one FGD. Moreover, 10 key informants were interviewed in order to strengthen data source of this inquiry. Apart from these primary data sources, secondary data sources such as annual reports and proclamation documents were also reviewed.

Using these three techniques the researcher has attempted to triangulate the information to better articulate and make sense out of the collected data and to contribute useful information to the progresses of investment policy implementation in the last five years in the targeted zones of SNNPR. The researcher has carefully treated all the data and information during analysis in order to be objective.

3.2 Dynamic Variables on Viable Investment Sector

Investment, as one of the engine of the economy of any country, depends very much upon a number of factors for its change in either positive or negative direction. For instance having a political atmosphere which was conducive supported by effective policies and strategies and a strong commitment and capacity to implement the policy is one of the prerequisites to advance the economy by promoting investment. In this sub topic such dynamic variables will be discussed against the investment policy implementation using data gathered from various sources.

3.2.1 Investment Policy

Ethiopia has investment policy starting from Haile Selassie regime. However, policies have been changed continuously depending on who held power and what ideology the rulers pursued. The functioning investment policy to date was designed in 2003 by EPRDF at the federal level and regional states also started designing their own regulations in line with the proclamation. Consequently, SNNPR has designed investment policy proclamations in 2004.

Even though availability of policy for the sector by itself is encouraging it is equally important to test how effective and efficient it is. Table 3.3 illustrates the views of respondents of questionnaire in relation to quality indicators of the investment policy.

Table 3.3 investment policy quality indicators

Quality indicators	Quality scale						Total	
	Fully agree		Agree		Disagree			
	No.	%	No.	%	No.	%	No.	%
The policy has clear and consistent objectives	10	27	24	65	3	8	37	100
Hierarchical coordination among policy implementing institutions	1	3	26	70	10	27	37	100
Decision-rules at regional and zonal levels is compatible with national standards	8	22	22	59	7	19	37	100
Policy implementation is backed with skilled human power	6	16	12	33	19	51	37	100
The policy is accessible to all	13	35	8	22	16	43	37	100

Source: Own data (Survey, 2010)

Questionnaires were framed to assess the quality of the investment policies and proclamations and administered to various audiences who were purposefully selected with the view that they can be most knowledgeable about the investment sector in SNNPR in general and the selected three zones in particular.

Accordingly, with regard to the quality of the objectives of the investment policy, among 37 individuals for whom the questionnaires were administered most of them, that are 24 and 10 of them, have just agreed and fully agreed respectively that the investment policy has clear and attainable objectives. On the other hand only 3 out of all the 37 respondents disagreed that the objectives of the investment policy are not clear and consistent. Therefore, if we base our arguments on the views of the respondents then it seems possible to conclude that the investment policy has acceptable objectives.

The above table 3.3 also indicates that out of 37 respondents almost majority of them, 27 respondents, tended to believe that there is good and collaborative work relationship vertically among the investment policy implementers. In fact that 10 respondents did not agree with the existence of coordination among policy implementers is not negligible but invites for a close observation of the situation.

We can also note from the table above that out of 37 respondents 19 of them disagree that the policy implementation is not well supported with the necessary professionals who can skillfully run the responsibility of enhancing the investment sector at all levels towards a better and sustainable

economic development. On the basis of more than 50 per cent of the respondents who believe that policy implementation is not backed with adequate experts, it is logical to say that investment agencies, in order to put in place an effective, efficient policy quality, need to work towards attracting professionally motivated and committed personnel since skilled manpower is the most important asset for the fulfillment of the mission of any given institution.

3.2.2 Human and Material Capital

Human capital is one of the determinant factors playing key role for the efficiency and quality of investment endeavors in any setting. In fact the better human capital a particular investment project has in the field the higher the rewards would be.

It is true that in most of the developing countries lack of adequate skill and man power is the bottleneck in many sectors including investment. Through the various focus group discussion and interview with key informants it is noticed that especially at the zonal level the assignment of competent professionals in this sector is found to be less satisfactory. Moreover, the respondents were asked about the competency of officers assigned at zonal level in particular towards meeting the skills required for the job. Accordingly only among 37 respondents 3 have fully agreed, 13 have just agreed but majority of them, which is 21 of them, have disagreed that the officers are competent.

The respondents were also asked whether the officers at regional and zonal level have adequate leadership skills and commitment for the responsibility they are assigned to. Majority of the respondents, that is 66 per cent, claimed that officers do not have the adequate skill to lead, facilitate and solve problems vis-à-vis their roles as most claimed high turnover affects the trained and experienced ones. The turnover for officers as some explained is political movement and for experts because of lack of different incentives.

Apart from skills and competency of investment experts assigned at different level, there is also a gap concerning adequacy in terms of hiring sufficient number of experts as outlined by the guideline of the proclamation and regulation at each level. Table 3.4 indicates the number of professionals currently found on board against the number of professionals needed for the job at different levels.

Table 3.4 Number of experts on-board

No.	Level	Number of experts on-board		Total	Qualification of experts on-board				Standard number of experts needed
		M	F		Below diploma	Diploma	1 st degree	2 nd degree	
1	SNNPR Regional level	21	3	24	6	0	13	5	27
2	Sidama	7	2	9	1	4	4	0	10
3	Kaffa	4	1	5	0	4	1	0	10
4	Gamo gofa	8	1	9	1	4	3	1	10

Source: Own data (Survey, 2010)

Table 3.4 shows disparity in terms of assignment of experts as per the standard at levels to carry out the task of flourishing investment sector to its fullest potential. In fact there is a better man power at regional level but only it lags behind the standard by 11 per cent which is in fact much better compared to the cases of the selected zones. Among the target zones the case of Gamo gofa and Sidama is pretty close to meet the standards and the table above indicates that only one expert is missing from meeting the standard. Ironically in the above table apart from all other issues gender disparity is vividly open. In each of the structures women take not more than 10 per cent of employment opportunity in the investment sector.

Apart from man power, through the discussions held with key informants it's observed that offices especially at zonal level undergo a serious problem in terms of material requirements for the job. Officers do not have their own vehicles to conduct field visits and follow up and supervise investment projects that are being implemented at woreda and Kebele level. The case is true in terms of office equipments and facilities such as computers, printers, stationeries and office settings.

3.2.3 Infrastructure

Infrastructure at this level may include both physical such as road, buildings, institutions as well as technological inputs such as means of transportation, information and communications. Basically some of the investment projects are far away from standard roads hindering them to bring their products to the market. Some of such projects also have difficulty of accessing water, electricity and telecommunication networks. In line with this indicator, the three zones selected for this study were discerned having different infrastructural development as shown in the table 3.5.

Table 3.5 Infrastructure development comparisons

Infrastructure indicators	Gamo gofa	Sidama	Kaffa
Distance from the center(AA) in Km	565	275	449
Distance from Hawassa in Km	275	Hawassa is also a town for Sidma	724
Type of road	366km dry season 89.9km asphalt 131 all weather	102km asphalt 446.77km gravel	196 1 st level gravel 168 2 nd level gravel 108 Labor base
Electricity	Hydro electric power for 14 woreda & 2 town administration	Hydro electric power for 12 woreda town	Hydro electric power for 7 woreda
Pipe water	Pipe water networked	24% of the population	29% of the population
Internet	Only one town	Only one town	Only one town
Telephone	5611 digital landline 5 towns partial digital 128 kebeles wireless Digital & mobile- Arba minch	All towns	3 towns digital 12 towns partial automatic 7 towns VSAT
Postal services	15 woreda	10 woreda	1 town and agents in 4 towns
Transport	Vehicles and plane	Vehicles	Vehicles
Surface cover	12581.4 square km	6972.1 square km	10602.7 square km

Source: RIA investment Guide Book, (2008).

Table 3.5 indicates the distribution of infrastructure development across the selected zones of this study. As it can be observed many of the facilities are not uniformly distributed and hence some are better in attracting more investors than others. For instance, due to its proximity to the center as well as to the regional capital of SNNPR, Hawassa, and accessibility to best infrastructure Sidama, has managed to attract 602 investment projects than Kaffa and Gamo gofa. On the same token, as can be seen in table 3.5 Sidama is also better in creating more employment opportunities than the two zones.

