

**Foreign Direct Investment (FDI) Development between the  
European Union (EU) and Least Developed Countries (LDCs) -  
Business Opportunities in Ethiopia.**

Biruhe Eshete

Thomas Gebre



Degree programme

<b>Author or authors</b> Biruhe Eshete Thomas Gebre	<b>Group or year of entry</b> 2009,2008
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<b>Teacher(s) or supervisor(s)</b> Mervi Riikonen	
<p>Foreign direct investment (FDI) is a category of international investment that indicates an intention to acquire a lasting interest in an enterprise operating in another economy. This study assesses the development of FDI between EU and Least Developed Countries and also examines investment opportunities in Ethiopia.</p> <p>The primary goal was to examine economical and social contribution of FDI inflow. In addition, this study assesses Ethiopia's business opportunity, FDI policies, incentives and investment risks in the country. The scope was primary focused on assesment of ethiopian investment in particular.</p> <p>The study was relied on reviewing secondary data. It also used primery sources i.e. structured interview and questionnaire. The research is descriptive which is characterized in simply puts the findings based on the facts gathered from the survey that was conducted from 12, july- 2011 to 07, May 2012.</p> <p>The Finding shows that Ethiopia is now becoming the major FDI inflow destinations from LDC's in Africa. Major factors that contribute to the growth of FDI includes fertile land, conducive climate condition and availability of relatively cheap labor in the country.</p> <p>In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy. Major risks of FDI includes land grabbing, food insecurity and poor practice in environmental protection of the host country.</p>	
<b>Keywords</b> European Union, FDI, Land Grabbing, Least Developed Countries, food insecurity, Ethiopia	

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# **1 Introduction**

This study assesses foreign direct investment development between European Union and least developed countries (Business opportunity in Ethiopia) practical experiences between the two trade partners. It describes different factors including PESTLE, SWOT analyses and also re-view major investment sectors in the host country.

The research will give new investors a quick and systematic overview of the facts involved in investing in LDC's particularly in Ethiopia. Our study incorporates different analysis on the major potential areas of investment, investment procedure, the legal frameworks, benefits and incentives enjoyed by investors as well as useful general information. According to similar studies in FDI inflow to LDC's including Ethiopia, statistical findings show there is consistent growth of FDI inflow to these countries.

However, there are also findings on adverse effect of FDI inflow to the host economy in case of investors intention of land grabbing, food supply security of their own country and exchange rate advantages like (€ vs. ETB). The paper begins with describing purpose of the study, the research objective and the research problem in the first part and the second part continues with different literature reviews which help to support the research problems. The third part emphasized findings from primary and secondary data and its analysis and finally conclusion and recommendation illustrated from the total research.

To summarize, all FDI from major trade partners including EU have a vital role for the development of Ethiopian economy as it brings new technology, capital and resource at large it also used as a vital means to create job opportunities to underemployed workforce in the country.

## **1.1 Research problem**

The core problem to be declared is “what are the major Business opportunities in Ethiopia and other Least Developed countries (LDC's) for Foreign Direct Investment (FDI) inflows from European Union (EU)? In doing so, the following

research question will be answered. Is there FDI development between European Union and LDC's particularly with Ethiopia? Do the current Foreign Direct Investment policies in Ethiopia have a potential to attract EU and other trade partners to the country? What are the major contributions of FDI in the economical development of Ethiopia and other LDCs. What factors hinder the growth of FDI inflow from European Union to Ethiopia?

## **1.2 Research objective**

The aim is to assess the development of FDI concerning the European Union and least developed countries particularly Ethiopia. The focus is on examining the economical and social contribution to said countries due to FDI inflow from European Union and other major trade partners and also to assess the level of FDI inflow growth and its economical contribution to Ethiopia in particular.

Additionally this study assesses Ethiopia's business opportunity, foreign investment policies, incentives and investment risks. The major objective of this research is to provide detailed findings of above mentioned which again offer an insight to Ethiopian government and EU relation and finally; said findings can be used as a sample guide line for other LDC's facing the same issues.

## **1.3 Research methodology**

The primary focus of the study is to find out findings and facts concerned with FDI development of European Union and LDC's including Ethiopia. In doing so, the study use different sources and data gathering tools /techniques which enables the researchers to analyze and interpret credible findings and to achieve its objectives.

The information will be collected from Ethiopia investment agency, Trade and industry ministry of Ethiopia, Ethiopia commodity exchange Authority (ECX), European Union, World Bank, European Economic Commission (EC) and other credible sources through interview, online survey and also refers secondary data at large. Based on our plan, an interview will be conducted from Ethiopia investment Agency (EIA)



personnel's and close ended questionnaire were distributed to foreign investors who are operating and those planning to invest in Ethiopia in the near future. All other information required in this research used updated and recent secondary sources.

### **1.3.1 Approach to the study**

The research relies on gathering primary and secondary data, it uses an interview and also close ended questionnaire were distributed to sample interest. Approach of the study is descriptive which is characterized by describing the findings as it is and no need to change variables or findings. It simply puts the findings to the analysis based on the facts gathered from the survey.

Secondary data is the major source of information which as the proposed sources is accessible to credible and recent information to increase its reliability and validity.

### **1.3.2 Structure of the study**

The first section of the study is concerned with theoretical frame works from the point of view of foreign investment and business environments. In addition, it reviews different research findings and literatures to define and state the overall practices and concepts more broadly. The second section reviews EU and LDC's foreign trade, culture and foreign trade, PESTLE theories of the two trade partners, foreign direct investment and major investment sectors, infrastructure and government commitments to the development of FDI inflow. All said issues will be assessed in general. The final section of the study presents findings by using descriptive approach and also draws conclusions and recommendations in a way that variables of the study are analyzed in an efficient manner concluding to something practical.

## **1.4 Purpose of study**

Doing a research on the above topic will help to understand the two trade partner's foreign direct investment trend. It is helpful to Ethiopia and other LDC's to revise their investment proclamation and related policies. Besides, the study will help to improve government and concerned bodies awareness towards FDI inflow in the country. Thus, this study gives a brief discussion on the subject matter that has not been

studied before and also in the best interest of the writers who are Ethiopians and living in EU.

## **2 Foreign Trade between Least Developed Countries (LDC'S) and European Union (EU) (Relationship between international trade and economic growth)**

An economy is said to grow when the amount of output produced in the economy (i.e. the economy's gross domestic product, or GDP) rises. Economic growths have a fundamental importance to all economies. We argued that per capita GDP provides a useful measure of country's standard of living. Since virtually all countries experience growth in population over time, growth in GDP is required simply to maintain current standards of living. In fact, if standards of living are to rise over time, then GDP must grow faster than the population (Husted et al. 2001, 270).

International trade can affect the level of economic growth of an economy. With unemployed resources, an increase in export sales will lead to an overall expansion in production and an accompanying fall in the unemployment rate. International trade also allows for the purchase of capital goods from foreign countries and exposes an economy to technological advances achieved around the globe. Conversely, economic growth can affect the types of goods a country is able to trade. A technological advance in a country's import-competing sector could, for instance, lead to an overall reduction in the volume of a country. Thus, international trade and economic growth are closely linked. (Husted et al. 2001, 272).

### **2.1 Internationalization strategies**

When a company makes the commitment to go international, it must choose an entry strategy. This decision should reflect an analysis of market potential, company capabilities, and the degree of marketing involvement and commitment management is prepared to make. A company approach to foreign marketing can require minimal investment and be limited to infrequent exporting with little thought given to market development. Or a company can make large investments of capital and management

effort to capture and maintain a permanent, specific share of the markets. Both approaches can be profitable (Cateora & Ghauri, 2000, 260)

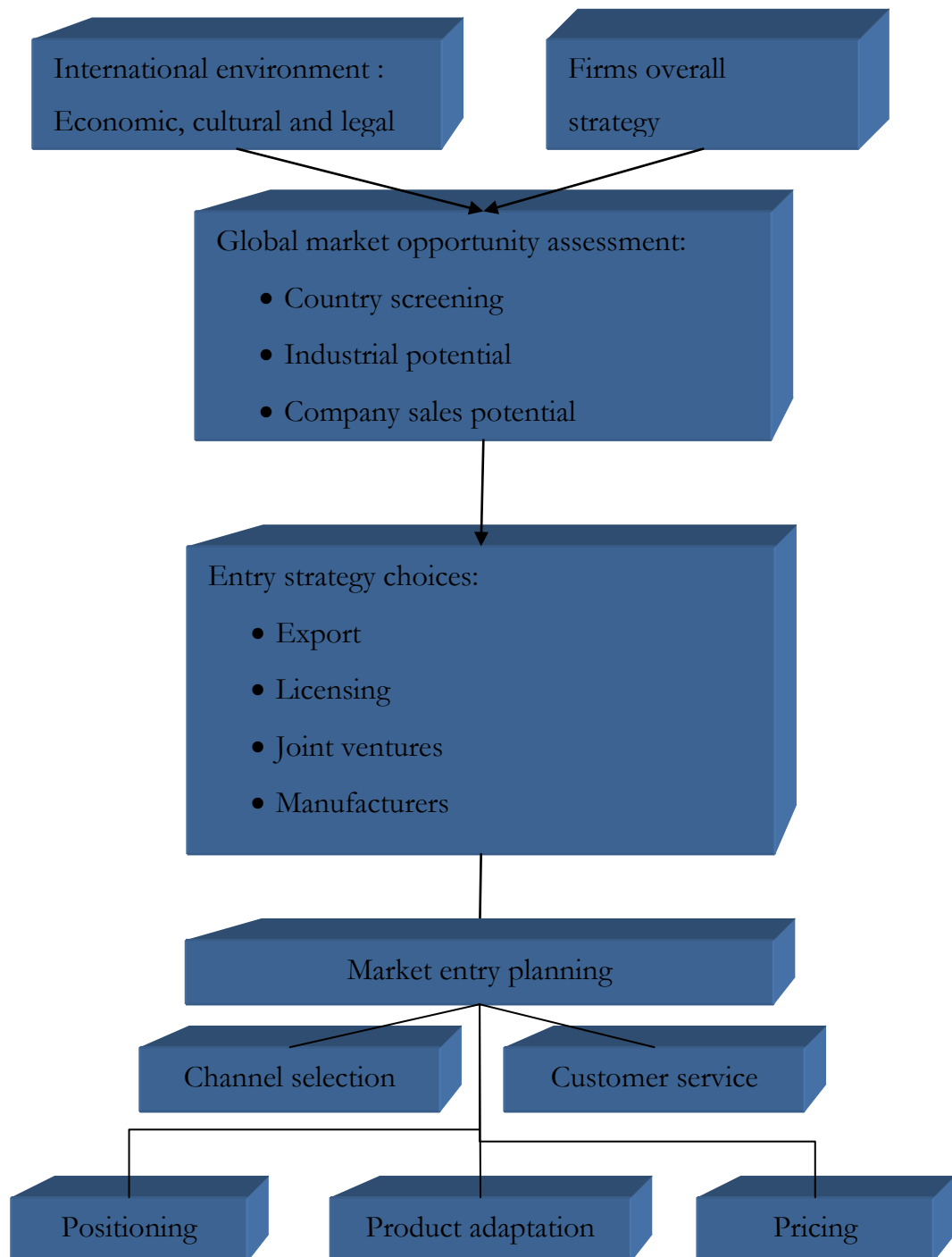


Fig 1: Factors influencing market Entry Strategies

Source: Cateoria & Ghauria (International marketing, European Edition)

There are always different strategies to choose from while a company decide to go inter-national, of course the decisions bases on different factors related with the

business environment, and the company's capability, and so on. There are variety of foreign market entry strategies from which to choose. Each has particular advantages and shortcomings, depending on company strength and weaknesses, the degree of commitment the company is willing or able to make and market characteristics (Cateora & Ghauri, 2000, 260)

Considering the above mentioned approaches, it is explained in detail one by one the major eight foreign market entry strategies as outlined in the following sections.

### **2.1.1 Indirect exporting**

When a firm becomes involved in international business for the first time, many anxieties exist concerning the firm's ability to compete in foreign markets. Indirect channels can be an appropriate form of participation in international business in order to minimize risks and overcome these fears. By using indirect channels a firm can start exporting with no incremental investment in capital, few risks and low start-up costs. Such participation can be considered as part of a developmental process that takes the firm towards more and more international sophistication and commitment (Cavusgil & Ghauri, 1990).

The indirect exporting approach (i.e. exporting through domestic intermediaries) places the burden of responsibility for sales contracts, negotiations and product delivery on the intermediary within the firm's home market. Indirect channels are less expensive in the early stages of exporting because the cost of foreign market penetration is born directly by the intermediary. However, should consider the 'opportunity cost', since the intermediary has control over final pricing, and that results a loss of profits. Also, the firm's reputation in the marketplace is reflected in the reputation of the intermediary (Cavusgil & Ghauri, 1990).

Indirect export occurs when the exporting manufacturer uses independent organizations located in the producer's country. In addition, the producer may have a dependent export organization (for example an export department) that works with the independent marketing organization and coordinates the entire export effort. In this

case the dependant organization does not actively engage in any international sales activities (Gerald & Edwin, 2011, 446)

### **2.1.2 Direct exporting**

Direct exporting occurs when a manufacturer or exporter sales directly to an importer or buyer located in a foreign market area. Thus the actual transaction flow between nations is handled directly by a dependant organization or customer (Gerald & Edwin, 2011, 462)

Direct exporting requires manufacturer familiarity with the procedures of export shipping and international payments. There is a dual problem of developing distribution channel strategies and finding, motivating and supporting overseas distributors in direct exporting. Start-up costs are higher, due to greater information requirements and higher risks (Gerald & Edwin, 2011, 462).

The manufacturer who wants to engage in direct export will most likely have to establish some type of export department or division in the home country. This dependent organization may either be involved directly in making export sales or serve as the home-based export marketing department to coordinate and control the activities of other dependant organizations located in foreign markets (Gerald & Edwin, 2011p.462)

There are basically three different types of home-country based export organizations; built-in export department, separate or self contained export department, and export sales subsidiary. The specific type that is appropriate for any manufacturer at a particular point in time depends upon such factors as the nature of the product, the size of the company, how long the company has been exporting, the expected potential volume of foreign sales, the underlying management philosophy towards doing business internationally, the corporate organizational structure, and the extent to which either existing company resources can be allotted to export activities or additional needed resources can be acquired (Gerald & Edwin, 2011,464)

Direct exporting offers potentially greater profits and challenges. Just as with indirect exporting, there are many available options. The basic criterion is control - the amount of authority you choose to delegate to the foreign partner, which is dictated partially by the basic characteristics and technical sophistication of the product and the need for after-sale service. This situation has a set of criteria different from that of the manufacturer who is exporting a highly technical product requiring after-sale servicing (Cavusgil & Ghauri, 1990).

### **2.1.3 Licensing and franchising**

Licensing entails a variety of contractual agreements between the domestic firm (licensor) and foreign company (licensee) whereby the domestic firm makes intangible assets such as patents, trade secrets, knowledge, trademarks and company name available to a foreign firm in return for royalties and/or other forms of payments.

When a firm licenses to an independent foreign firm the main purpose is to penetrate a foreign market. Licensing offers both advantages and disadvantages to the firm entering the market.

Cateora and Ghauri (2000, 260), discuss licensing as a means of establishing a foothold in foreign markets without large capital outlays. Patent rights, trade mark rights and the rights to use technological process are granted in foreign licensing. It is a favourite strategy for small and medium size companies although by no mean limited to such companies. Not many confine their foreign operation to licensing alone; it is generally viewed as a supplement to exporting or manufacturing, rather than the only means of entry into foreign markets.

Companies might choose licensing on top of the other strategies due to different factors like import restrictions, fragile political situation in the host country, lack of enough capital to use the other strategies, and so on.

The advantage of licensing are most apparent; when capital is scarce, when import restrictions forbid other means of entry, when a country is sensitive to foreign

ownership, or when it is necessary to protect patents and trademarks against cancellation for non use. Although this may be the least profitable way of entering a market, the risks and headaches are less than for direct investment (Cateora & Ghauri, 2000, 260)

In the typical international licensing deal, the licensee puts up most of the capital necessary to get the overseas operation going. Thus, a primary advantage of licensing is that the firm does not have to bear the development costs and risks associated with opening a foreign market. Licensing is attractive for firms lacking the capital to develop operation overseas. In addition, licensing can be attractive when a firm is unwilling to commit financial resources to unfamiliar or politically volatile foreign market. Licensing is frequently used when a firm possesses some intangible property that might have business applications (Cateora & Ghauri, 2000, 260).

Just as it posses advantages, it also has its own draw backs just like any business strategies. The most important thing is that the advantages are more than the draw backs, so that the company will consider the strategy.

Licensing has three serious drawbacks. First, it does not give a firm the tight control over manufacturing, marketing, and strategy that is required for realizing experience curve and location economies. Licensing typically involves each licensee setting up its own production operation. This severely limits the firm's ability to realize experience curve and location economies by producing its product in a centralized location. When these economies are important, licensing may not be the best way to expand overseas (Cateora & Ghauri, 2000, 260).

Second, competing in a global market may require a firm to coordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another. By its very nature, licensing limits a firms' ability to utilize a coordinated strategy. A licensee is unlikely to allow a multinational firm to use its profits (beyond those due in the form of royalty payments) to support a different licensee operating in another country.



A third problem with licensing is the risk associated with licensing technological know-how to foreign companies. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it (Charles W.L. Hill, 2009, 496-97).

As discussed above licensing is one of the good strategies to consider while entering a foreign market. However, it is very important to look thoroughly through the advantages and drawbacks, so that the end result can be beneficial for the firm.

Leaving licensing here, now let's go through the other business strategy that businesses can consider while going international. This one as well requires no financial commitment from the company.

Franchising is a form of licensing in which a company licenses a business system as well as other property rights to an independent company or person. The franchisee operates under the franchisor's trade name and follows policies and procedures laid down by the franchisor. In return, the franchisor receives fees, running royalties and other compensation from the franchisee (Cavusgil & Ghauri, 1990).

Cateora & Ghauri(2000, 262) argues that franchising is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems and management services, and the franchisee provides market knowledge, capital and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with reasonable degree of control.

The franchiser can follow through on marketing of the products to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization ( Cateora & Ghauri, 2000).p.262)

In some cases, franchising is having a profound effect on traditional businesses. In England, for example, it is estimated that annual franchised sales of fast foods is nearly 1.8 trillion pound starlings, which accounts for 30 percent of all foods eaten outside the home (Cateora & Ghauri, 2000, 263).

This figure shows the potential this business strategy offers. It is not hard to imagine how important this could be for the franchisors to get a 30 percent market share in a certain field with less or no financial commitment. This might be very hard to get in other business sectors even with more financial commitments. Thus, firms consider franchising as a very important strategy to expand to a foreign market, though it has its own disadvantages just like other strategies.

There are three types of franchise agreements used by franchising firm: master franchise, joint venture and licensing. The master franchise is the most inclusive agreement and the method used in more than half of the international franchises. The master franchise gives the franchisee the rights to a specific area (many are for an entire country) with the authority to sell or establish sub franchises (Cateora & Ghauri, 2000, 263)

#### **2.1.4 Contract manufacturing**

Contract manufacturing is a cross between licensing and investment participation. In contract manufacturing, a host company secures a product or manufacturing process from another (foreign or local) firm. The product can then be exported or marketed locally.

Contract manufacturing requires a small commitment in financial and management resources. It allows for quick entry into the target country and avoids local ownership problems. It is attractive especially when the target market is too small to justify investment entry, and export entry is too costly (Cavusgil & Ghauri, 1990).

### **2.1.5 Turnkey projects**

This is a different form of business strategy that might work for a certain business fields. Firms with high technological know-how should consider this strategy in order to break through markets with lots of restriction on foreign businesses in certain fields.

Firms that specialize in the design, construction, and start-up of turnkey plants are common in some industries. In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. At completion of the contract, the foreign client is handed the “key” to a plant that is ready for full operation-hence, the term turnkey. This means of exporting process technology to other countries. Turnkey projects are most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies (Charles W.L. Hill, 2009, 494).

According to Cavusgil & Ghauri (1990), the size and comprehensive nature of these projects sets this type of business apart from most other forms of participation. The majority of these projects are ‘mega’ projects involving hundreds of millions of dollars. Due to the huge financial commitments required, this kind of business activity is limited to a handful of large firms.

As seen through the whole process of other business strategies, it is always undeniable fact that all strategies possess their own advantages and disadvantages. But the most important thing while making the decision is that how important is the strategy for that specific firm’s business field. There is no point to choose a strategy, which might not fit the company’s business operation just because it is believed to have lesser disadvantages. Below are the advantages and drawbacks of turnkey projects:

#### **Advantages**

The know-how required to assemble and run a technologically complex process, such as refining petroleum or steel, is a valuable asset. Turnkey projects are a way of earning

great economic returns from that asset. The strategy is particularly useful where FDI is limited by host-government regulation. For example, the governments of many oil-rich countries have set out to build their own petroleum refining industries, so they restrict FDI in their oil and refining sectors. But because many of these countries lack petroleum-refining technology, they gain it by entering into turnkey projects with foreign firms that have the technology. Such deals are often attractive to the selling firm because without them, they would have no way to earn a return on their valuable know-how in that country. A turnkey strategy can also be less risky than conventional FDI. In a country with unstable political or economic environments, a longer-term investment might expose the firm to unacceptable political or economic risks (Charles W.L. Hill, 2009, 496).

### **Disadvantages**

Three main drawbacks are associated with a turnkey strategy. First, the firm that enters into a turnkey deal will have no long-term interest in the foreign country. This can be a disadvantage if that country subsequently proves to be a major market for the output of the process that has been exported. One way around this is to take a minority equity interest in the operation. Second, the firm that enters into turnkey project with a foreign enterprise may inadvertently create a competitor. For example, many of the western firms that sold oil-refining technology to firms in Saudi Arabia, Kuwait, and other Gulf states now find themselves competing with these firms in the world oil market. Third, if the firms' technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential or actual competitors (Charles W.L. Hill, 2009, 496).

#### **2.1.6 Management contracts**

An international management contract gives the company the right to manage the day-to-day operations of an enterprise in a foreign market. However, management control is limited to ongoing operations. Management contracts are used mainly to supplement an actual or intended joint venture agreement or a turnkey project.

From an entry strategy perspective, management contracts are unsatisfactory because they do not allow a company to build a permanent market position for its products. Other disadvantages include time-consuming negotiations and the commitment of scarce management talent (Cavusgil & Ghauri, 1990).

### **2.1.7 Foreign Direct Investment**

Foreign direct investment (FDI) occurs when a firm invests directly in facilities to produce or market a product in a foreign country. According to the U.S. department of commerce, FDI occurs whenever a U.S. citizen, organization, or affiliated group takes an interest of 10 percent or more in a foreign business entity. Once a firm undertakes FDI, it becomes a multinational enterprise (Charles W.L. Hill, 2009, 242).

Cavusgil & Ghauri(1990, 30), argues that Direct investment can create marketing advantages such as easier adaptation of products to local preferences and purchasing power. Resources devoted to marketing usually increase, because in this case the manufacturer has more to lose from market failure than with direct exporting or licensing. However, direct investment requires substantially more capital, management, and other company resources, which means bearing more risks especially political risks. Whenever possible, a company should gain experience in a target country (through exports) before opting for direct investment. Such an investment project must be analyzed in the context of its political, legal, economic, social and cultural environments.

Local production may lower costs compared to export entry because of savings in transportation and customs duties and/or lower manufacturing costs resulting from less expensive local inputs of labour, raw material and energy. Such an investment may enable manufactures to obtain a higher or more uniform quality of supply in the host country.

FDI takes on two main forms. The first is a Greenfield investment, which involves the establishment of new operation in a foreign country. The second involves acquiring or

merging with an existing firm in a foreign country (most of Starbucks' expansion has been in the form of Greenfield investments, although it did acquire Britain's Seattle coffee). Acquisitions can be as a minority (where the foreign firm takes a 10 percent to 49 percent interest in the firm's voting stock), majority (foreign interest of 50 percent to 99 percent), or full outright stake (foreign interest of 100 percent) (Charles W.L. Hill, 2009, 242).

The past 30 years have seen a marked increase in both the flow and stock of FDI in the world economy. FDI has grown more rapidly than world trade and world output for several reasons. First, despite the general decline in trade barriers over the past 30 years, business firms still fear protectionist pressure. Executives see FDI as a way of circumventing future trade barriers. Second, much of the recent increase in FDI is being driven by the political and economic changes that have been occurring in many of the world's developing nations. Across much of Asia, Eastern Europe, and Latin America, economic growth, economic deregulation, privatization programs that are open to foreign investors, and removal of many restrictions on FDI have made these countries more attractive to foreign multinationals. According to the United Nations, between 1992 and 2005 approximately 94 percent of the 2,266 changes made worldwide in the laws governing foreign direct investment created a more favourable environment for FDI. (Charles W.L. Hill, 2009, 242).

Historically, most FDI has been directed at the developed nations of the world as firms based in advanced countries invested in the others' markets. During the 1980's and 1990's, the United States was often the favourite target for FDI inflows. The United States has been an attractive target for FDI because of its large and wealthy domestic markets, its dynamic and stable economy, a favourable political environment, and the openness of the country to FDI. Inward investment into the United States remained high during the early 2000's, totalling 177 billion USD in 2006. The developed nations of the European Union have also been recipients of significant FDI inflows, principally from U.S. and Japanese enterprises and from other member states of the EU. In 2006, inward investment in the EU reached a record 549 billion USD (Charles W.L. Hill, 2009, 244).

Even though developed nations still account for the largest share of FDI inflows, FDI into developing nations has increased. From 1985 to 1990, the annual inflow of FDI into developing nations averaged USD 27.4 billion, or 17.4 percent of the total global flow. In the mid to late 1990s, the flow into developing nations was generally between 35 to 40 percent of the total, before falling back to account for about 25 percent of the total flow in the 2000-2002 period and then rising to 31 to 40 percent between 2004 and 2006. Most recent inflows into developing nations have been targeted at the emerging economies of South, East, and Southeast Asia. Driving much of the increase has been the growing importance of China as a recipient of FDI (Charles W.L. Hill, 2009, 244).

Despite turmoil in the global economy, global foreign direct investment (FDI) inflows rose by 17 per cent in 2011, to \$1.5 trillion, surpassing their pre-crisis average, according to UNCTAD's estimates in the recent Global Investment Trends Monitor. According to the latest estimates, FDI inflows increased in all major economic groupings, developed, developing and transition economies. Developing and transition economies continued to account for half of global FDI in 2011 as their inflows reached a new record high, at an estimated \$755 billion, driven mainly by robust Greenfield investments.

In developing and transition economies, the 2011 increase in FDI flows was no longer driven by South, East and South-East Asia (which saw an increase of 11 per cent), but rather by Latin America and the Caribbean (increase of 35 per cent) and by transition economies (31 per cent). Africa, the region with the most least developed countries, continued its decline in FDI inflows (UNCTAD, 2012).