According to the distribution of the projects in different zones and special woredas in the Region, it is very different in the number of the projects in each zones and woredas. As asked about this situation, the Regional investment agency official explained, it is impossible to distribute the investment projects by use of quotas. It is up to the investors to decide where to invest their capital and choose which investment type for their project. But he was very keen to point out the infrastructure and coordination problem determines the distribution of the projects. The FGD participants and zonal key informants claim the investment in number and type is not fairly distributed and it is dominated by attitudinal bias. They further claimed informal (invisible) hands

are the cases in promotion process which hinder the remote areas from having ample number of projects. Let alone the three zones, even the other zones and special woredas have owned very less number of projects as they said. For example, currently from Regional zones Dawuro and Sheka zones have 25 and 89 projects respectively and also from special woredas Derashe and Yem have 1 and 6 projects respectively.

The basic infrastructure types for development, shown in the above table are the results of newly adopted policies for the upgrading of investment that, in turn contributes for the economic development. Though, it is in better situation than before concerning the infrastructure still shortage of road and water facilities are critical problems in three selected zones. The situation is the worst in Kaffa zone. In the FGD conducted in three zones, participants explained much about infrastructure problem especially participants in Kaffa zone raised that most roads from the main town to woredas only serving in summer times, it is impossible for the agencies to visit the projects in winter time. On the other hand, participants in Kaffa zone claimed water problem especially in the main town. Hotel owners raised that they used tap water turn by turn (once in three days) and they are forced to use donkey back and laborers to fetch water from streams. They seriously claimed that even they may be forced to close their hotels in summer times because of water shortages even from the streams. They further explained, that the government promised to avail industrial sites with all facilities including water supply for investment have to be prepared in advance in the town so as to make them accessible without any inconvenience and within reasonable time. That is why they made all their effort to build the good standard hotels than before in the town as the participant said. There fore they strongly asked for concerned governmental institutions and other stakeholders, to quickly solve the water problem in the town.

3.2.4 Coordination

Responses given about the coordination of the promotion process between regional and zonal investment agencies were illustrated in Table 3.6 below.

Table 3.6 Response on Coordination between key Institutions at Local and Regional Level

Indicator	Yes		Yes bet Weak		No		Total	
	No.	%	No.	%	No.	%	No.	%
Availability of Coordination b/n Region & Local key Institutions	10	27	18	48	9	25	37	100

Source: Own data (Survey, 2010)

Investment is not unilateral rather it requires the active involvement of many actors within the government structure, private sector as well as the community at the grassroots level. Even though the one-stop-shopping principle indicated in the policy implies that investors should be able to access comprehensive quality services easily at a time, the fact on the ground reveals that they need to go back and forth and contact various offices. For instance participants of the focus group discussion and interviewees have explained that the role of each relevant stakeholder is not exhaustively indicated at all. A board selected from various sector bureaus in the SNNPR is established with a jurisdiction to design rules of engagement for the region in line with the federal and regional proclamation of investment policy. However, the board did not yet prepared such an important rule to enhance coordination among sector bureaus and offices. This gap, as is indicated by FGD participants, has affected functionality of the service delivery compared to the magnitude and scope of investment service requested.

The respondents were enquired whether there is vertical coordination between regional and zonal investment agency and offices in promoting, expanding and facilitating investment opportunities. Nearly 27 per cent of the respondents claimed that there is a promising start in line with better coordination and cooperation. Those who argued the presence of coordination in investment promotion backed their statement stating that there exists investment forum composed of relevant stakeholders, the practices of promoting and advertising investment opportunities using mass media, bazaars and trade fairs and the scenarios whereby the regional agency develop strategic plan and assist zones technically.

On the other hand majority of the respondents, over 48 per cent, argued that despite the fact that they believe the presence of some sort of coordination they tend to label it as weak and need to be strengthened. Other 25 per cent of the respondents fall out and state that there is no as such noticeable sort of structured coordination tied with guidelines and frameworks used uniformly across all investment agency and offices.

During the focus group discussions it is noted that this in fact has created problems in relation to the quality and efficiency of the services delivered to the beneficiaries. Participants went further to indicate that as a result of this, investors spend much of their time due to reiterated visit to various offices to handle a particular issue. For instance investors after fulfilling all the requirements and possessing investment license, securing land for their projects were the hardest part to cut. This in turn has led to a complete withdrawal of the business or engaging in an illegitimate means of processing work.

In general the dynamic variables discussed so far are interdependent. It is true that creating favorable working environment ease a way for new technology and better ways of doing things. However, this per se cannot be good enough unless other variables are also put in place to materialize a particular investment project. Over 95 per cent of the respondents have also proved this by stating that the variables are interdependent and reinforce each other.

3.3 Quality and Efficiency of Investment in the Selected Zones

This part of the paper attempts to scrutinize the practical implementation in the investment sector with results at impact indicators level. Hence the data collected using various techniques will be analyzed to asses whether the investment achievements are positively contributing towards the development of the society in the Region in particular and in the country in general.

Quality at this context is to be used as a tool to measure whether the processes and results of investment projects are implemented and facilitated as expected, whether the targets benefit positively, whether there are no side effects incurred the community and the public at large.

Efficiency is similarly another tool used to gauge whether the efforts exerted so far in the selected zones to maximize benefits of investment projects are good enough; is that all what can be done?

3.3.1 State Intervention

In theory state intervention required to rectify market failures (Rueschemeyer and Putterman, 1992:243), to adequately provide collective goods, when markets fail to instigate industrial or economic development apply mainly to developing countries where late industrialization would not be possible without effective State intervention (Amsden, 1992:53). Protection of infant industries in developing countries from the competition of industries of already developed countries is essential for national development (Grabowski, 1994:416).

In Ethiopian case the state should not go to the extent of engaging itself in those sectors where the private sector in the economy could effectively handle them. Its intervention is required to correct market failures and make its intervention only temporary, should aim at regulating the market and creating a situation for the private sector to eventually rectify the market by itself.

In the field work, from 37 respondents of the questionnaires 30 of them responded positively. They argue that without planed state intervention it is impossible to find private investment development. They further said that state intervention is necessary in the selected area where private investors is lagging behind to enter and areas where country security and benefit be kept. They furthermore

indicated that the government has to enact laws and regulations which are helpful for the growth of investment in particular and the country in general.

3.3.2 Community Participation

In fact the community may hold various types of roles and responsibilities in activities that affect their lives. Depending on who owns and initiates a particular activity the community could be alienated, could be called for a meeting, could be given incentives, could be consulted or perhaps could be empowered to make its own decision on matters that affect the lives of its members.

The data gathered from different sources indicates that the level of community participation varies from zone to zone. During the focus group discussion conducted in Gamo Gofa and Sidama, participants explained that the community usually urges government officials in person and in various forums and meetings to encourage and attract more investors into their zones.

Since Gamo Gofa is rich with tourist attraction sites and Sidama is close to the center, they have relatively prior exposure to investment opportunities than Kaffa zone. This exposure has led, as explained by participants during focus group discussion, to better awareness of the community about the advantages of expanding investment in the zones. Hence, the participants of FGD further explained that the community insisted attracting more investors because the community in many ways benefit from various investment projects such as employment opportunities, skills and knowledge transfer and better social services such as health, education, road, agricultural inputs and products.

On the other hand, in the FGD conducted in Kaffa zone, participants explained that the community view investors as threats. The participants said that this is because the local community enjoyed possessing vast open land, even if they do not plough it intensively, they use the natural forests to collect coffee and attract honey bee. They consider investors as threat mainly because the community was not involved in any awareness raising activities on positive rewards of expanding investment. Hence the community has a fear of losing land to pass on to the next generation.

The results of questionnaire distributed to sample population also indicated almost the similar scenarios. For instance respondents were asked whether the community is aware about the purpose of investment sector. Among 10 respondents asked from Gamo Gofa and 18 respondents from Sidama over 50 per cent and 66 per cent respectively agreed that there is positive community awareness about the purpose and importance of investment. On the flip side among 9 respondents

asked from Kaffa only 3 of them claimed that the community is positively knowledgeable about investment.