FDI flows to developed countries also rose by 18 per cent, but the growth was largely due to cross-border merger and acquisitions (M&As), not the much-needed investment in productive assets through Greenfield investment projects. Moreover, part of the M&A deals appear to be driven by corporate restructuring and a focus on core activities, especially in Europe.

Based on the current prospects of underlying factors, such as GDP growth and cash holdings by transnational corporations, UNCTAD estimates that FDI flows will rise moderately in 2012, to around \$1.6 trillion.

However, the fragility of the world economy will have an impact on FDI flows in 2012. Both cross-border M&As and Greenfield investments slipped in the last quarter of 2011, indicating the risks and uncertainties for further FDI growth in 2012 (UNCTAD, 2012).

Even though the above listed estimates by the UNCTAD are promising news for least developing nations in different parts of the world it doesn't give that much a promise for those least developed nation in the continent Africa. Due to different factors the FDI inflow to the region keeps declining which in many ways will have a negative impact for the LDC's in Africa.

### **2.1.8 Countertrade**

Countertrade is an ancient form of trading, which is reappearing in world commerce. It refers to transaction which is characterized by a linkage between exporters and importers of goods or services, in addition to or in place of financial settlements. In ancient times countertrade took place in the form of barter, where goods of approximately the same value were exchanged without any money approximately the same value were exchanged without any money being involved. Naturally, these transactions took place at a time when money as a common medium of exchange was not available (Cavusgil & Ghauri, 1990).

## **2.2 Effect and meaning of trade on LDC's**

What is the impact of microeconomics on free trade? The fact of the matter is that it is consumer driven. It begins with a single consumer, what the consumer wants, the needs of the consumer, the desire to purchase goods and the ability to pay for them. The less developed nations have the consumer base, and certainly the desire, but



without free trade that has goods flowing into these countries for sale at affordable prices, the consumer's ability to pay is minimal. What do we know about this consumer? First of all, "every consumer has a set of tastes for the commodities that he can buy in a market, and these tastes are a 'given' in the sense that they are not affected by change in his income or a change in the price of any commodity"(Business intelligence journal, 2009).

What this view, however, fails to distinguish is that consumer desire in a developing country might be for a new automobile, but the prices and his income prevent such a purchase. The desire then must be reduced to the affordable goods (clothes, food, and appliances for the home, perhaps farm machinery and tools). Of course, the original assumption of microeconomics is that the consumer has a certain priority for his commodity preferences: milk before bread, bread before eggs, eggs before bacon, etc.

But, a fair question may well be why introducing the subject of microeconomics in a discussion of free trade. The simple answer is that free trade can only be successfully managed when the needs of the consumer and his ability to satisfy those needs with purchase are taken into consideration.

It is old "marketing" cliché of selling refrigerators to Eskimos. If Free Trade is to be successful with, and among, the less developed countries that trade has to include goods that can be easily purchased, rather than stored in some massive inventory for future use. Nigeria, for example, has oil to export. It needs no fuel to import. But, it does need tools and materials to improve its infrastructure. So, a trade for paving materials, additional cement factories, buses and/or railroads to transport goods and workers, and appliances for those Nigerians in the labor force who need an incentive to remain on the job and not mobile, moving from place to place to seek other work (Business intelligence journal, 2009).

### **2.3 Characteristics of LDCs Market**

It may be helpful to review the economic and marketing characteristics of third world countries before discussing their marketing implications. For this purpose, Third

World nations are classified into three relatively homogeneous groups based on demographic and economic commonalities.

The ability of most third world nations to engage in international business is severely constrained by how much they owe to other nations. Useful information on indebtedness, according to four risk groups, based on the countries debt service requirements. These risk classifications influence countries' ability to borrow from international banks. (Cavusgil & Ghauri, 1990, 40)

Some macroeconomic characteristics of the third world are relevant to successful marketing. Most western companies are accustomed to marketing in buyer's market i.e. a market with numerous buyers. Domestic markets in the third world are characterized by:

- A seller's market, where individual customer concerns are not crucial in consumer goods.
- A concentrated market, where most personal selling strategies require modification.

Many third world countries are liberalizing their economies, although many are still far from becoming market economies.

## **2.4 Theories of FDI**

The implication of the theories of FDI for business practices is straight forward. First, it is worth noting that the location-specific advantages argument associated with John Dunning does help explain the direction of FDI. However, the location-specific advantages argument does not explain why firms prefer FDI to licensing or to exporting. In this regard, from both an explanatory and a business perspective, perhaps the most useful theories are those that focus on the limitation of exporting and licensing; that is, internationalization theories. These theories are useful because they identify with some precision how the relative profitability of foreign direct investment, exporting, and licensing vary with circumstances (Charles W.L. Hill, 2009, 264).

The theories suggest that exporting is preferable to licensing and FDI so long as transportation costs are minor and trade barriers are trivial. As transportation costs or trade barriers increase, exporting becomes unprofitable, and the choice is between FDI and licensing. Since FDI is more costly and more risky than licensing, other things being equal, the theories argue that licensing is preferable to FDI. Other things are seldom equal, however. Although licensing may work, it is not an attractive option when one or more of the following conditions exist: (a) the firm has valuable know-how that a licensing contract cannot adequately protect, (b) the firm needs tight control over a foreign entity in order to maximize its market share and earnings in that country, and (c) a firm's skills and capabilities are not amenable to licensing (Charles W.L. Hill, 2009, 265-266).

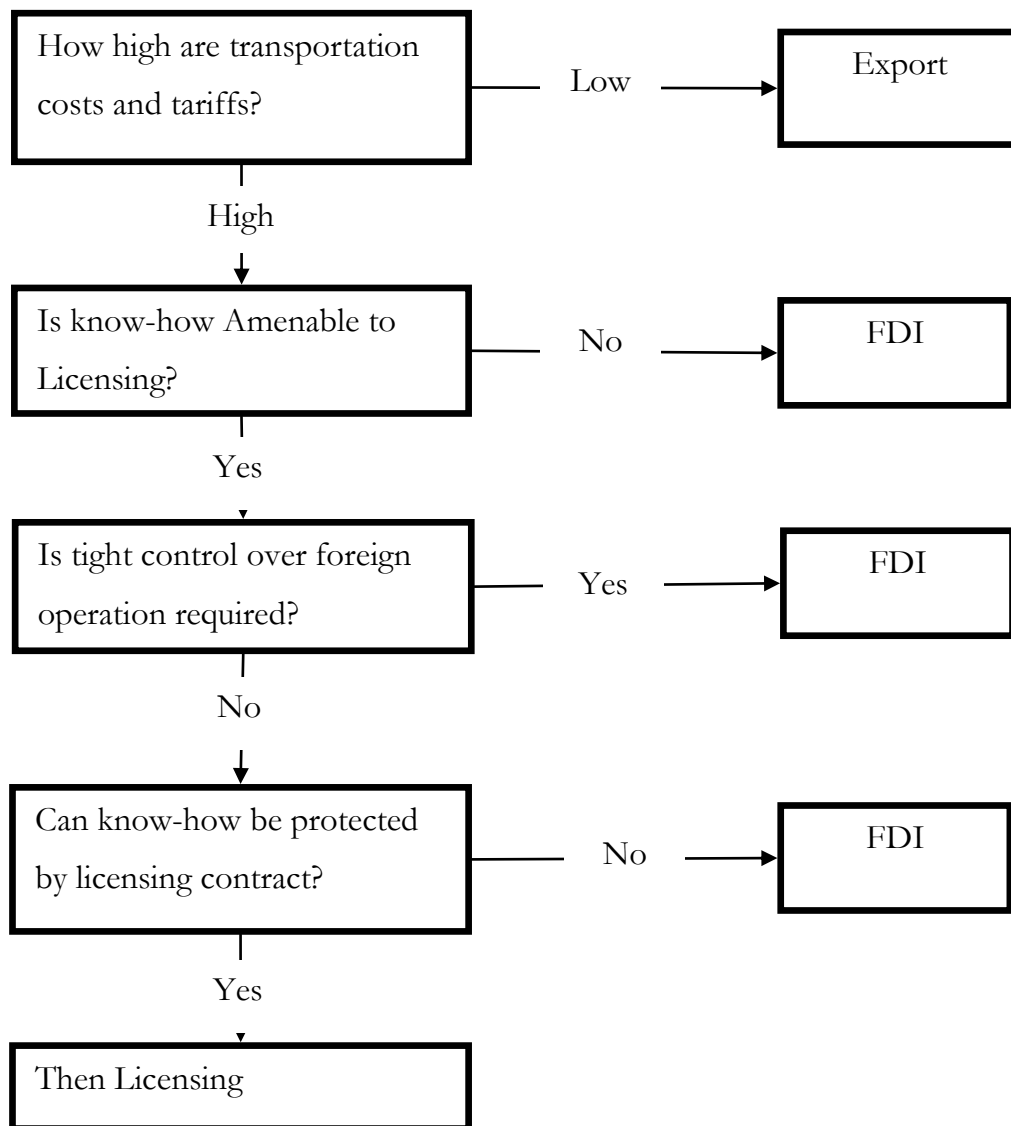


Fig2: A decision Frame work

Source: Charles W.L. Hill (International Business, competing in the global marketplace)

Firms for which licensing is not a good option tend to be clustered in three types of industries:

- High technology industries in which protecting firm-specific expertise is of paramount importance and licensing is hazardous.
- Global oligopolies, in which competitive interdependence requires that multinational firms maintain tight control over foreign operations so that they have

the ability to launch coordinated attacks against their global competitors (as Kodak has done with Fuji).

- Industries in which tense cost pressure require that multinational firms maintain tight control over foreign operations (so they can disperse manufacturing to locations around the globe where factor costs are most favourable in order to minimize cost)

Although empirical evidence is limited, the majority of the evidence seems to support these conjectures. In addition, licensing is not a good option if the competitive advantage of a firm is based upon managerial or marketing knowledge that is embedded in the routines of the firm or the skills of its managers, and that is difficult to codify in a “book of blueprints.” This would seem to be the case for firms based in a fairly wide range of industries (Charles W.L. Hill, 2009, 267).

Firms for which licensing is a good option tend to be in industries whose conditions are opposite to those specified above. That is, licensing tends to be more common, and more profitable, in fragmented, low technology industries in which globally dispersed manufacturing is not an option. A good example is the fast food industry (Charles W.L. Hill, 2009, 267).

It should be noted that the product life-cycle theory and Knickbocker’s theory of FDI tend to be less useful from a business perspective. The problem with these two theories is that they are descriptive rather than analytical. They do a good job of describing the historical evolution of FDI, but they do relatively poor job of identifying the factors that influence the relative profitability of FDI, licensing, and exporting (Charles W.L. Hill, 2009, 267).

Global foreign direct investment (FDI) inflows rose in 2007, after four consecutive years of growth, by 30% to reach \$1,833 billion, well above the previous all-time high set in 2000 (UNCTAD, 2008). Especially in developing countries FDI inflows reached their highest level ever (\$500 billion) a 21% increase over 2006. The least developed

countries (LDCs) attracted \$13 billion worth of FDI in 2007 also record high (UNCTAD, 2008).

This development causes the attention of economists, scientist, governments, international organizations and the civil society wanting to know what drives this high increase in FDI inflows, whether this is a lasting trend and what the consequences might be. Even though the international community shares the view that higher investments especially in the agricultural sector are necessary to foster rural development and to overcome food insecurity and poverty, recently several critical voices have been raised, addressing the potential negative impact of FDI's in the agricultural sector in developing sector in developing countries. Critical voices like Jacque Diouf Direktor of the UN Agricultural Organization (FAO) talk of "Neo-colonialism" and "Land Grabbing" (Luice Weissleder 2009,1)

Up to now establishing an economic relationship through FDI was mainly driven by two different enterprise motives. The first one is to reduce production costs and through this is to become more efficient compared to competitors (vertical FDI) and the second motive is to seek new markets (horizontal FDI). However, over the last 2 years, the economic surrounding in which the enterprise act has changed substantially. Two big global crises, the world food crises, and the broader financial crises have evolved two additional more economically and potentially driven motives, food security and secure financial returns for undertaking FDI for a number of countries (GRAIN, 2008).

Targeting the first motive "food security", capital strong nations secure land for outsourcing food production titled by newspapers such as the "Sueddeutsche" (January 2009) and the financial times Deutschland" (August 2009) as Neo-colonialism. According to GRAIN (2008) especially countries that are net-importers such as Saudi Arabia, Japan, China and India see this as an innovative long-term strategy to feed their people at an appropriate price and with far greater security than heretofore. Since they rely on food imports, they are worried about tightening markets resulting from the

world food crises on the other hand they are rich of capital and are therefore seeking to cover the domestic food demand by gaining control of farms in other countries.

The second new motive is to secure financial returns. Given the current financial meltdown, all sorts of investors are turning to land as food prices increased in the last years and land prices in many countries around the world are low. So there is money to be made by getting control of the best soils (Grain, 2008).

Main continents where land was bought in the last three years are Asia, South America and Africa. Africa is a continent with high endowments of natural resources especially fertile agricultural land and on the other hand capital weak and therefore willing to receive capital through selling or leasing land. In the latest newspaper articles especially Ethiopia, Kenya and Madagascar are mentioned as countries where foreign countries try to buy or lease land heavily (Weissleder 2009).