In fact all the respondents in each zone have agreed that there should be a continuous effort to improve the awareness of the community to better participate and contribute to the sector. They have also added that both the government and private investors should launch joint ventures with the community to proliferate the contribution of investment sector for sustainable socioeconomic development in each of the zones.

3.3.3 Outcomes of the Investment

Investment in most cases, if carried out carefully, is known to bring tremendous change both in micro and macroeconomics of any given nation. In this part of the thesis the data gathered from primary and secondary sources were analyzed against the contribution of the sector towards bringing change in the macroeconomics of the selected zones in the last five years period. Some specific figures were not captured due to absence of well structured data especially at lower level. Therefore, for this type of data only the views and opinions of the participants involved in this research were analyzed carefully. To this end, the researcher would like to express her fear of the vulnerability and subjectivity of the notion and strands that may result from the analysis of the views of the participants. However subjective and opinionated this might be, the research has attempted to cross-check and balance the views entertained here by incorporating the views of different actors in order to grasp the facts that are as simplistic as to be acceptable. The researcher is optimistic that the views of the majority, even if it is not supported by very specific figures and pictures, shows a reflection of facts on the ground and were a bit closer to the realities. In addition, some secondary data collected were used to further indicate the outcomes of the investment.

i) Capital flow

Ethiopia, after relying only on a few types of goods for its foreign exchange and remittance for years, has now shifted to exporting diversified goods and items. The contribution of expanded investment, especially foreign direct investment, to the shift is highly commendable.

The government of Ethiopia has gained trust of international donors and funding agencies for its huge investment ventures and managed to increase capital in-flow. On the other hand right after the liberalization of market and moving to mixed economic policy domestic private investment has increased enormously.

Similarly, the application of favorable investment conditions such as ensuring peace and security, designing appropriate policies and strategies in general and in the sector in particular and the immense and unexploited resources of the country have attracted large number of foreign investors with huge amount of capital and technology. The combination of all these significantly increased the types and sizes of export in the country. Accordingly, the revenue government at different levels gets has also increased.

In 2003/4 the number of investment projects found in SNNPR was 178 and the total amount of capital invested was nearly 1.05 billion. However, in 2009/10 the number of total investment projects in the region reached 5,210 and the total investment capital reached nearly to 43.2 billion.

ii) Technology and Knowledge Transfer

Newly established investment firms are mostly technologically well equipped so that the goods, items and services produced could break through international markets both in terms of quality and supply. This is particularly true with investments carried out by foreign investors as they have better capacity and global experience with modern technology. Consequently various investment projects that are being implemented in the target zones have utilized better skills, knowledge and technology than carried out before. For instance, for years coffee was exported as a raw bean but now processed coffee is being exported.

iii) Employment

In the last five years both private and public investment has tremendously increased in the country in general and so did in the selected zones. A number of foreign direct investments with huge amount of capital and technology, new to the selected zones, were attracted. The investments in both spectrums are diverse in nature covering social sector, agricultural sector, manufacturing and industry sectors as well as services and tourism sectors.

According to a statistical abstract report prepared by SNNPR Trade and Industry Bureau in 2000 EC and Regional investment agency symposium report 2001 E.C., employment opportunity has dramatically increased in the region in general and the selected zones in particular. Table 3.7 illustrates the point at hand.

Table 3.7 Employment opportunities generated from investment sector

N o.	The agency at different level	Employment created in 2004/5	Employ ment created in 2005/6	Growth Rate %age	Employment created in 2006/7	Growth Rate %age	Employment created in 2007/8	Growth Rate %age	Employment created in 2008/9	Growth Rate %age
1	SNNPR in general	71,190	82,630	0.16	167,206	1.02	469,527	1.81	117,759	-0.75
2	Gamo gofa	1,779	2,599	0.46	5,608	1.16	24,684	3.4	55,630	1.25
3	Sidama	3,893	9146	1.35	5484	-0.4	13,184	1.4	57,787	3.38
4	Kaffa	3,488	380	-0.89	13,282	33.95	15,299	0.15	46,102	2.01

Source: adopted from SNNPR Trade and Industry Bureau statistical bulletin (2000) and symposium report (2001).

Table 3.7 indicates the progress of investment both in terms of creating employment opportunity as well as increase in number of investment projects in the SNNPR in general and the three selected zones in particular. As it can be noted above Sidama has created more employment opportunities in the zone and also has the largest number of investment projects and as the result has managed to create employment opportunity more than the two zones. Kaffa having the least number of investments has managed to secure the least number of employment opportunities.

In addition to the above table, through FGD, in-depth interview and questionnaires administered to the most knowledgeable officers and experts in the sector both at the regional and zonal levels, it is learned that employment opportunities were created for a large number of people across various social statuses. This included from the very illiterate and poor segment of the population to well educated and trained professionals in various fields.

3.3.4 Annual Growth of the Projects

Table 3.8 indicates growth of investment from year to year since 1993 up to 2009 in the Region.

Table 3.8 Overview of the Past 16 Years Investment Projects Trends

Year	No of project	TOTAL_ CAP (in millions ETB)	TOTAL -EMP
1993	10	39.6	1,573
1994	21	262.1	21,722
1995	50	259.3	7,899
1996	82	408.6	4,615
1997	155	471.8	14,539
1998	181	542.5	17,288
1999	153	3,220.6	14,969
2000	66	1,409.8	6,928
2001	30	207.1	2,566
2002	27	171.3	3,742
2003	85	1,161.8	3,791
2004	179	1,071.4	22,936
2005	279	1,359.5	75,310
2006	912	4,371.5	82,630
2007	919	6,702.1	167,206
2008	1,404	17,171.8	469,527
2009	657	4,396.2	117,759
Total	5,210	43,227.1	1,035.000

Source: S/N/N/P/R/S investment forum report, 2009/10

In previous time investment was ceased during the last two regimes since the introduction of recent policy by the Federal government. Investment in the region since 1992 has shown a tremendous leap due to the implementation of investment-friendly policy and the prevalence of other favorable situations in the Region. This is the result of economic stabilization, structural adjustment measures, good policies and strategies of the country as the whole.

The number of investment in 1993 was 10 where as in 2009 it reached 5,210. This implies that the system at hand is encouraging to widen the private investment growth. Thus private

investment is the main solution to enhance the overall economic growth in the Region as well as in the country and it is a very means to detach from multifaceted problems. Therefore, the pulled domestic and foreign investments in greatest quantity were used for creation of capital accumulation, to some extent fight unemployment and minimize poverty and enhance quick economic growth.

3.3.5 Licensed Projects in Ownership

Table 3.8 shows about licensed projects in owner ship and its contribution in capital formation and reduction of unemployment specifically in the region and in the country as a general.

Table 3.9 Projects in ownership

Ownership	No. of projects	No. of projects in %	Capital (millions)	Capital (millions) in %	Employment	Employment in %
Foreign Investment	211	4.1	6,997.7	16.18	190,895	18.44
Foreign Investment jointly	144	2.8	10,324.7	23.88	188,324	18.19
Public Investment	11	0.2	3,523.3	8.15	28,672	2.77
Domestic Investment	4,844	92.9	22,381.3	51.77	627,109	60.59
Total	5210	100	43,227.1	100	1,035,000	100

Source: S/N/N/P/R/S investment Report, 2009/10

According to number of projects the best share in the above table is the domestic investment which constitutes 92.9 per cent of all, in the capital formation of 51.77 per cent and job opportunity of 60.59 per cent. Though, it is evident that local producers are characterized by considerable capital limitations and lack of technological capacities and modern management. This resulted from the good direction of the policy and strategy which have created a situation where the domestic investor becomes the principal actor. Though, it is the case, still domestic investors are suffering from bureaucratic laden of banks apart from the strategy, are less accessed to infrastructure and most are ignorant of policies and laws of investment because of less accessibility of the laws. Therefore, though much was expected

from domestic investment to play a dominant role in realization of sustainable development, they are still much far to reach on board because of the listed problems above. Most of the respondents of the questionnaire responded that domestic investors play a dominant role by investing their capital on development oriented investments, creating skilled human power, creating job opportunity and especially by reinvesting the capital profit in the country. Moreover, from 37 respondents of the questionnaire the majority, 44 per cent agreed domestic investors are playing a dominant role in realization of sustainable development whereas 32 per cent of the respondents even very agree about the issue. Totally 76 per cent of the respondents agreed and supported the view on the same manner as stated above.

Foreign investment in this table shows capital formation of 16.18 per cent. This is a better step forward as compared to 1992 minimal of FDI projects. According to industrial development strategy of Ethiopia the foreign investment is taken as the important participant. This is true because the provision of managerial knowledge and skills through 18.44 per cent of the employees and foreign market penetration through quality oriented products. In addition to above during FGD held in Arbaminich the participants assured that if handled very carefully, FDI benefits the Region as well as the country but there may be negative consequences if care and support is not given.

Though, the public investment constitutes the least number of projects, it creates enable environment by solving infrastructure problems, and this lays the foundation for better growth of the private investment.

3.3.6 The Status of Licensed Projects

Table 3.10 illustrates the status of the project.

Table 3.10 Project status

Status	No. of projects	No. of projects in %	Capital	Capital in %	Employment	Employment in %
Operation	934	18.93	3,779,303,755	8.56	100,569	9.72
Implementation	352	6.76	5,401,192,226	12.5	82,022	7.93
Pre-implementation	3,614	69.36	30,134,951,959	69.68	792,493	76.56
No activity	137	2.63	1,998,879,536	4.39	16,759	1.62
Erased	173	3.32	1,912,783,616	4.39	43,157	4.17
Total	5,210	101.00	43,227,111,092	100	1,035,000	100

Source: S/N/N/P/R/S investment Report, 2009/10.

Though the total number of investment projects in table 3.9 was as expected and better hope can be seen for future development, table 3.10 shows the need for further care and follow up mechanism for licensed projects. The projects at operation status are very few in number which is 18.93 per cent as compared to pre-implementation which is 69.36 per cent. This shows still most of the projects are on the building stage, if follow up mechanism and support is not there no guaranty that, some of the projects will get back. Moreover, the above table shows about 6 per cent of the project have got out of the play field. This situation decreases the number of projects, the capital and the employment created. This in general leads to decreasing of the outcome that is expected from the future development of the Region as well as the country as the whole.

3.4 Implementation with Regard to Investment Policy

Under the protectorate of the Ethiopian Parliament investment proclamation that is functional to date was designed first in 1992. The investment proclamation was reenacted in 1996, 1998, and 2002 but again in 2003 the proclamation was revised and is serving until now. This revised proclamation will be referred to discuss the structures and responsibilities of the legal institution of investment at different levels.

3.4.1 Roles and Responsibilities of Investment Administration Organs-Federal Investment Agency

Despite the various provisions stated at the federal level, during the focus group discussion participants have identified certain loopholes that proclamation over sighted. For instance investors willing to carry out investment projects in certain remote areas are entitled to certain benefits. However, despite the fact that there are many remote places with less infrastructure facilities such as some places in south west of the region, only south Omo is included in this provision.

On the other hand even if the investment agency and its grassroots branches are expected to identify and provide information regarding places for investment opportunities, the participants explained that investors could not obtain appropriate information they seek. Despite the fact that there is an investment promotion guide it needs continuous revision and it is out dated now.

The skills and expertise at federal level is much better. This would have been used to strengthen the structures at regional level in training and capacity building of the staff at regional level. However, the FGD participants outlined that the federal agency has gaps in terms of supporting, conducting discussion with and providing to training regional agencies. Participants have also pinpointed cases that investors with incentives who are identified and recognized by the regional agency are not followed up and supported by the federal investment agency. They have also added that some of the investors engaged on producing plants that take five or more years to harvest are given grace period from taxation. They on the other hand recommended that this tax exemption should also include investors who produce annual crops. This also should consider investors who are engaged on cattle breeding and lower the tax exemption entitlement number of cattle.

3.4.2 SNNPR Investment Board

Participants argue that having such a huge autonomy to facilitate effective expansion of investment through minimizing gaps in policies and regulations, the board remained quite silent on issues that are bottleneck for investors as well as zonal and special woreda experts because of their double role. For instance, even if the investment bureau is assigned to facilitate the effective running of investment projects in collaboration with other bodies, this

is not backed by directives of coordination that outline the roles and responsibilities of each participating bodies. As a result, accountability of each responsible body is unknown. Even though the board members need to hold regular meetings to resolve emerging problems, it is neither affective nor consistent.

In the FGD it is raised that revenue collected from PLCs in a particular zone, even if the law gives a right to the zone to benefit certain percent of the revenue, it nonetheless does not usually go to the particular zones. Article 98 sub article 1 of the constitution states that the Federal government and the states shall jointly levy and collect revenue on enterprises. Accordingly 50 per cent of direct tax and 30 per cent of indirect tax from revenues are indicated to be allocated to the region. However, the absence of revenue distribution law specific to the SNNPR has created problem in distributing the allocation of revenue to particular zones and special woredas.

3.4.3 SNNPR Investment Agency

Key informants and participants of the FGD identified that the Regional agency has serious drawback in supporting the experts at zonal level. Follow up is very weak. Financial and logistic issues entrapped the agency to strengthen the investment implementation processes.

It is not uncommon to see conflicts between local farmers and newly arriving investors due to border demarcation disputes. Sometimes the investors seek more land and want to push away farmers. In such conflicts the role of the regional investment agency is quite significant. It is expected to resolve such disputes through accurate allocation of land and liaison with other bodies.

3.4.4 Zonal Investment Committee

The participant of this study underlined that as the zonal investment committee members are drawn from various offices and as they have their own responsibilities in their respective sectors they tend to put aside the roles they have in the investment sector. Monthly meetings are not held regularly and crucial problems are not referred to the board.

3.4.5 Zonal Investment Desk

The FGD participants said that the investment implementation at the zonal and special woreda level is very much screwed up when compared to guidelines and policies. At this

level there are no competent and adequate skill, expert and resources to facilitate quality investment endeavors. They have mentioned a case that when the zonal investment desk is expected to prepare measure and secure land for investors, it is not uncommon to see boarder conflict between investors and farmers.

Among other things the proclamation has a gap in clearly indicating the budget sources of the zonal and special woreda investment desks.

3.5 Challenges and Limitations

This part of the thesis attempts to present and discuss challenges and intricacies that various actors face in an effort to implement the investment policy with better quality and up to the standards. However, as the scope of this study is very limited and specific, all gaps that have been identified by concerned bodies may not be exhaustively discussed here. Rather only issues that are raised by participants of FGD, in-depth interview and questionnaires will be presented here classifying them under the agency and private investors.

3.5.1 The Agency and its Grassroots Strata

The investment sector is owned by investment agency established at the federal and regional level. The structure has also independent office at zonal level. However, at the woreda level in many cases the sector is managed by a committee with the woreda administrator as chair. The FGD participants have explained that this in fact could neither make the sector autonomous nor efficient because most of the investment projects are found at the woreda and Kebele level. The FGD participants have recommended that, despite it is difficult to assign professionals in places where there are no investment projects, it is important to have a focal person in Kebele level if there are at least four investment projects.

The participants of the questionnaire have identified and prioritized a number of gaps of the investment agency at regional and zonal level as shown in table 3.11. The scores were given by use of the frequency of the questioner respondents.

Table 3.11 Gaps within the agency at regional and zonal level

SN	Limitations	Score
1	Financial and logistics	10
2	Information management system	9
3	Follow up, leadership and technical assistance	5
4	Policy promotion and mobilization	3
5	Professionals at lower levels	3
6	Coordination with stakeholder	3
7	Good governance and vulnerability to abuse	2
8	Clarity as to roles and mandate	1
9	Consistency in decision making	1
Total		37

Source: Own data (Survey, 2010)

During the FGD and in-depth interviews participants have noted that especially investment officers have a challenge in terms of budget as well as logistics. As a result they could not do the follow up, supervision and technical assistance that they are expected to render to investors running various investment projects in different locations. As indicated in the above table the financial and logistics problems are outlined as the major challenge for the agency at different level.