## **2.5 EU FDI evolvement in Africa**

Africa is highly endowed with natural- especially land resources. Over the past few years investing in land has particularly become interesting for foreign investors against the background of the global (food and financial) crises. Between 2005 and 2007 the overall FDI inflows grew by nearly 80% from \$29 billion to reach \$53 billion, their highest level so far, despite the global financial crises (UNCTAD, 2008). This is the highest percentage increase of FDI inflows within the developing countries.

Figure 3 shows the development of total African FDI inflows independent from a specific sector between 1997 and 2007. Further the regional distribution of the FDI inflows among the five main sub-regions of Africa is stated. In the world investment report 2008 by UNCTAD, this strong growth is explained as a consequence of the booming global commodities market, rising corporate profitability of investment and an increasingly FDI-friendly environment.

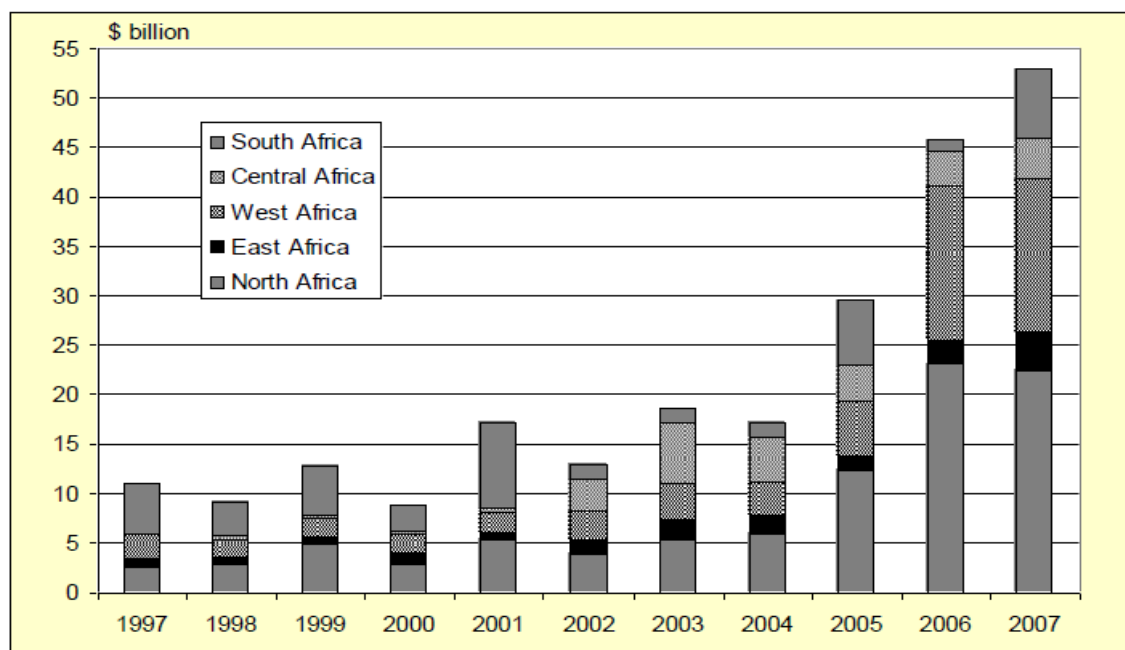


Figure 3: African FDI inflows, 1997-2007

Source UNCTAD, 2008

The African growth of FDI inflows is spread across 35 countries, and includes many natural resource producers that have been attracting flows in the past few years, as well as new host countries. North Africa attracts 42% of the FDI to the region in 2007 compared with 51% in 2006 and sub-Saharan Africa attracts 58% of the flows, up from 49% in 2006. This slight change in the distribution of the FDI inflows occurs because large inflows to Nigeria and South Africa, combined with strong investments in Equatorial Guinea, Madagascar and Zambia each receiving about \$1 billion or more inflows in 2007 boosts overall FDI to sub-Saharan Africa (UNCTAD, 2008). In table 1 the distribution among African countries is listed by range.

Table 1: distribution of FDI inflows among African host countries, by range, 2007

Source UNCTAD 2008

<i>Range</i>	<i>Host countries</i>
<i>Over \$3.0 bn.</i>	Nigeria, Egypt and South Africa
<i>\$2.0 bn. to \$2.9 bn.</i>	Morocco, Libyan and Sudan
<i>\$1.0 bn. to \$1.9 bn.</i>	Equatorial Guinea, Algeria and Tunisia



<b><i>\$0.5 bn. to \$0.9 bn.</i></b>	Madagascar, Zambia, Ghana, Kenya, Democratic Republic of Congo, Namibia, United republic of Tanzania, Chad and Burkina Faso
<b><i>\$0.2 bn. to \$0.4 bn.</i></b>	Botswana, Mozambique, Cote d'Ivoire, Uganda, Mali, Congo, Mauritius, Cameroon, Gabon, Ethiopia and Seychelles
<b><i>Less than \$0.2 bn.</i></b>	Djibouti, Cape Verde, Mauritania, Somalia, Guinea, Lesotho, Sierra Leone, Senegal, Togo Zimbabwe, Rwanda, Gambia, Malawi, Benin, Liberia, Swaziland, Sao Tome and Principe, Central African Republic Niger, Guinea-Bissau, Comoros Burundi, Eritrea and Angola

## 2.6 FDI development in Ethiopia

FDI inflows in the agribusiness sector have increased highly in Ethiopia in the last 5 years. As Ethiopia is among the most populous countries on the African continent, more than 45% of the population suffer from undernourishment (WFP, 2009) and ca. 40% of the population live from less than one US\$ a day.

Thus, in the process of this study we will try to figure out the outcome of these big money FDI's on the poorest population of the nation. In order to do so this study aims at analyzing whether the above mentioned global reasons (food security and security of financial returns) can also be seen for Ethiopia or whether other reasons drive FDI inflows to Ethiopia.

Through the use of country specific data bases and complementary expert interview a detailed view of the investment development in Ethiopia for the agricultural sector is provided for the years 2000-2008.

This paper will first give an overview on the development of FDI into Africa in the recent years. The overview will show that FDI inflows have increased differently in the various parts of Africa. Ethiopia is thereby one country that has not received high

amounts of FDI inflows over time but where the interest of foreign countries has increased in recent years when regarding the national investment database as well as the latest newspaper articles. To interpret the development of the FDI inflows and hence resultant impacts on the Ethiopian economy a short overview of the current economic situation of Ethiopia is given. Against this background information the database generated by the Ethiopian investment agency is analyzed to draw a picture of the development of FDI inflows over the past years (Lucie weissleder 2009).

The sub-region that ranks the lowest when looking at FDI inflows in Africa is East Africa. Of course there are some countries that state an exception, as Madagascar, Kenya or the Seychelles. The main sector that attracts FDI is the primary sector which drove FDI inflows mainly from Asian investors in the primary and services sector. It's total FDI inflows increase by 26% to \$4 billion in 2007. The last sub-region is southern Africa. It experienced the highest growth among the sub-regions to \$7 billion in 2007. Its main investors are from Asia (China) in the finance sector and processing industry (UNCTAD, 2008).

Regarding the agribusiness sector (agricultural plus food processing sector) the FDI inflows in to the developing countries have nearly doubled between 2000 and 2006, increasing from the single developing countries and into the sub sectors of the agricultural sector that receive the foreign investments. This is one reason why a case study is so sensible. Case studies can give a detailed view of the development in a certain country and a specific sector.

Although east Africa appears to have experienced the lowest FDI inflows between 2005 and 2007 according to the world investment report 2008, its total FDI inflows have doubled in this time period. Further, latest newspaper articles in FDI identify especially east African countries such as Ethiopia, Kenya and Madagascar are potential host countries for FDI inflows in the near future.

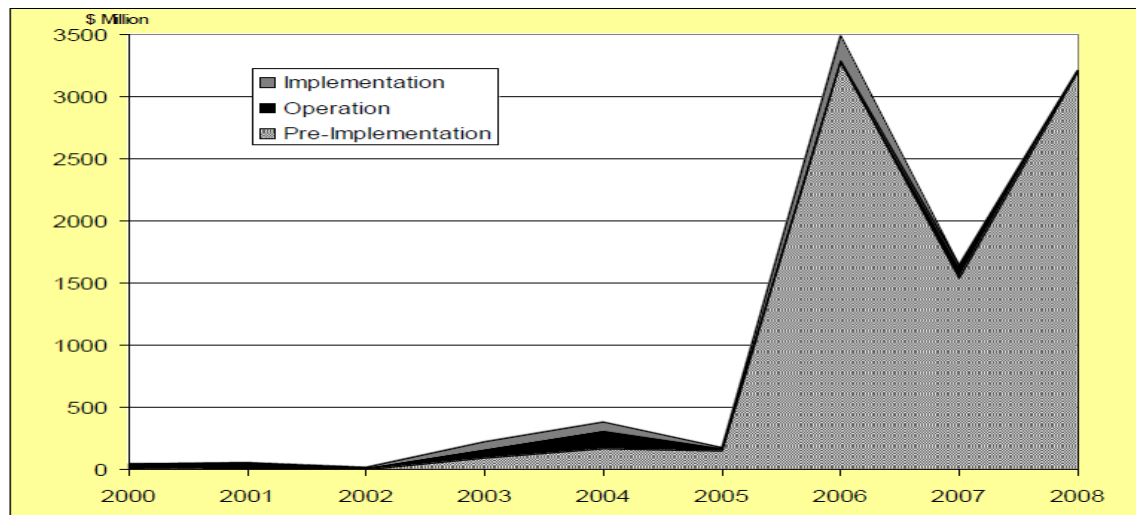


Figure 4: FDI inflows to the agricultural sector in Ethiopia

Source: Federal Investment Bureau of Ethiopia (2009)

## 2.7 The Role of Transnational Institutions

There are mainly three transitional Institutions playing a big part in today's global trade activities within nations and regions. These institutions are:

- World Trade Organization
- International Monetary Fund, and
- The World Bank.

This transitional institutions have a huge impact in internationalization strategies especially concerning FDI's which passes borders by its nature. Relying on that acknowledging this institutions help smothning international relations.

### 2.7.1 World Trade Organization (WTO)

After many years of often contentious negotiations, the Uruguay round accord was finally ratified in January of 1995. As part of this ratification, a new institution, the World Trade Organization, was created, which now is the umbrella organization responsible for oversetting the implementation of all the multilateral agreements negotiated in the Uruguay Round and those that will be negotiated in the future. The GATT has ceased to exist as a separate institution and has become part of WTO,

which also is responsible for the General Agreement on Trade in Services (GATS), agreements on Trade-related aspects of intellectual property rights (TRIPS), and trade-related investment measures (TRIMS), and administers a broad variety of international trade and investment accords (Czinkota & Ronkainen 2004,35).

The creation of the WTO has greatly broadened the scope of international trade agreements. Many of the areas left uncovered by the GATT, such as services and agriculture, are now addressed at least to some degree by international rules, speedier dispute settlement procedures have been developed, and the decision making process has been streamlined. Even though the GATT, such as services and agricultural, are now addressed at least to some degree by international rules, speedier dispute settlement procedures have been developed, and the decision making process has been streamlined. Even though the WTO will attempt to continue to make decisions based on consensus, provisions are now made for decisions to be made by majority vote if such consensus cannot be achieved.

The WTO makes major contributions to improved trade and investment flows around the world. However, a successful WTO may well infringe on the sovereignty of nations. For example, more streamlined dispute settlements mean that decisions are made more quickly and that nations in violation of international trade rules are confronted more often. Negative WTO decisions affecting large trading nations are likely to be received with resentment. Some governments intend to broaden the mandate of the WTO to also deal with social causes and issues such as labor laws, competition, and emigration freedoms. Since many nations fear that social causes can be used to devise new rules of protectionism against their exports, the addition of such issues may become a key reason for divisiveness and dissent within the WTO. Outside groups such as nongovernmental organizations and special interest alliances believe that international trade and the WTO represent a threat to their causes. (Czinkota & Ronkainen, 2004, 35).

### **2.7.2 International Monetary Fund (IMF)**

The international monetary fund (IMF), conceived in 1944 at Bretton Woods in New Hampshire, was designed to provide stability for the international monetary framework. It obtained funding from its members who subscribed to a quota based on expected trade patterns and paid 25 percent of the quota in gold or dollars and the rest in their local currencies. These funds were to be used to provide countries with protection against temporary fluctuations in the value of their currency. Therefore, it was the original goal of the IMF to provide for fixed exchange rates between countries.

The perhaps not so unintended result of using the U.S dollars as the main world currency was a glut of dollar supplies in the 1960s. This forced the United States to abandon the gold standard and devalue the dollar and resulted in flexible or floating exchange rates in 1971. However, even though this major change occurred, the IMF as an institution has clearly contributed toward providing international liquidity and to facilitating international trade.

Although the system has functioned well so far, it is currently under severe pressure. In the 1980s, some of this pressure was triggered by the substantial debts incurred by less-developed countries as a result of overextended development credits and changes in the cost of energy. Since the 1990s, major additional pressure has resulted from the financial requirements of the former socialist countries, which search for funds to improve their economies. In addition, 12 former soviet republics joined the IMF. Beyond the needs of these new members, major currency fluctuations among old customers have stretched the resources of the IMF to the limit. For example, on September 6, 2002 the international monetary fund approved Brazil's request for a 15-month standby credit US\$30.4 billion to support the country's economic and financial program through December 2003. As a result of all these global financial needs, the future role of the IMF may be very different. If the institution can mobilize its members to provide the financial means for an active role, its past accomplishments may pale in view of the new opportunities. (Czinkota & Ronkainen, 2004).