On the other hand the offices established at different level, as indicated in the discussions, have poor information management system and this creates difficulty when any service provider seeks for particular information. This has left the sector with a tag of compliment regarding the bureaucratic ups and down.

As the table also indicates that follow up, leadership and technical assistance to the sector are low. This in fact is a challenge observed from the federal level. The participants have identified this gap as the third biggest problem in the region. Moreover, some of the participants believe that the policy is not well promoted and community mobilization towards promoting investment is poor. The challenge of having competent professionals at all level is a repeatedly mentioned problem.

Apart from the problems and challenges identified above by participants of the questionnaire, FGD and in-depth interviews, it is observed that accessing land both in rural and urban areas is the most difficult challenge for the investors. Participants went on to explain that each woreda is responsible to hand over a particular rural land marked and give

to an investor and the same case goes to town municipality concerning urban area land. Hence, these two bodies have a serious problem in handing over a particular plot of land to the investor that is given by the investment board of the region.

Generally speaking, the problems identified by the participants have jeopardized the core principle of the policy, which is one-stop-shop service. Instead these in some scenarios have led to inappropriate behaviors and illegal acts as well as risky for the proliferation of investment sector in the areas selected for this study in particular.

3.5.2 Private Investors

Logically, if the agency has challenges it is inevitable that the investors would have some as well. However, the problem may not be similar as they are entirely from different world. Keeping the assumptions aside, participants were also asked whether they have observed investors having any challenges. In this regard, the questions were framed in different ways to see if there are any zone-specific challenges on the one hand and challenges found across all the three zones. Both findings are presented subsequently.

Table 3.12 Challenges of investors per zone

Challenge indicators	Gamogofa			Sidama			Kaffa			Total		
	Yes	No	*Dk	Yes	No	Dk	Yes	No	Dk	Yes	No	Dk
Do investors benefit from one-stop-shopping?	10	7	1	4	3	4	5	2	1	19	12	6
Is banking system favorable for investors?	8	8	2	4	5	2	6	1	1	18	14	5
Do investors use illegitimate means to facilitate business?	15	1	2	9	0	2	6	0	2	30	1	6
Do investors get low cost labor locally?	14	3	1	10	1	0	6	2	0	30	6	1
Do investors manage their employees properly?	4	10	4	0	7	4	0	4	4	4	21	12

*Dk=Don't know

Source: Own data (Survey, 2010)

Table 3.12 indicates that among all respondents over 50 per cent of them believe that investors could actually access services on a one-stop-shopping. Accordingly the case seems true in Gamo gofa and Kaffa than Sidama.

On the other hand the table also illustrates that the majority of the respondents agree with the notion that there are investors who use illegitimate means to speed up their business. Equal numbers of respondents agree that they recruit employees locally but most of the respondents claimed the staff management of the investors is not appropriate.

Table 3.12 also further strengthens the core bottlenecks the investors face in an effort to access services from the investment agency.

The participants of the questionnaire have identified and prioritized a number of service gaps of the investment agency at regional and zonal level as shown in table 3.12. The scores were given by use of the frequency of the questioner respondents.

Table 3.13 Assessment of Service Gap through in Respondents

SN	Service gap indicators	Scores
1	Problem of accessing loan	11
2	Problem of securing investment land	10
3	Lack technical assistance from investment office	9
4	Infrastructure	7
Total		37

Source: Own data (Survey, 2010)

As it is indicated in table 3.13, the respondents have prioritized that accessing loan for investment projects is the biggest problem that investors face followed by securing land, support from the investment offices and difficulties resulted from inadequate infrastructure. Bureaucratic stifling, lack of accountability, lack of clear guidance and regulation could also be reason for ineffective & inefficient service delivery.

Apart from these external problems affecting the investors, key informants and FGD participants have also explained that the investors also have their own internal problems and inadequacies. These problems are enlisted below under two general headings:

A) Project management

Projects are neither designed carefully using strategic plan nor are based on careful assessment of background information. As a result, there are cases whereby investment projects stack in the middle of nowhere. Financial capacity, human resource and market access tend to be inherently immediate causes of crumple.

B) Deviance

There are cases whereby investors tend to act in unlawful way. Some of them do not qualify for their request and hence present incomplete requirement and when entrapped they tend to sell out land and other properties to the third party illegally. Some do not pay tax. Some do not have office and do not submit reports.

It is also learned that there are investors who operate irreversibly against the rules, regulation and agreements as a result negatively affect the social cohesion of the local community as well as endanger environmental safety. For instance, some investors contaminate rivers, clear forests, abuse employees and damage roads when in fact they are supposed to gratify certain amount of their income to promote social services and environmental protection for sustainable socioeconomic and environmental development.

CHAPTER 4: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

4.1 Summary of the Findings

With regard to human and material resources especially at the zonal level, the assignment of competent professionals in the sector found to be less satisfactory. Apart from skills and competency of investment experts assigned at different level, there is also a gap concerning adequacy in terms of hiring sufficient number of experts as outlined by the guideline of the proclamation and regulation at each level. Moreover, in terms of material resource the agencies especially zonal agencies have no adequate logistics, vehicles, computer and the like for the facilitation of office work and to oversee investment projects sited in different directions of the zone.

The investment proclamation no. 81/2004 Article 13 indicates financial source for regional investment agency. But for zonal agencies the proclamation listed their detail responsibilities, keeping the financial source silent. As a result of this zonal agencies are suffering from financial problems affecting the smooth undertaking of their responsibilities given to them by the law.

Huge number of investment is recorded as compared to the last five years time but much domestic investments (medium and large scale industries) are facing different types of challenges. The main challenge was capital shortage. Structurally financial institutions were well settled but the problem was seen in the direction of implementation.

As to commensurate political and administrative powers for viable investment, the Region has political, social stability and good governance in general. But good governance at zonal and woreda level is seen as big problem in serving investors and handling investment cases. It is the worst at woreda level in the sense that that they do not cooperate with zonal investment agencies in order to solve problems in the area of investment projects.

Nowadays the existence of electric power (in three towns and most woredas of the three zones), digital and wireless telephone, internet access in main towns is very good while critical problem is found to be road and water. Sidama zone have better access than the two zones. In Kaffa zone infrastructure problem especially road and water is very serious problem. As to technological infrastructure such as internet, telephone etc. the towns of the selected zones and most woredas of the three zones are accessed by internet and fixed, wireless and mobile telephone.

Investment is not unilateral rather it requires the active involvement of many actors within the government structure, private sector as well as the community at the grassroots level. Even though the one-stop-shopping principle indicated in the policy implies that investors should be able to access comprehensive quality services easily at a time, the fact on the ground reveals that they need to move back and forth and contact various offices. For instance the role of each relevant stakeholder is not exhaustively indicated at all. A board selected from various sector bureaus in the SNNPR is established with a jurisdiction to design rules of engagement for the region in line with the federal and regional proclamation of investment policy. However, the board did not yet prepared such an important directive that could have enhanced coordination among other sector bureaus and offices. This gap has affected functionality of the service delivery compared to the magnitude and scope of investment service requested.

Vertical as well as horizontal coordination between regional and zonal investment agency and offices in promoting, expanding and facilitating investment opportunities is a promising start. Promotion for coordination and cooperation is backed with the presence of investment forum composed of relevant stakeholders, the practices of promoting and advertising investment opportunities using mass media, bazaars and trade fairs and the scenarios whereby the regional agency develop strategic plan and assist zones technically. Despite of the presence of some sort of coordination it is tended to be labeled as weak and need to be strengthened & could be tied with guidelines and frameworks used uniformly across all investment agency and offices. It is noted that this in fact has created problems in relation to the quality and efficiency of the services delivered to the beneficiaries. As a result of this, investors spend much of their time due to reiterated visit to various offices to handle a particular issue. For instance, investors after fulfilling all the requirements and possessing investment license, securing land for their project is the hardest part to cut. This in turn has led to a complete withdrawal of the business or engaging in an illegitimate means of processing work.

State intervention in Ethiopia is required to correct market failures and make its intervention only temporary, which aims at regulating the market and creating a situation for the private sector to eventually rectify the market by itself.

In fact the community may hold various types of roles and responsibilities in activities that affect their lives. Depending on who owns and initiates a particular activity the community could be alienated, could be called for a meeting, could be given incentives, could be consulted or perhaps could be empowered to make its own decision on matters that affect the lives of its members. If the community is aware enough about investment it initiates attracting more investors because in many

ways it benefits from various investment projects such as employment opportunities, skills and knowledge and better social services such as health, education, road, agricultural inputs and products. On the other way round, if it is not aware of the benefits of well-guided investment it considers investors as threat mainly because it has not been involved in activities of positive rewards of expanding investment.

Despite the various provisions stated at the federal level, certain loopholes were identified that oversighted the proclamation. For instance investors willing to carry out investment projects in certain remote areas are entitled to certain benefits. However, despite the fact that there are many remote places with less infrastructure facilities such as in some places in south west of the region, only south Omo is included in this provision.

Even if the investment agency and its grassroots branches are expected to identify and provide information regarding places for investment opportunities, it was explained that investors could not obtain appropriate information they seek. Despite the fact that there is an investment promotion guide it needs continuous revision and it is out dated now.

Relatively better skills and expertise that exist at federal level could have been used to strengthen the structures at regional level with regard to training and capacity building of the staff at regional level. However, it is identified that federal agency has gaps in terms of supporting, facilitating discussion with and organizing training for regional agencies. The same is true in RIAs for ZIAs.

It is also pinpointed that cases such as investors with incentives who are identified and recognized by the regional agency are not followed up and supported by the federal investment agency. Added that some of the investors engaged on producing plants that take five or more years to harvest are given grace period from taxation. In light of this the participants recommended that this tax exemption should also extend to investors who produce annual crops. This also should consider investors who are engaged on cattle breeding and lower the tax exemption entitlement and decreasing the number of cattle's to benefit the incentive chance.

It is identified that some per cent of revenue collected from PLCs operating in a particular zone should be allocated for the use of that particular zone. This however has not been materialized despite the fact there is provision in the Ethiopian federal constitution. In this regard Article 98 sub article 1 of the constitution states that the Federal government and the states shall jointly levy and collect revenue on enterprises. Accordingly 50 per cent of direct tax and 30 per cent of indirect tax from revenues are indicated to be allocated to the region by the law. However, the absence of

revenue distribution law specific to the SNNPR has created problem in distributing allocation of revenue to particular zones and special woredas.

It was identified that the zonal investment committee members are drawn from various offices. Since they have their own responsibilities in their respective departments/offices they tend to take their roles in the investment sector, as guideline and secondary activities. Monthly regular meetings are not held and critical problems are not transferred to the board for quick decision.

The investment sector is owned by investment agency established at the federal and regional level. The structure has also independent office at zonal level. However, at the woreda level in many cases the sector is managed by a committee with the woreda administrator as chair. As already explained this in fact could neither make the sector autonomous nor efficient because most of the investment projects are found at the woreda and Kebele level.

4.2 Conclusions

Investment is, without doubt, one of the primary engines of growth in all economies. However, its effectiveness rests on strong complementarities with other elements in the growth process, most notably technological progress, skills, acquisition and the development of innovative capability. The link between investment and other determinants of growth, however, is not an automatic process. It requires among other things a favorable macro policy environment and specific policies and institutions aimed at encouraging savings and attracting and directing investment to key sectors in the economy eventually enhancing the contributions of investment to skills formations, technological change, competitiveness and economic growth.

At the end of this study, it was ensured that the state (condition) of play-ground determine the practice of implementation. If the state of the playing ground is favorable in all directions, the efficiency become very high; if unfavorable it becomes worst and implementation never jump from its theoretical aspect. In this study I took (call) the five dynamic conditions as the state of conditions for viable investment opportunities and technological development within the selected area. It is already seen that where there is a better development in these conditions there is a better investment policy implementation. If the area is weak in infrastructure, coordination and the like practical application gets weak and the results too.

The existence of interdependent and reinforce dynamic conditions simultaneously, helps to promote the development of investment. It accelerates the economic development of the region as well as the country and improves the living standards of its people through the realization of

sustainable economic and social development. But, to find them simultaneously in one zone is very difficult, time taking and needs coordinated effort. It is true that creating favorable working environment eases a way for new technology and better ways of doing things. However, this per se cannot be good enough unless other variables are also put in place so as to materialize a particular investment project.

Investment in most cases, if carried out carefully, is known to bring tremendous change both in micro and macroeconomics of any given nation. Ethiopia, after relying only on a few types of goods for its foreign exchange and remittance for years, has now shifted to exporting diversified goods and items. The contribution of expanded investment, especially foreign direct investment, to the shift is highly commendable. The government of Ethiopia has gained trust of international donors and funding agencies for its huge investment ventures and managed to increase capital in-flow. On the other, right after the liberalization of market and moving to mixed economic policy, domestic private investment has increased enormously. Similarly, the application of favorable investment conditions such as ensuring peace and security, designing appropriate policies and strategies in general and in the sector in particular and the availability of immense and unexploited resources in the country have attracted large number of foreign investors with huge amount of capital and technology. The combination of all these significantly increased the types and sizes of export in the country. Accordingly, the revenue the government at different levels gets has also increased.

In 2003/4 the number of investment projects found in SNNPR was 178 and the total amount of capital invested was nearly 1.05 billion. However, in 2009/10 the number of total investment projects in the region reached 5,210 and the total investment capital reached nearly to 43.2 billion. Newly established investment firms are mostly technologically well equipped so that the goods, items and services produced could penetrate in to international markets both in terms of quality and supply. This is particularly true with investments carried out by foreign investors as they have better capacity and global experience with modern technology. Consequently various investment projects that are being implemented in the target zones have utilized better skills, knowledge and technology than carried out before. For instance, raw coffee was exported for years but currently the country is exporting processed coffee.

In the last five years both private and public investments have progressively increased in the country in general and so did in the selected zones. A number of foreign direct investments with huge amount of capital and technology, new to the selected zones, were attracted. The investments in both spectrums are diverse in nature that includes social sector, agricultural sector, manufacturing

and industry sectors as well as services and tourism sectors. Employment opportunities were created for a large number of people across various social statuses. This included from the very illiterate and poor segment of the population to well educated and trained professionals in various fields.

The increment of the number of investment from 10 in 1993 to 5,210 in 2009 implies that the system at hand is encouraging to widen the private investment growth. This private investment is the main solution to enhance the overall economic growth in the Region as well as in the country and it is a very means to curtail multifaceted problems. There fore, the attraction of domestic and foreign investments in greatest quantity is very significant in creating capital accumulation, in easing unemployment rate and minimizing poverty and enhancing quick economic growth.

Keeping the above achievements in mind there are problems that hinder the full achievement of the investment objective:

- Investment agency officers at different level have a challenge in terms of budget as well as logistics. As a result they could not do the follow up, provide supervision and technical assistance to investors running various investment projects in different locations. On the other hand, the offices established at different level have poor information management system that creates difficulty when any service provider seeks for particular information. This has left the sector with a tag of compliment regarding the bureaucratic ups and down.
- Moreover, it is believed that the policy is not well promoted and community mobilization towards promoting investment is poor. The challenge of having sufficient number and competent professionals at all level is a repeatedly mentioned problem.
- Accessing land both in rural and urban areas is the most difficult challenge for the investors. Participants went on to explain that each woreda is responsible to hand over a particular rural land marked to an investor. The same case goes to town municipality concerning urban area land. Hence, these two bodies have a serious problem in handing over a particular land to the investor in accordance to the decision and directive of the investment board of the region.
- The major external problems affecting the investors is accessing loan for investment projects, followed by securing land, support from the investment offices and difficulties resulted from inadequate infrastructure. Bureaucratic stifling, lack of accountability, lack of clear guidance and regulation are also other factors affecting effective and efficient delivery of services to investors.