At the same time however, the newness in orientation also will require a rethinking of the rule under which the IMF operates. For example, it is quite unclear whether stringent economic rules and performance measures are equally applicable to all countries seeking IMF assistance. New economic conditions that have not been experienced to date, such as the privatization of formerly centrally planned economies, may require different types of approaches. Also perhaps the link between economic and political stability requires more and different considerations, therefore magnifying but also changing the mission of the IMF.

### **2.7.3 World Bank**

According to Czinkota & Ronkainen, the World Bank official name is the International Bank for Reconstruction and development, has had similar success. It was initially formed in 1944 to aid countries suffering from the destruction of war. After completing this process most successfully, it has since taken on the task of aiding world development. With more and more new nations emerging from the colonial fold of the world powers of the early twentieth century, the bank has made major efforts to assist fledgling economies to participate in a modern economic trade framework. More recently the bank has begun to participate actively with the IMF to resolve the debt problems of the developing world and may also play a major role in bringing a market economy to the former members of the eastern bloc.

A major debate however, surrounds the effectiveness of the bank's expenditures. In the 1970s and 1980s, major funds were invested into infrastructure projects in developing countries, based on the expectation that such investment would rapidly propel the economies of these nations forward. However, in retrospect, it appears that many of these funds were squandered by corrupt regimes, and that many large projects have turned into white elephants-producing little in terms of economic progress. In addition, some projects have had major negative side (Czinkota & Ronkainen, 2004).

### **3 Foreign trade and culture in LDC's**

Foreign trade is a trade which is made beyond borders. Considering that foreign trade encounters different kind of positive and negative phenomenon and culture is one of the factors foreign trade faces through the process.

Culture has a big role considering the outcome of foreign trade and multinational companies. This section explains in detail the impact of cultural differences, culture's meaning in multinational business organizations, and the characteristics and measurements of least developed countries concerning culture.

#### **3.1 What are the Least Developed Countries?**

The least developed countries (LDCs) are a group of countries that have been identified by the UN as "least developed" in terms of their low gross national income (GNI), their weak human assets and their high degree of economic vulnerability (nationsonline.org).

Forty-nine countries are currently designated by the United Nations as "least developed countries" (LDCs). There are: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, the Central African Republic, Chad, the Comoros, the Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, the Lao people's Democratic republic, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, the United Republic of Tanzania, Vanuatu, Yemen and Zambia (UNCTAD, 2010).

The list of LDCs is reviewed every three years by the United Nations Economic and Social Council (ECOSOC), in the light of recommendations by the committee for development policy (CDP). The following three criteria's were used by the CDP in the latest review of the list of LDCs, which took place in March 2009.

- a) A “low assets weakness” criterion, involving a composite index (the human assets index) based on capita, with a threshold of \$905 for possible cases of addition to the list, and a threshold of \$1.086 for graduation from LDC status;
- b) A “human assets weakness” criterion, involving a composite index (the human assets index) based on indicators of: (i) nutrition (percentage of the population that is undernourished); (ii) health (child mortality rate); (iii) school enrolment (gross secondary school enrolment rate): and (iv) literacy (adult literacy rate): and
- c) An “economic vulnerability” criterion, involving a composite index (the economic vulnerability index) based on indicators of: (i) natural shocks (index instability of agricultural production; share of the population made homeless by natural disasters); (ii) trade shock (an index of instability of exports of goods and services); (iii) exposure to shocks (share of agriculture, forestry and fisheries in GDP: index of merchandise export concentration); (iv) economic smallness (population in logarithm): and (v) economic remoteness (index of remoteness).

For all three criteria, different thresholds are used for identifying cases of addition to, and cases of graduation from, the list of LCDs. A country will qualify to be added to the list if it meets the addition thresholds on all three criteria and does not have a population greater than 75 million. Qualification for addition to the list will effectively lead to LDC status only if the government of the relevant country accepts this status. A country will normally qualify for graduation from LDC status if it has met graduation thresholds under at least two of the three criteria in at least two consecutive triennial reviews of the list. However, if the GNI per capital of an LDC has risen to a level at least double that of the graduation threshold, the country will be deemed eligible for graduation regardless of its performance under the other two criteria (UNCTAD/LDC/2010).

Only two countries have so far graduated from LDC status: Botswana in December 1994, and Cape Verde in December 2007. In March 2009, the CDP recommended the graduation of Equatorial Guinea. This recommendation was endorsed by ECOSOC in July 2009 (resolution 2009/35), but the General Assembly had not, by September 2010, confirmed this endorsement. Also in September 2010, the General Assembly,



giving due consideration to the unprecedented losses which Samoa suffered as a result of the Pacific Ocean tsunami of 29 September 2009, decided to defer to 1st January 2014 the graduation of that country. In accordance with General Assembly resolution 60/33, Maldives graduated from LDC status on 1st January 2011.

After a CDP recommendation to graduate a country has been endorsed by ECOSOC and the general assembly, the graduating country is granted a three-year grace period before graduation effectively takes place. This grace period, during which the country remains an LDC, is designed to enable the graduating state and its development and trade partners agree on a “smooth transition” strategy, so that the possible loss of LDC specific concessions at the time of graduation does not disrupt the socio-economic progress of the country (UNCTAD/LDC/2010).

### **3.2 Culture and multinational business organizations**

If intercultural encounters are as old as humanity, multinational business is as old as organized states. Business professor Karl Moore and historian David Lewis have described four cases of multinational business in the Mediterranean area between 1900 and 100 B.C. run by Assyrians, Phoenicians, Greeks, and Romans. History does not justify claims that one particular type of capitalism is inevitably and forever superior to everything else.

The functioning of multinational business organizations hinges on intercultural communication and cooperation. Multinationals abroad meet alien value patterns, but their shared practices (symbols, heroes and rituals) keep the organization together.

The basic values of a multinational business organization are determined by the nationality and personality of its founder (s) and later significant leaders. Multinationals with a dominant home culture have a clearer set of basic values and therefore are easier to run than international organizations that lack such a common frame of reference. In multinational business organizations the values and beliefs of the home culture are taken for granted and serve as a frame of reference at the head office. Persons in linchpin roles between foreign subsidiaries and the head office need to be bicultural,

because they need a double trust relationship, on the one side with their home culture superiors and colleagues and on the other side with their host culture subordinates (Hofstede et al, 2010).

Other managers and members of foreign national subsidiaries do not have to be bicultural. Even if the foreign subsidiaries formally adopt home culture ideas and policies, they will internally function according to the value systems and beliefs of the host culture (Hofstede et al, 2010).

Organizations moving to unfamiliar cultural environments are often sorely unprepared for negative reactions of the public or the authorities to what they do or want to do. Perhaps the effect of the collective values of a society is however as clear as in such cases. These values have been institutionalized partly in the form of legislation (and in the way in which legislation is applied, which may differ considerably from what is actually written in the law); in labor union structures, programs, and power positions; and in the existence of organizations of stakeholders such as consumers or environmentalists. The values are partly invisible to the newcomer, but they become all too visible in press reactions, government decisions, or organized actions by uninvited interest groups.

### **3.3 Impact of culture differences**

The invention of nations, political units into which the entire world is divided and to one of which every human being is supposed to belong as manifested by his or her passport is a recent phenomenon in human history. Earlier there were states, but not everybody belonged to one of these or identified with one. The nation system was introduced worldwide only in the mid-twentieth century. It followed the colonial system that had developed during the preceding three centuries. In this colonial period the technologically advanced countries of Western Europe divided among themselves virtually all territories of the globe that were not held by another strong political power. The borders between the former colonial nations still reflect the colonial legacy. In Africa in particular, most national borders correspond to the logic of the colonial powers rather than to the cultural dividing lines of the local populations.

Nations, therefore, should not be equated to societies. Societies are historically, organically developed forms of social organization. Strictly speaking, the concept of a common culture applies to societies, not to nations. Nevertheless, many nations do form historically developed wholes even if they consist of clearly different groups and even if they contain less integrated minorities (Mead 1998, 53-56).

Within nations that have existed for some time there are strong forces toward further integration: (usually) one dominant national language, common mass media, a national education system, a national army, a national political system, national representation in sports events with a strong symbolic and emotional appeal, a national market for certain skills, products, and services. Today's nations do not attain the degree of internal homogeneity of the isolated, usually non literate societies studied by field anthropologists, but they are the source of considerable amount of common mental programming of their citizens (Mead 1998, 53-56).

In research on cultural differences nationality the passport one holds should therefore be used with care. Yet it is often the only feasible criterion for classification. Rightly or wrongly, collective properties are ascribed to the citizens of countries: people refer to “typically American”, “typically German,” and “typically Japanese” behaviour.

### **3.4 Social, economical and political dimension of culture**

Culture is ideally positioned on the cusp between the economy and political sphere. Compare to other sectors of economy, culture have an additional dimension-it not only creates wealth but it also contributes to social inclusion, better education, self confidence and the pride of belonging to a historic community. Culture is also powerful tool to communicate values and promote objectives of public interest that are broader than wealth creation (European commission, 2008).

### **3.5 The concept of shift**

In context to our topic and business in general, the importance of cultural knowledge is extremely essential for any business being carried out outside the local boundary. A

more precise term for this situation would be “understanding cultural shift” as explained by Richard Mead. According to Mead, the manager deals directly with abstractions of changes in the value system. Rather he/she responds to concrete factors such as changing markets, new labour supplies and demands, and new efficiencies in labour force. For these changes may reflect cultural shift. The company that recognizes the interactive process between environment and culture is well-placed to out-distance its competitors, because cultural shift present opportunities for growth depending upon the company’s business (Mead 1998, 52-53.)

The effect of cultural shift has also an impact on the internal arrangements of a company. If for example, employees respond more positively to closer relationship between superiors and subordinates, the company must seriously consider the industry’s sensitivity to the new cultural adjustment, the company’s organizational culture and history, the cost of making or applying the change and the nature of the cultural shift whether it is long term or is it superficial before accepting and implementing the shift. The other most important reason why the manager needs to understand the relationship between change in the environment and cultural shift is that the process affects his/her own identify as a manager in his process of planning, organizing, coordinating and controlling if there are dimensions diverted because of the cultural shift (Mead 1998, 53-56).

Similarly the process of adjusting to a foreign culture is said to follow a U-curve comprising their main phases: an initial state of elation and optimism (honeymoon), soon followed by a period of irritability, frustration, and confusion (the morning after), and then a gradual adjustment to the new environment after (happily ever after). (Schneider 1997, 160)

### **3.6 Extent of global involvement**

All companies operating internationally might not need to have the same level of cultural awareness. The further the company moves out from the role of doing business locally and alone, the more the need for understanding cultural differences.

The more the company moves out of the circle of doing business solely, more awareness of the culture is essential. The degree for the awareness is determined how extensive the company moves from doing the business domestically to how international it wants to be and corresponding degree of integration it needs to have along the way of reaching its destination. It becomes apparent that the issues become more complicated and complex as one moves from the core operational mode domestically to the unlimited borders around the circle ([www.tamu.edu](http://www.tamu.edu))

## **4 PESTLE Theories of Ethiopia and EU**

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 Government seeking to formulate a robust development strategy. The link between investment and these other determinants of growth, however, is not an automatic process. It requires among other things a favourable macro policy environment and specific policies and institutions aimed at encouraging savings and attracting and directing investment to key sectors in the economy thereby enhancing the contributions of investment to skills information, technological change, competitiveness and economic growth.

A clear understanding of how such a synergy between investment policy on the one hand and technological progress on the other can be created is an essential prerequisite for designing an effective national investment policy and investment promotion strategy (UNCTAD, 2002).

This section illustrates a detailed description of PESTLE analysis of Ethiopia and EU to in relate with FDI and related investment variables.

### **4.1 Political factors**

Ethiopia was relatively isolated from major movements of world politics until Italian invasions in 1895 and 1935. Since World War II, it has played an active role in world and African affairs. Ethiopia was a charter member of the United Nations and took part in UN operations in Korea in 1951 and the Congo in 1960. Former Emperor Haile Selassie was a founder of the organization of African Unity (OAU), now known as the African Union (AU). Addis Ababa also hosts the UN Economic Commission for Africa. Ethiopia is also a member of the intergovernmental authority on Development, a Horn of Africa regional grouping (CIA, 2009)

Although nominally a member of the Non-Aligned Movement, after the 1974 revolution, Ethiopia moved into a close relationship with the Soviet Union and its allies and supported their international policies and positions until the change of government in 1991. Today, Ethiopia has good relations with the United States and the West, especially in responding to regional instability and supporting counterterrorism efforts.

Having the above constraints in the area, there has been a major positive change over the past six or seven years in the government's attitude towards private investment in general and foreign investment in particular. The government recognizes the vital role foreign investment can play in the national economic development process, especially by bringing capital, technology and know-how into the country and by strengthening linkages and promoting regional development.

The Ethiopian investment authority (EIA) has been established to provide a one-stop to facilitate entry of foreign investors. In order to encourage, promote and expand foreign investment, the Ethiopian Government has also undertaken a wide range of economic reform programs with two main agendas to shift from a command to a market economy and progressively to place the Ethiopian economy under the rigorous discipline of international competition (UNCTAD,2011).

The two major federal bodies of the country are house of under the house of peoples' representatives and the hose of federation with the legislation powers falling under the house of peoples' representatives and the house of federation undertaking the duty of interpreting the constitution. The prime minister has the highest executive powers according to the constitution. Legislation is the primary source of the Ethiopian civil legal system. The constitution declares itself the supreme law of the land. The Ethiopian constitution gives all international agreements approved by Ethiopia, the status of national law. In addition, the fundamental rights and freedoms protected in the constitution are to be interpreted "in conformity with the Universal Declaration of Human rights, international human rights covenants and with the principles of other

relevant international instruments, which Ethiopia has accepted or ratified”. However domestic application of international standards is very minimal (Selamta 2007.)