- Lack of follow up, leadership and technical assistance to the investment is in fact a challenge observed at the federal level. This gap has been identified as the third biggest problem in the region.
- Lack of the necessary directives. For instance, even though the regional investment agency is assigned to facilitate effective running of investment projects in collaboration with other bodies, this is not backed by coordinated directives that outline the roles and responsibilities of each participating bodies. As a result, accountability of each responsible body is unknown. Even though the board members need to hold regular meetings to resolve emerging problems, it is neither affective nor consistent.

There are also problems at investor's side:

- Investors use illegitimate means to speed up their business
- Most Projects neither are not designed carefully using strategic plan nor based on careful assessment of background information. As a result, there are cases whereby investment projects stack in the middle of nowhere. Financial capacity, human resource and market access tend to be immediate causes of crumple of the projects.
- There are cases whereby investors tend to act in unlawful way. Some of them do not qualify for their request and hence present incomplete information and when entrapped as the result they tend to sell out land and other properties to the third party illegally. Some do not pay tax, do not have office and do not submit reports.
- It is also learned that there are investors who operate irreversibly against the rules, regulation and agreements. This negatively affects the social cohesion of the local community as well as endangers environmental safety. For instance, some investors contaminate rivers, clear forests, abuse employees and damage roads when in fact they are supposed to gratify certain amount of their income to promote social services for the local community and environmental protection for sustainable socioeconomic and environmental development.
- it is not uncommon to see conflicts between local farmers and newly arriving investors due to border demarcation disputes. Sometimes in some cases the investors seek more land and want to expand and push away farmers. In such conflicts the role of the regional investment agency quite is significant. It can avoid such disputes by initially making

accurate allocation of land and by liaisioning with other concerned bodies. For example coordinated work with woreda administration through zonal administration is useful.

In general:

- ◆ Though much was expected from domestic investment to play a dominant role in realization of sustainable development, still they are much behind to come on board because of many problems. For example, as already understood the projects at operation status are very few in number which is 18.93 per cent as compared to pre-implementation which is 69.36 per cent. This shows that most of the projects are on the formative stage, if follow up mechanism and support is not there, there is no guaranty, forgetting back some of the projects. Moreover, from 6 per cent of the projects half quitted the activity and half of them were cancelled. This situation decreases the number of projects, the capital and the employment created. This in general leads to decreasing of the outcome that is expected from the future development of the Region as well as the country as the whole. There fore, further care and follow up mechanism is needed for licensed projects
- ◆ The problems identified so far have jeopardized the core principle of the policy, of one-stop-shop service. Instead these in some scenarios has led to inappropriate behaviors and acts that are illegal as well as risky for the proliferation of investment sector in the areas selected for this study in particular
- ◆ The continuous effort to improve the awareness of the community to better participation and contribution of the sector, both the government and private investors should launch joint ventures with the community to proliferate the contribution of investment sector for sustainable socioeconomic development in each of the zones
- ◆ To accelerate the economic and social development of the region as well as the country and improve the living standards of the society through investment, policy implementation barriers have to be eradicated. To overcome the identified problems and challenges there should be coordinated effort between governmental institutions at different level, investors and other concerned stakeholders.

4.3 Recommendations

With the view of the finding of this study the following are the recommendations forwarded by the student researcher.

As already identified the human and material resource gap for agencies is very wide. It is very challenging in zonal agencies. In order to develop investment as specified in the policy agencies have to be provided with the necessary material resource such as vehicles, topographic instruments, office equipments and the like. With regard to human power the agency offices from region to zonal level have to be filled with sufficient, skilled and committed human power. Human and materials gap can obviously hinder the implementation of the policy. It calls for special consideration by concerning bodies. High turn over of investment officials and experts will be controlled by the provision of different incentive types in order to find committed, knowledgeable and good-hearted personnel.

The financial shortage that is currently faced by zonal investment agencies can be solved by specifically identifying the source of finance and including their enactment in directives. The financial problem that domestic infant investments are facing is due to the accessibility problem to the banks, although government is making effort to ease the bureaucratic laden and unnecessary bias of executing bodies of the bank. To this end more work is required from each stakeholder to harmonize the relationship between banks and developmental investor.

At local level some investments are suffering by 3rd party intervention due to different cases. It is highly expected from woreda administration to take over the case and solve the problem in collaboration with the investors. With regard to this continuous trainings and regular discussions for investors should be held and investors with strong capacity and making effort to introduce modern technology and harvest a better agricultural product should be encouraged. This could be supported by strong follow up mechanism and taking corrective measure if unlawful activity is observed.

Physical and technological infrastructure such as road, electric power, water, telecommunication, ICT, etc. development should be accelerated by concerned stakeholders, the government institutions at different levels taking special and leading roles. Building roads for remote areas is very crucial.

Investment is not unilateral rather it requires the active involvement of many actors within the government structure, private sector as well as the community at the grassroots level. The problem of coordination along horizontal as well as vertical linkages of governmental institutions can be solved by conducting discussions, training etc. and backing it up by the necessary rules and directives. Coordination among all actors of investment including the society will be solved through continuous awareness creation, trainings and discussions.

For the investment agency to facilitate and run investment projects in collaboration with other horizontal institutions, it is better if it is supported by directives of coordination that outline the roles and responsibilities of each participating bodies. When this is in place, accountability of each responsible body will be known and the smooth operation of investment activities will be ensured. The researcher recommends that the incentive directive bracket can incorporate the following:

- To follow and take corrective action of unlawful activities with regard to using the incentive benefit given by the law for the investors, developing the directive by the concerning body is recommended
- Remote areas in the Region such as Kaffa, Bench-Majji and Sheka could be included in remote area incentive bracket
- Annual crops will be included in incentive brackets as given to permanent green plants
- The number of cattle for incentive given for cattle breeding should be minimized.

A certain share of tax revenue from Private Limited Companies should be retained by specific zones in order to improve some infrastructure facilities which could help further development of investment. It is the responsibility of the Region to enact Proclamation for the distribution of the Regional tax share from concurrent tax revenue drawn from PLCs through Federal government. Lagging behind to enact the distribution proclamation has its own impact on the development of investment and discourages coordinated effort for it. There fore, concerning bodies have to give special attention and take corrective action in order to get a better return from the investment. This condition could be supported by the law and the information should be open enough for the concerned public for equal understanding.

The researcher recommends that, despite the difficulty of assigning professionals in places where there are no investment projects, it is important for government bodies to establish an investment desk with professional agent at woreda level accountable to zonal investment agency where there are at least four investment projects. The researcher believes this can to some extent reduce the big challenge investment is facing at woreda level due to lack of accountable body.

For the promotion of resource potentials and investment opportunities from region to local level conducting timely studies in order to upgrade the changes in the resource potential and to promote at all levels by concerning bodies will be the best thing. To this end, media access (different types) for investment promotion at all levels is crucial.

The student researcher recommends for investors that they need to participate in rendering social services for the community and handle their laborers according to the labor law so as to be secured and free from risk.

Different capacity building trainings, discussion programme and support are necessary for regional as well as zonal investment agencies. This can help to overcome biases and limitations. Continuous mobilization of the society to create awareness about investment is very necessary. Concerning government institutions, investors and other stakeholders could take part in order to realize the objective of the investment policy.

Investment agency, Environment protection agency and Agriculture and Rural Development ministry are expected to work in collaboration to make environment friendly investment and growth.

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Appendices

Appendix I
ADDIS ABABA UNIVESTIY
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF PUBLIC ADMINISTRATION
AND DEVELOPMENT MANGEMENT

This questioner helps to collect data for partial fulfillment of the requirements of Master of Public Administration (MPA) in the Department of Public Administration and Development Management (PADM).

The objective of this questioner will be to collect/gather information/data for the fulfillment of my thesis on the implementation of the National Investment Policy of Ethiopia in Southern Nations, Nationalities and peoples Regional State.

This questioner has two parts. Please! Answer each question in detail by following the given direction.

It is not necessary to write your name on the questioner. The answer you give for all these questions are confidential and only used for academic purposes.

Note: Questions set out in the masculine gender shall also apply to the feminine gender.

Direction

For questions with choices, please! Choose one which you believe appropriate and put "X" mark in the box in front of your choice. For questions with out choices, please! Write your answers in the blank spaces provided. If you need additional blank spaces for your answers use the back page of the questioner and write your answers by specifying the question number.

Part I. Personal Data

1.1 Sex: Male

Female

1.2 Age in years:

18– 30

31 – 40

46 and above

1.3 Marital Status:

Single

Married

Divorced

1.4 Educational Status:

Degree and above

Diploma

Grades 9-12

Grades 1-8

1.5 Work Experience: Hired in Government Office
work_____

Specify the name of the institution that you

Hired in Private Institution

Private Job: Specify your job area_____

Part II General Questions on the Implementation of the National Investment policy in the region

2.1 The national investment policy of Ethiopia has clear and consistent objectives.

Very agree

Agree

- Disagree
- 2.2 There is hierarchical integration with and among Federal and Regional implementing institutions in implementing the national investment policy of Ethiopia.
- Very agree Agree
- Disagree
- 2.3 Decision Rules of investment policy implementing agencies in the region are compatible with the national investment policy.
- Very agree Agree
- Disagree
- 2.4 Do you know the national investment proclamation very well?
- I know very well I know I do not know
- If your answer is I know very well or I know, please specify the part of the investment proclamation which you believe to be revised.
-
-
- 2.5 Which of the following dynamic conditions required for viable investment opportunities and technological development are available in your area of investment?
- a. Human and material capital b. adequate financial resource
- c. commensurate political and administrative power d. physical and technological infrastructure
- e. horizontal linkage between key institutions f. All g. None
- 2.6 The dynamic conditions in question 2.5 did reinforce one another?
- Yes No
- 2.7 The present national effort in the implementation of investment policy was effective.
- Very agree Agree
- Disagree
- 2.8 Do you think there is coordination of investment promotion process in between regional and local level? Yes Yes but weak No
- 2.9 If your answer is yes to question No.2.8, How do you explain it?
-
-
- 2.10 Do you agree that the officials and experts in the investment office are competent and qualified to the position?
- Very agree Agree
- Disagree
- 2.11 Do you think investment officials at regional as well as local level have adequate leader ship skill and commitment? Yes No
- If your answer is No, what do you think is the reason? _____
-
-
- 2.12 Do you think the officials are undertaking their responsibilities with in the domain of the regulation and Proclamation?
- Yes No
- 2.13 What limitations did you observe on RIA's in the time when it plays its roles?
-
-

- 2.14 What challenges did the RIA's face when it plays its roles?

- 2.15 What challenges and limitations did local level policy implementers face? _____

- 2.16 Do you think all local levels have relatively equal injection of human and material resources in sufficient quality and quantity as compared to their specific responsibilities?
Yes No
- 2.17 The outcomes and benefits from the investment are distributed equitably among different groups of the society to satisfy the needs and preferences of the larger public.
Very agree Disagree Agree
- 2.18 The public shows attitudinal change and aware of the advantage of investment in order to contribute its ideas and resources for further development.
Very agree Disagree Agree
- 2.19 Are the investors facing any problem that limits them from expanding their investment?
Yes No
Give an example to support your choice you're your answer is yes. _____

- 2.20 Did investors benefited from one-stop shop service? Yes No
If no what do you think is the reason? _____

- 2.21 What methods have been used to encourage innovation in the local level investment?

- 2.22 Is banking system an encouraging one to investors?
Yes No
- 2.23 If your answer for question no. 2.22 is yes, in what conditions? _____

- 2.24 If your answer for question no.2.22 is no, what are the barriers? _____

- 2.25 Are there investors who show rent collecting/seeking character? Yes No
If yes, what measures were taken to correct the corrupting behavior?

- 2.26 What benefit did the society obtain from the investment in the area? _____

- 2.27 Did investors found low cost labor from the area of their investment?

- Yes No
- 2.28 If the answer for question no. 2.27 above was yes, did the investors handle their laborers as specified by the law?
- Yes No
- 2.29 The investors are enjoying the land rent relief incentive as stated in the 1998 rule.
- Yes No
- If your answer for this question is no, what are the reasons? _____
-
- 2.30 Do you think state intervention positively affecting private investment?
- Yes No
- If yes, Explain. _____
-
- 2.31 Domestic investors are playing a dominant role in realization of sustainable economic development.
- Very agree Agree
- Disagree
- If agree or very agree, explain. _____
-
- 2.32 Do you think EDI benefits our Region?
- Yes No
- If your answer is yes what are the bases? Explain. _____
-
- 2.33 Your recommendations for investment growth and future sustainable economic development in the region. _____
-
-
-
-
-
-
-
-
-

I thank you very much, for your cooperation!

Appendix II

QUESTIONS FOR INTERVIEW

First of all I want to thank for your precious time!

Part I Personal Information

1. Name_____ Sex_____ Age _____
2. Educational Status:_____
3. Profession_____
4. Official Status _____

Part II General Information on National Investment Policy Implementation

Direction: - Explain the following questions

1. Would you explain about dynamic conditions such as human and material resource, adequate financial resources, commensurate political and administrative power, physical and technological infrastructure, horizontal and vertical linkages between key institutions dealing with investment and their reinforcement on one another for viable investment opportunities and technological development in the region?
2. What do you say about the coordination of investment promoting, expanding and facilitating process in between region and local level in order that to have equal distribution of domestic and Foreign Direct Investment(FDI) and to apply the effectiveness of the present national effort?
3. How do you explain the investment flows, especially foreign direct investment flow for the last five years in the region?
4. What was the exact economic development that the investment adds to regional and Federal economic progress? How this economic progress in the region can be distributed for the general public?
5. How did you clarify the investors' commitment to add values and to obey the law? Would you mind to tell, if there are rent seeking investors (corrupt Behavior)?
6. What are the determinants of the strength and weaknesses of the investment in this region? Especially Foreign Direct Investment (FDI)?
7. Was RIA's applying full effort to play their role in accordance with the investment proclamation and regulation and challenges they face in the time they play their role?

8. Were local levels having relatively equal injection of human and material resources in sufficient quality and quantity to develop viable investment?
9. What are the main achievements from the regional investments activities?
10. What are the challenges in investment implementation process for the last five years?
11. What possible solutions do you recommend for the future to tackle the identified challenges?

I thank you Very Much!

Appendix III

QUESTIONS FOR GROUP DISCUSSIONS

The No. of participants for this discussion was 17 in Sidama, 16 in Gamo-Gofa and 16 in kaffa zone.

First of all I want to thank the participants for their participation and ideas.

1. What do you know about the investment proclamations? Discuss.
2. Do you agree the existence of dynamic conditions such as human and material resource, adequate financial resources, commensurate political and administrative power, physical and technological infrastructure, horizontal and vertical linkages between key institutions dealing with investment and their reinforcement on one another for viable investment opportunities, technological development and encourage innovation?
3. How do you see the coordination of investment promoting, expanding and facilitating process in between region and local level to apply the effectiveness of the present national effort?
4. Did RIAs from (region to local level) apply full effort to play their role in accordance with the investment proclamation and regulation and challenges they face in the time they play their role?
5. How do you describe human and material resources distribution to develop viable investment?
6. Do you perceive any miss use and corruption concerning investment?
7. How do you evaluate or describe the active participation of investors for sustainable economic development?
8. How far were the achievements/ outcomes of investment for sustainable economic development for the last five years?
9. What are the challenges and limitations of all actors in the investment policy implementation process?
10. Your contributions for possible solutions for the identified challenges.

I thank you Very Much

Photographic outlooks





DECLARATION

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all the sources of materials used for the thesis have been duly acknowledged.

Declared by:

Name: Meselech Wodajo

Date:

8th July, 2010

Signature:



Confirmed by Advisor:

Name: Meheret Ayenew (Ph.D)

Date:

8 July 2010

Signature:



Place and date of Submission: Department of Public Administration and Development
Management, Masters of Public Administration
(MPA) July 6, 2010