On the other hand EU as a major trade partner plays a vital role on the overall trade and external relations. Trade policy has its own distinct economic logic and contribution to make to the external action of the union. Trade and trade policy reinforce the EU’s international influence and concerted action at EU level should pursue and support EU economic interests in third countries. So the union’s trade and foreign policies can and should be mutually reinforcing. This applies to areas such as development policy and the application of UN sanctions, but also to creating the right incentives within inter alia EU trade and political relations with third countries or through specific trade instruments such as the general system of preference or FTAs, to encourage our partners to promote the respect of human rights, labour standards, the environment, and good governance, including in tax matters. Other tools of external action, such as EU delegations, should help accomplish trade agenda and support companies abroad. Another example of the interaction between trade policy and external action is export control system for dual-use goods which serves a foreign security policy goal (Eurostat, 2011).

In addition the EU has set aside 130 million for rural development and food security in Ethiopia. Large part of these funds directly benefits Ethiopia’s poorest people by providing food and cash in return for work (the project is called productive safety net programme or PSNP). The programme also funds public works to help improve areas that the whole country can benefit from, such as soil and water conservation, and roads and social services. Some 7.5 million people have already benefited from this programme (Eurostat, 2011).

## **4.2 Economy**

Ethiopia is the oldest independent country in Africa and consist of 11 regions (Afar, Amhara, Benishangul , Gumuz, Gambella, Harar, Oromia, Somali, Southern Peoples, Nations & Nationalities, Tigray, Addis Ababa, Dire Dawa). A summary of key figure describing its social-economic environment can be found in table 2.



Table 2: Main characteristics of Ethiopia

Source: CIA (2009), World Bank (2007)

Population growth rate	3.208%
Median age (2008)	16.9 years
Life expectancy at birth (total population)	55.41 years
GDP per capita (2008)	\$1.191
GDP composition by sector (2008)	Agriculture 45.9% Industry 12.15 Services 41.2%
Population below poverty line (2005/2006)	38.7% Rural area 35.1% Urban area 39.3%
Agricultural land (%of land area)	30-31% between 2000 and 2008
Irrigated land (% of cropland)	2.4-2.7% between 2000 and 2008 395.016ha
Small scale producers	83% f the rural households cultivate less than 2 ha per household – 52% less than 1 ha
Export partners (2007)	Germany (8.2%), Saudi Arabia (7%), USA (6.9%), Djibouti (6.6%), China (6.5%), Italy (6.5%), Japan (5.9%), Netherlands (4.8%)
Import partners (2007)	Saudi Arabia (17%), China (15.9%), India (7.8%0, Italy (5.1%)

Almost 40% of the total population lives below the poverty line and this has not changed significantly since 1995. 4-6 million people depend on international food assistance even in years with good harvest. Due to increased food aid, the proportion of undernourished population has decreased from 69% in 1995 down to 46% in 2004 (World Bank 2007). A major reason for this high dependency on food aid is that even

though the average annual rainfall is sufficient with 848mm, most of the rain falls intensively, extremely spatial and with very high temporal variability. This leads to high risks of annual droughts and intra-seasonal dry spells as nearly all food crops in Ethiopia come from rainfed agriculture (FAOSTAT 2005).

Ethiopia's poverty-stricken economy is based on agriculture, accounting for almost half of GDP, 60% of exports and 80% of total employment. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants. On average 83% of the rural households cultivate less than 2 ha per household and 52% less than 1 ha (FAOSTAT, 2005). In 2007 the main important products especially regarding small scale productions are cattle meat, roots and tubers, cow milk, maize, chilies and peppers, cereals, wheat, coffee, sorghum to export flows. It accounts for 3% of the GDP and a quarter of the total population make a living from this sector. Further main export products in 2006 after coffee are oilseeds, chat, leather, gold, plums, live animals, flowers; meat and fruit/vegetables (IMF, 2007.)

The flower sector has only recently become an important agricultural sector for Ethiopia when regarding the export potential. It is a relatively new but at the same very dynamic sector. Since 2001 up to 2007 the export value of flowers has increased from US\$ 0.3 Million up to US\$ 113 Million (Joosten, 2007) which accounts for 7.8% of the total export value in 2007.

For attracting potential foreign investors many regions have an infrastructure so that their agricultural land is accessible (Getnet, 2009)

As an ACP country Ethiopia had almost a duty free access for its products imported to the EU markets up to 2007. According to the WTO, these non-reciprocal preferential treatments were against the WTO regulations (Art I) and had to expire by the end of 2007. Because of that the EU currently negotiates the economic partnership agreements (EPAs) with the ACP countries. These include a scheme to create a free trade area (FTA). Furthermore, Ethiopia as an LDC country is allowed to trade under the "everything but arms" (EBA) agreement. This agreement includes unilateral trade

preferences with almost duty-free access for most products even though very strict rules of origin are implemented (IEDG, 2008).

On the other hand, operating as a single market, the EU is a major world trading power. The EU is seeking to sustain economic growth by investing in transport, energy and research-while minimizing the impact of further economic development on the environment. With 12 new member countries joining since 2004, the EU's GDP-output of goods and services is now bigger than that of the US: GDP (11 785 474.9, 2009) With just 7% of the world's population, the EU's trade with the rest of the world accounts for around 20% of global exports and imports. The EU is the world's biggest exporter and the second-biggest importer(Eurostat 2011).

Around two thirds of EU countries' total trade is done with other EU countries.

The United States is the EU's most important trading partner, followed by China. In 2005, the EU accounted for 18.1% of world exports and 18.95 of imports.

Over the past 50 years, employment in agriculture and industry has fallen, while more and more people now have a job in the service sector.

Unemployment has increased in the wake of the recent economic and financial crisis and now stands at 7.5% in the EU (Getnet, 2009).

### **4.3 Social factors**

More than 12 million people are affected by the Horn of Africa's worst drought in 60 years (according to a United Nations estimate). Two consecutive rainy seasons have failed, leading to a 25% drop in rainfall in rural areas in Somalia, northern and eastern Kenya, Southern and Eastern Ethiopia and Djibouti as a result harvest have failed, livestock mortality has soared, and food and water have become extremely expensive and difficult for most people to get hold of.

Millions of people in the horn of Africa are unable to access food or meet basic survival needs and emergency levels of acute malnutrition are widespread. Malnutrition affects over 30% of people. While parts of Somalia are facing famine conditions, neighboring populations (particularly pastoralist areas) in Kenya, Ethiopia and Djibouti

are already faced with a food security emergency. An estimated 3000 people a day are arriving in Kenya and Ethiopia from Somalia in search for help (CIA world fact book, 2009).

To respond to this emergency situation in the Horn of Africa, the commission has allocated €97.47 million in humanitarian aid to the Horn of Africa and is preparing to step up its support even further, bringing our humanitarian support to the drought affected populations in the Horn to €158 million this year. EU funds provide critically needed food aid, particularly to severely malnourished children, as well as healthcare and clean water, sanitation facilities and supplies.

But the current famine in the region, especially in the southern part of Somalia, has deeper structural causes. ([http://ec.europa.eu/echo/index\\_en.htm](http://ec.europa.eu/echo/index_en.htm)).

In Somalia, over 20 years of local and clan conflicts and the absence of security and of effective government structures have exacerbated the impact of the drought. The Transitional Federal Government (TFG) is largely confined to some districts of Mogadishu, while most parts of central-south Somalia are under the control of the al-Qaida-affiliated militant group, Al-Shabaab, which had also barred humanitarian organizations from wide parts of the country. In the capital and its surroundings, almost daily clashes are reported between the insurgents and the TFG forces supported by the African union mission, AMISOM. The fragility of the state and the enduring conflict are hindering the provision of basic services to the population at such a difficult time. As a result, people are fleeing the country and flooding to the refugee camps in Kenya and Ethiopia in search of food, water and shelter.

In our context social factors include, society and culture, people, family, business protocol and communications style with foreigners and among themselves. This section includes general business etiquette in the country related to different social and economical aspects.

### **4.3.1 The people**

Ethiopia is a multi-ethnic country. Religion is a major influence in Ethiopian life.

Nearly half the population belongs to the Ethiopian Orthodox Church but there is also large Muslim population. Others adhere to Protestant, Catholic and an ancient form of Judaism.

The Ethiopian Orthodox Church is proud of its origins. The country embraced Christianity in the 4th century, long before Europe. The feast of the Epiphany (“Timkat”) is the largest festival of the year. The Orthodox Church dominates the political, cultural, and social life of the population. It was the official religion of the imperial court and of the establishment until Haile Selassie was deposed in 1974. (CIA world fact book, 2009)

Muslims are important in the business community. They tend to live in the eastern, southern, and western lowlands, although there are considerable numbers in the capital Addis Ababa.

### **4.3.2 The family**

The extended family remains the focus of the social system. It includes relatives on both sides of the family as well as close friends. Quite often the husband’s parents will live with the nuclear family when they get older and can no longer care for themselves. When people marry, they join their families, thus ensuring that there will always be a group to turn to in times of need.

Individuals achieve recognition or social standing through their extended family. A family’s honor is influenced by the actions of its members. Family needs are put before all other obligations, including business. source

### **4.3.3 Business protocol**

Greetings are formal and courteous. Handshakes are somewhat prolonged and not especially firm. They are always combined with strong, direct eye contact. There is

generally no touching between the sexes however, if a foreign businesswoman extends her hand, a cosmopolitan Ethiopian may accept it to avoid causing her offense. Never rush greeting; enquire about people's families, health and work. Government officials may be addressed as "Excellency" without using their name. Wait to be invited before moving to a first name basis without the honorific title. Business cards are given without formal ritual. Present and receive business cards with the right hand only or with both hands. (CIA world fact book, 2009)

#### **4.3.4 Communication style**

Ethiopians can be very sensitive when it comes to communication. Since they have only recently begun working with foreigners in business situations they are still used to new ways of doing business and communicating.

As a general rule, they are humble and respect that quality in others. They generally speak in soft tones. Loud voices are seen as to aggressiveness. Ethiopians pride themselves on their eloquent speaking style and expect others to speak clearly and use metaphor, allusion, and witty innuendoes. They often use exaggerated phrases to emphasize a point.

As a rule, Ethiopians tend to be non-confrontational and offer what they believe is the expected response rather than say something that might embarrass another. Honour and dignity are crucial of Ethiopians and they will go out of their way to keep from doing something that could bring shame to another person. Therefore, it is important to treat your Ethiopian business colleagues with utmost professionalism and never do anything that would make them lose dignity and respect. (CIA world fact book, 2009)

#### **4.3.5 Business meetings**

Meeting schedules are not very rigid in Ethiopia. There may be an agenda, although it is not part of the local culture. If one is used, it functions as a guideline for the discussion and acts as a springboard to other related business topics.

Since relationships are extremely important, meetings start with extended social pleasantries. You will be offered tea or coffee and will be expected to ask questions about the other person and respond to questions about yourself.

Meeting seldom have a scheduled ending time since it is considered more important to complete the meeting satisfactorily than be slavishly tied to the clock. The meeting will end when everyone has had their say and the most senior Ethiopians decide that there is nothing left to be discussed (MOFED, 2006).

Performing favours indicates friendship. Therefore, Ethiopians feel obliged to do something if asked by a friend. Since they generally only conduct business with people they consider friends, they have difficulty saying “no” to requests from business associates. This does not indicate that they will do what they have agreed to do, however.

#### **4.3.6 Language**

Ethiopia has many indigenous languages (84 according to the Ethnologue, 77 according to the 1994 census), most of them Afro-Asiatic (Semitic, Cushitic, Omotic), plus some that are Nilo-Saharan.

English is the most widely spoken foreign language and is the medium of instruction in secondary schools and universities. Amharic was the language of primary school instruction, but has been replaced in many areas by local language such as Oromifa and Tigrinya.

After the fall of the Derge Regime in 1991, the new constitution of the Federal Democratic Republic of Ethiopia granted all ethnic groups the right to develop their languages and to establish mother tongue primary education systems. This is marked change to the language policies of previous governments in Ethiopia (CIA fact book, 2009)

#### 4.4 Technology

Globalization means that the flows of goods, services, capital, technologies and people are spreading worldwide as countries everywhere open up to wider contact with each other. Globalization can create more wealth for everybody, but it can also be disruptive and needs to be harnessed by international rules. When business goes global, the rules for fair play must also be set globally. (Easy reading corner EU,2011.)

It is obvious that EU satisfies all the technological advancements required to the current global investment trends rather Ethiopia as foreigner investors destination should satisfy all required technological needs of investors. Railways and inland waterways (rivers and canals) account for just a small percentage of total freight and passenger traffic in the EU. Three quarters of all goods and passengers in the EU are now transported by road.

All EPAs have their origins in the trade chapter of the Cotonou Agreement a broad agreement between the EU and African, Caribbean and Pacific (ACP) group of countries. EPAs are aimed at promoting sustainable development and growth, poverty reduction, better governance and the gradual integration of ACP countries into the world economy.

The Cotonou agreement maps out ACP-EU relations up to 2020 (with a revision scheduled every five years). It provides for a framework in three main areas:

- Political dialogue
- Development support
- Economic and trade cooperation (European commission, 2011).

According to the least developed countries report 2010, the new international development architecture (NIDA) for LDC's reveals that in the area of technology, the NIDA should focus on achieving a new balance between the private and public dimensions of knowledge. Knowledge is both a public good and appropriately good (or quasi-private good), and includes features of both appropriateness and exclusivity. The present global framework for technology issues, fragmented and incomplete, with a



strong emphasis on proprietary knowledge in the form of intellectual property rights (IPRS). Within this framework, issues of technology transfer and knowledge accumulation which are fundamental to improving productive capacities in LDCs have been accorded secondary importance. The new knowledge architecture should focus on enabling a more development friendly technology and IPR regime. It can do this by creating a balance between the public and private dimensions of knowledge and supporting the emergence of a new, coherent system of technology transfer that facilitates LDC's domestic effort to build innovative capacity. It should also strengthen LDC's efforts to mobilize domestic resources to promote knowledge intensive activities and encourage the emergence of a learning-oriented developmental state.

The report makes specific proposals to make TRIPS Article 66.2 work for the LDCs. The Report also others specific proposals for new ISMs for LDCs in the area of technology, as follows

- Incentives for regional and national technology sharing consortia in LDCs;
- A technology license bank;
- A multi-donor trust fund for financing enterprise innovation in LDCs; and
- Diaspora network to pool LDC talents from abroad (UNCTAD, 2010).

#### **4.4.1 Telecommunications**

Telecommunication services were poorly developed and excluded the needs of the situation has started to reverse in the recent years due to opportunities created by the information and communication technology, and the steps taken by the government to focus on network expansion as well as service improvement and expansion packages.

Major tasks undertaken during the SDPRP period with regard to telecommunication and information technology include the following:

- Provision of broadband, multimedia and internet services;
- Laying underground fiber-optic cables covering large areas;
- Conversion of hand operated semi-automatic telecommunication centers into digital systems;

- Undertaking preliminary preparations to implement rural telecommunication expansion projects, extending telephone services at the kebele level;
- Major expansion of telephone coverage, from about 400,000 lines at the beginning of SDPRP to over 1 million by the end of 2004/05; and, reductions in the cost of international calls and of internet connections, and corporate reforms of Ethiopian Telecommunication Corporation (ETC) to increase efficiency.

Ethiopia has made huge investment (8 billion birr) in basic multimedia infrastructure backbone to extend network expansion for woreda-net, cable-net and agri-net projects. By the end of 2004/05, the number of users has increased to 620,000 for regular fixed telephone lines, 410,630 for mobile phones and 17,375 for internet lines (MOFED, 2006)

#### **4.4.2 The transport sector**

The government is implementing the SDPRP and PASDEP with full recognition of the need to improve infrastructure, mainly in the transportation, telecommunication and energy sectors. The government has been implementing the Road Sector Development Programme to strengthen the road, air and water transport networks since early 2000. The road network increased from 24,970 km in 1997 to 36,496 km in 2004, with an increase in the density of roads from 24.1 km to 33.2 km per 1000 square km for the same reference period. The air transport sector has also been constantly expanding its destinations and, currently has 63 destinations including 22 domestic destinations. In addition, Ethiopian Airlines and/or the Ethiopian Civil Aviation Authority have been able to serve 62 destinations with other partner airlines. In addition to Addis Ababa Bole International Airport, Dire-Dawa airport is used for international destinations and, the Government is upgrading domestic airports at historical sites to provide better flight services for tourists. (UNCTAD, 2006)

Ethiopia owns 12 ships, out of which 10 are functional, through the ports of Djibouti, Assab and Massawa (prior to the border war with Eritrea). A parastatal institution, Ethiopian Shipping Lines, provides commercial maritime services to various European, and East African, Middle Eastern and Far East ports. Currently, it has a capacity of

112,834 gross registered tons and, works with 36 local freight forwarding and shipping agencies. A rail transport link, which was established in 1917, has also been operational under the “Chemin De Fer Djibouti-Ethiopian” agreement signed in 1981. This railway has not been upgraded for a long time and, lost its competitiveness to provide efficient service in the land transport sector. This is confirmed by the fall of its freight tonnage from 336,000 tons in 1986, to 207,000 tons in 2002 and, a decline in the number of passengers by about 50 per cent during the same reference period (UNCTAD, 2006).

For many years road transport has been the most competitive and dominant mode of transport in the country. However, about 70 per cent of the total population lives without access to all weather roads within a 2 km radius. In addition, about 6 per cent of the road network is appropriate and about 65 per cent of roads are in good and fair condition. In addition to their low quality, the density of the roads does not allow the effective and efficient functioning of road transport services, inhibiting the smooth and effective implementation of the various policies designed to promote and expand domestic trade.

The government spent about 9.5 per cent of the GDP in 2003 for investment, maintenance and rehabilitation of road networks. This constituted a large proportion of public spending on transport in general. Road sector taxation and charges, namely user and other charges related to the road sector, including taxation on fuel and lubricants, are used for road transport. In 2000/01 about 77.5 per cent of the maintenance financing requirements was met from user charges, while by the end of 2003/04, the contribution of user charges was expected to cover all maintenance needs. Spending through taxation accounted for about 31 per cent in 2003 (MOFED, 2006).

#### **4.5 Legal**

The constitution is the supreme law, overriding all other legislation in the country. The legal system depends on codified laws, including civil, penal, civil procedure, penal procedure, Commercial and maritime codes. All proclaimed laws are published in

official gazettes (Negarit Gazeta). In administering justice, courts are directed by internationally accepted principles of justice as well as by the laws of the country. The practice of law is reserved for Ethiopians. However, foreign nationals have the right to appear in courts as witnesses. In such cases, the foreigner is allowed to communicate through a court-appointed translator. The Commercial Code of 1960 provides the legal framework for undertaking business activities in Ethiopia. The constitution, in accordance with Article 40, ensures the right of every citizen to the ownership of private property, including the right to acquire, use and dispose of such property. The Investment Proclamation (2002) gives also a foreign investors the right to own a dwelling house and other immovable property necessary for their investment (EIA,2011).

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 provides adequate compensation corresponding to the prevailing market value of property and such payment is effected in advance. Ethiopia is a member of the World Bank affiliated Multilateral Investment Guarantee Agency which issues guarantees against non commercial risks to enterprises that invest in signatory countries. The country has also concluded bilateral investment promotion and protection agreements with a number of developed and developing countries(Investing in Ethiopia A guide for new investors,2012).

On the other hand, Morisset (2000) underlines the importance of an attractive environment for investments, economic liberalization, and economic growth as factors in luring investments above and beyond the size of the domestic market or natural resources. Despite accepting that opening up to international trade favors the attraction of investments, Asiedu (2002) highlights that it does so in Africa to a smaller extent than in countries on other continents. Jenkins and Thomas (2002) hold this same view that African countries suffer from lower investment levels because of the perception by investing MNEs of endemic instability on the continent. In another

study, Asiedu (2004) points out that, despite African countries' having witnessed unyielding progress toward the fulfillment of recommendations on opening up and liberalizing the economy and improving infrastructural development and institutional quality, the reforms pale in comparison with those undertaken by other developing countries (among them the new EU member states from central and southern Europe). The share of African FDI over the total FDI inflows into developing countries is not only low but decreasing. Along these same lines, Richards and Nwankwo (2005) note that lack of uniformity and difficulties over compliance with contractual obligations and property rights are repeatedly cited as two of the major factors that deter investors.

Naudé and Krugell (2007) raise precisely the same point about the importance of institutions and initiatives working for political stability and good governance, as higher FDI inflows can stimulate economic growth, especially given the low level of domestic investment and savings and the decreasing contribution from development aid. Given the relevance of institutions for attracting FDI, African countries may be facing tougher competition from CEE countries for foreign investments because, despite their greater geographical distance, the new EU member states are making important progress toward harmonization with the European legal framework. (Emerging Markets Finance & Trade, 2011).

#### **4.6 Environment**

The Environmental Impact Assessment Proclamation (No. 299/2002) and the environmental regulations, as well as directives, govern the investment-environment nexus. The Ethiopian Environmental Protection Authority (EEPA) is the federal organ responsible for ensuring compliance with the provisions of the proclamation. For investment projects with potentially negative environmental impacts, the EEPA requires investors to submit environmental impact assessments (EIA). The EEPA directives identify investment projects that require EIAs (MOFED, 2010).

## **5 EU as a Business Environment**

EU as an economic community has a huge role when it comes to foreign direct investment. A lot of the countries belonging to EU are engaged in foreign direct investment practices. Probably because of this and additionally because of the economic nature of EU it has several investment projects going on all over the world, but most importantly in least developed countries and particularly in Ethiopia, that is the main focus of this chapter.

### **5.1 Foreign Direct Investment in European Union**

Foreign direct investment (FDI) is a category of international investment that indicates an intention to acquire a lasting interest in an enterprise operating in another economy. It covers all financial transactions between the investing enterprise and its subsidiaries abroad. It differs from portfolio investments, because the direct investor acquires at least 10% of capital. Foreign direct investment acquires increasing importance as an indicator of the international economic climate. This publication covers data for the period 2001-04 for FDI stocks and 2001-05 for FDI flows. Outward flows from the European Union towards extra-EU partners fell from EUR 306 bn in 2001 to EUR 172 bn in 2005. During the same period, foreign investments into the EU markets dropped by 35 % from EUR 146 bn in 2001 to EUR 94 bn in 2005 (Eurostat 2007).

**Billions of euros**

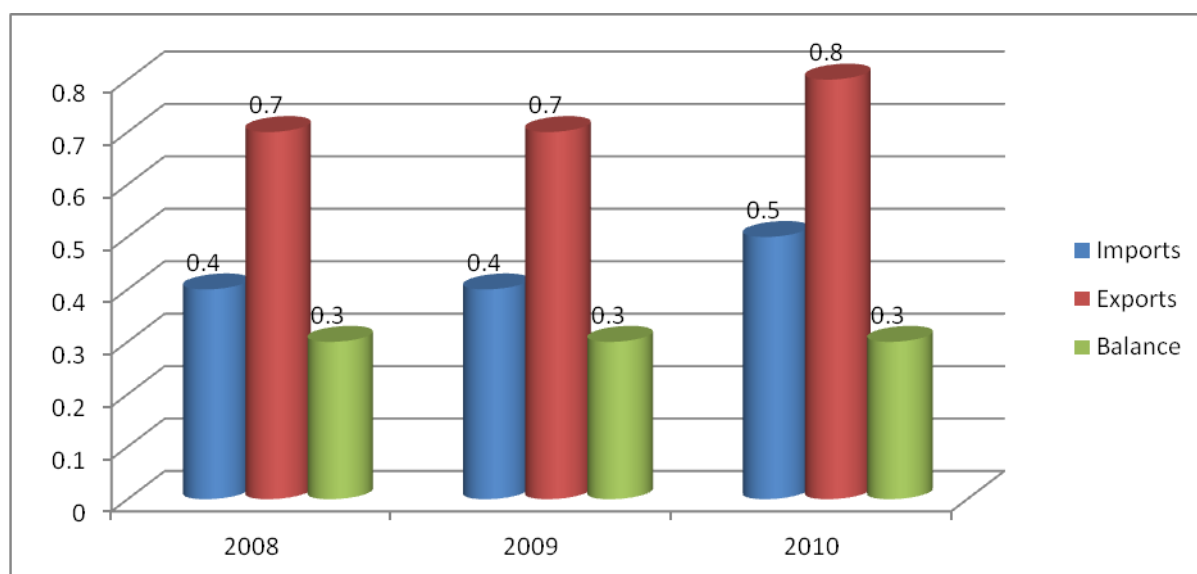


Fig.5 EU27 WITH ETHIOPIA

Source: Eurostat, Statistical Regime 4

FDI plays a key role in the globalization process as an important element of international relations and their development. Supplementing trade, FDI creates more direct and deeper links between economies. It is a source of extra capital, encourages efficient production, stimulates technology transfer and fosters the exchange of managerial know-how. It is thus believed to improve the productivity of business and to make economies more competitive.

In the European Union direct investment pocketbook 2007, Eurostat presents and analyses harmonized statistics on FDI flows, stocks and income for the EU as a whole. Faced with increasing globalization of economic activities, public authorities and policymakers need new statistics. On the basis of the General Agreement on Trade in services (GATS), Eurostat, in conjunction with the OECD, has started the compilation of foreign affiliate statistics (FATS) on employment, turnover, imports and exports of foreign affiliates (European Union foreign direct investment yearbook 2007).

## 5.2 EU FDI outward flows amd destinations

After the sharp decline in 2002, and the period of moderate growth during 2003-04, EU FDI outward flows increased by 26 % from 2004 to 2005. Between 2001-04, the

main recipient of EU FDI outflows was the American continent. The highest share was recorded in 2001, with 69 % of total extra-EU flows, dropping to 33 % in 2005. The European continent (non-EU countries), the second main destination since 2002, received 35 % of EU investment flows in 2005, thus becoming the most attractive destination. Asia kept its third place with a 23 % share of the total EU FDI outflows. With EUR 17 bn and a share of 10 %, Africa was fourth, followed by Oceania and Polar regions, for which a disinvestment of EUR -6 bn was observed. The United Kingdom, with outflows of EUR 43 bn and a share of 25 % of the EU total, was the largest investor in extra-EU in 2005, followed by Luxembourg (EUR 34 bn or 20 %) and France (EUR 25 bn or 14 %).

At country level, the largest recipient of EU FDI investment flows in 2005 was the United States (EUR 29 bn), followed by Switzerland (EUR 20 bn), Canada (EUR 12 bn) and Japan (EUR 11 bn). EU investment flows into these countries represented respectively 17 %, 11 %, 7 % and 6 % of total extra-EU investment flows. EU FDI outflows to all these destinations increased between 2004 and 2005, with Switzerland experiencing the highest rise in absolute terms, jumping from a disinvestment of EUR -11 bn to an investment of EUR 20 bn.

The share of EU FDI outflows directed to European (non-EU) countries has consistently been above 20 % since 2002, reaching 35 % in 2005. In absolute terms, these investments were at their peak in 2005 with EUR 61 bn. Switzerland, receiving investment flows worth EUR 20 bn in 2005, was the main partner country during the period in question, except in 2004, when the EU disinvested EUR -11 bn. Investments in Russia, Turkey, Bulgaria and Romania have been rising steadily since 2002 (Eurostat 2007).

Since 2002 EU FDI outflows towards Africa increased by 146 %, rising going from EUR 7 bn in 2002 to EUR 17 bn in 2005. The share of total extra-EU FDI flows invested in Africa remained stable at 10 % in 2004 and 2005. The Republic of South Africa attracted more than half of the EU FDI outflows to Africa in 2005 (EUR 9 bn) and was the main recipient of EU FDI in the continent during the whole period in



question. The United Kingdom was the main investor in Africa over the period 2001-05 (59 % of the EU total in 2005), investing principally in South Africa. France, the second main EU investor in Africa for the period in question, invested predominantly in Morocco. The Netherlands is the third largest EU investor country in Africa, investing most in Nigeria. EU FDI stocks held in Africa have increased steadily, growing by 51 % between end-2001 (EUR 60 bn) and end-2004 (EUR 91 bn) (Eurostat 2007).

### **5.3 FDI inflows from Extra-EU countries: Trend and main investors**

EU FDI inward flows shrank by 24 % between 2001 and 2004. After the sharp decline in 2004, when the lowest level of the period was recorded (-57 %), EU FDI inward flows increased by 77 % between 2004 and 2005, rising from EUR 53 bn to EUR 94 bn. The European continent (non-EU countries) was the main investor in the EU, with a 43 % share. It increased considerably the volume of investments, from EUR 28 bn in 2004 to EUR 41 bn in 2005. The American continent lost its rank as the main investor in the EU in 2004, when its investments dropped from EUR 72 bn in 2003 to EUR 10 bn (from 58 % to 18 %).

In 2005, investments from America increased significantly, reaching EUR 33 bn, representing 36 % of extra-EU inward FDI flows. Asia was the third largest investor, with EUR 9 bn and a 9 % share. The amount of its investments fell by EUR 1 bn compared to 2004, but the share dropped from 18 % to 9 %. With EUR 6 bn and a 6 % share, Oceania and the Polar Regions was the fourth investor in the EU, followed by Africa with EUR 1 bn and a share of 1 % (Eurostat, Money, finance and the euro statistics).

The United States was the main investor in the EU, with an 18 % share of total extra-EU inflows. The share was the same as in 2004 although there was a considerable rise in absolute terms, from EUR 9 bn to EUR 17 bn. The second main investor was Switzerland, with EUR 16 bn, representing 17 % of total EU FDI inflows. The share decreased by 12 percentage points compared to 2004, even if the value remained stable at EUR 16 bn. Canada recorded the strongest increase over the period 2004-05, with values jumping from a disinvestment of EUR -4 bn to an investment of EUR 8 bn. It

holds the third place in 2005 with an 8 % share. Japan's investments in the EU went down from EUR 8 bn in 2004 to EUR 6 bn in 2005. Its share of total extra-EU FDI inflows dropped from 14 % to 7 %. Investments by Australia and Brazil each represented in 2005 a share of 6 % of total FDI inflows. Both countries registered an increase between 2004 and 2005, rising respectively from EUR 4 bn to EUR 6 bn and from EUR 4 bn to EUR 5 bn (<http://europa.eu>).

EU FDI inflows from Africa underwent a significant decline, falling from EUR 4 bn in 2001 to a relatively stable amount below EUR 1 bn in 2003, 2004 and 2005. The main investor in 2005 was Egypt, with a share of 17 % of the total African continent and 76 % of the North African countries. South Africa dropped from the role of the biggest investor in the EU among the African countries in 2001 (EUR 3 bn) to a disinvestment in 2005 (European Commission 2007).

#### **5.4 Extra EU-27 FDI stocks (end-2007) by economic activity**

The structure of EU-27 FDI stocks by activity did not change significantly from 2006. Services represented the biggest share (70 %) in total positions abroad, confirming the trend of recent years. More than half were concentrated in financial intermediation, which registered an annual increase of 18.6 %. Unlike other main sectors, EU FDI stocks growth abroad in manufacturing slowed down in 2007, providing an indication of the coming recession.

For inward positions, Services took the biggest part (80 %) in total activity, with financial intermediation again contributing the most. Foreign FDI stocks in EU-27 in transport and communication, and in machinery, computers and communication equipment, dropped significantly (by more than 20%) from 2006 levels. Among the presented sectors, the EU had a negative stock balance vis-à-vis the rest of the world in 2007 only in textile and wood activities, and in real estate and business services. (Elsa & Arja, Statistics in focus 29/2010)

Table 4: Extra EU-27 FDI stocks (end-2007) by economic activity, EUR bn

Source: Eurostat 2010

Reporter: EU-27	Outward	Inward
Total	3108.2	2346.1
Agriculture, hunting and Fishing	1.2	1.1
Minning and quarrying	162.9	48.9
Manufacturing	642.8	336.1
Food products	72.0	51.2
textiles and wood activities	34.1	42.0
petroleum, chemical, rubber, and plastic products	260.3	133.4
Metal, and mechanical products	107.8	40.5
Machinery, computers, and RTV, communication	21.1	14.1
Vehicles, and other transport equipment	71.9	23.1
Electricity, gas, and water	53.6	16.2
Construction	14.4	9.2
Services	2176.8	1885.8
Trade and Repairs	124.3	143.2
Hotels, and restaurants	11.5	8.9
Transport, and communication	141.5	45.3
Financial intermediation	1387.8	1162.1
Real estate, and business services	481.5	503.6
other services	30.1	22.7
other sectors	56.6	48.8

The annual growth rate of both EU outward and inward positions (stocks) slowed down in 2008 compared to the previous three years. In 2007, annual growth in outward stocks was 13% and in inward positions 16 %, whereas in 2008 they increased only by 5% and 3 % respectively. North America had by far the biggest share (37%) of extra-EU stocks at the end of 2008. One third (EUR 1058.1 bn) of total EU outward positions were held in the USA, but annual growth slowed down, reflecting the financial crisis and the drop in EU investment flows. EU stocks held in the United States were mainly concentrated in the Service sector (69% at end-2007), in particular in Financial intermediation and Business activities. In the Manufacturing sector the main activity was Manufacture of chemicals & chemical products. At the end of 2008, the United Kingdom was the main holder of FDI stocks in the US, with 24% of the EU total (EUR 251.6 bn). With 14 % of total extra-EU stocks, Switzerland was the second most important destination of EU stocks (Elsa & Arja, Statistics in focus 29/2010).

## 6 Ethiopia as a Business Environment

As explained above EU especially has investment interests in Ethiopia. What makes Ethiopia interesting in this sense is discussed next.

### 6.1 Overview on Ethiopian Economy

Economy Ethiopia's economy is based on agriculture, which accounts for 41% of GDP and 85% of total employment. Coffee has been a major export crop. The agricultural sector suffers from poor cultivation practices and frequent drought, but recent joint efforts by the Government of Ethiopia and donors have strengthened Ethiopia's agricultural resilience, contributing to a reduction in the number of Ethiopians threatened with starvation. The five-year Growth and Transformation Plan that Ethiopia unveiled in October 2010 presents a government-led effort to achieve the country's ambitious development goals.

The banking, insurance, and micro-credit industries are restricted to domestic investors, but Ethiopia has attracted significant foreign investment in textiles, leather, commercial agriculture and manufacturing. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants; land use certificates are now being issued in some areas so that tenants have more recognizable rights to continued occupancy and hence make more concerted efforts to improve their leaseholds. While GDP growth has remained high, per capita income is among the lowest in the world (<https://www.cia.gov/the-world-factbook/2011>).

MAIN ECONOMIC INDICATORS		
Surface Area:	1,104,3 1000 SQ KM*** 84,8 millions of inhabit-	*IMF (World Economic Outlook) ***IMF (DoTS & WEO)

<b>Population:</b>	<b>ants – 2010 (estimates vafter</b>		<b>**: World Bank (World De-</b>			
<b>Current</b>	<b>2008)*</b>		<b>velopment Indicatotrs)</b>			
<b>GDP</b>	<b>22,4 Billios of euros-2010</b>		<b>***: Trade-to-GDP ration=</b>			
	<b>(estimates after 2010)*</b>		<b>(Exports + Imports) /GDP</b>			
<b>GDP per</b>	<b>264.3 Euros- 2010 (estima-</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>capita:</b>	<b>tes after 2008)*</b>					
<b>Export-to-</b>	<b>5,8%</b>	<b>Real GDP</b>	<b>11,8</b>	<b>11,2</b>	<b>10,0</b>	<b>8,0</b>
<b>GDP ration:</b>	<b>(2010)***</b>	<b>growth (% , es-</b>				
		<b>timates after</b>				
		<b>2010)</b>				
<b>Imports-to-</b>	<b>28,6%</b>	<b>Inflation ra-</b>	<b>15,8</b>	<b>25,3</b>	<b>36,4</b>	<b>2,8</b>
<b>GDP ration:</b>	<b>(2010)***</b>	<b>te(% , estimates</b>				
		<b>after 2010)</b>				
<b>Trade-to-</b>	<b>34,4%(2010</b>	<b>Current ac-</b>	<b>-4,5</b>	<b>-5,6</b>	<b>-5,0</b>	<b>-4,3</b>
<b>GDP ration:</b>	<b>)***</b>	<b>count balance</b>				
		<b>(% of GDP, es-</b>				
		<b>timates after</b>				
		<b>2010)</b>				

Fig.6 Main Economic Indicators of Ethiopia

Source: IMF (World Economic Outlook)

Ethiopia's Revenue grew to \$1.87 billion in the first eight months of the fiscal year, up from \$1.6 billion in the same period last year. The revenue figure makes up 69 percent of a high government target of \$2.7 billion set for the period. The country expects gross domestic product growth of 11 percent for 2011/2012, thanks to rising agricultural output, the seventh consecutive fiscal year of growth. Officials say a drive to diversify into new commodities and the devaluation of the birr currency by 16.7 in 2010 has bolstered competitiveness. Ethiopia's gold exports, which have overtaken oil seeds as the second-largest source of revenue for the second year running, surged to \$370 million, up from \$253 million. Ethiopia is part of what geologists call the Arabian-Nubian Shield, a region stretching from Saudi Arabia and Yemen to Sudan

and Egypt, and home to rich gold and base metal deposits, though much of the seam is mined unofficially by small-scale prospectors.

The Horn of Africa nation is also the world's fourth-largest sesame exporter after China, India and Myanmar. Its oil seeds exports hit \$269 million in the past eight months, up from \$192 million in the same period previously. Coffee earnings in the continent's biggest producer continued to slide, however, with experts blaming adverse weather in some parts of the country. Revenue from sales of coffee hit \$411 million on exports of 75,113 tonnes, down from \$447 million and 122,575 tonnes in the same period last year. Exports of livestock grew by 57 percent to \$149 million (Reuters 2012).

## **6.2 Infrastructure**

The major infrastructures which play a bigger role in foreign direct investment attractions are discussed below;

### **6.2.1 The transport sector**

The Government is implementing the SDPRP and PASDEP with full recognition of the need to improve infrastructure, mainly in the transportation, telecommunication and energy sectors. The government has been implementing the Road Sector Development Programme to strengthen the road, air and water transport networks since early 2000 (MoFED,2006).

Ethiopia's network of classified roads is one of the least developed in Africa in terms of quantity and quality. In 2006, the total network length was estimated to be 39,500 km, of which approximately 50% are federal roads and 50% regional roads. The total length of roads, in relation to population and land area, is only half of the sub-Saharan average. Yet 95% of all passenger and freight transport travels via road in the country - clearly further road development is vital. In order to overcome the constraints that the under-developed road network is imposing on socio-economic development, the Government of Ethiopia places a very high priority on the sector and provides more

funding to the Ethiopian Roads Authority than to any other Government Ministry or department. The Government has formulated and is implementing a comprehensive road sector policy backed by donors which have already brought about substantial improvements in the sector (<http://era.gov.et/>).

The air transport sector has also been constantly expanding its destinations and, currently has 63 destinations including 22 domestic destinations. In addition, Ethiopian Airlines and/or the Ethiopian Civil Aviation Authority have been able to serve 62 destinations with other partner airlines. In addition to the Addis Ababa Bole International Airport, Dire-Dawa airport is used for international destinations and, the Government is upgrading domestic airports at historical sites to provide better flight services for tourists (MoFED, 2006).

Ethiopia owns 12 ships, out of which 10 are functional, through the ports of Djibouti, Ethiopian Shipping Lines, provides commercial maritime services to various European, North and East African, Middle Eastern and Far East ports. Currently, it has a capacity of 112,834 gross registered tons and, works with 36 local freight forwarding and shipping agencies. A rail transport link, which was established in 1917, has also been operational under the "Chemin De Fer Djibouti-Ethiopien" agreement signed in 1981. This railway has not been upgraded for a long time and, lost its competitiveness to provide efficient service in the land transport sector. This is confirmed by the fall of its freight tonnage from 336,000 tons in 1986, to 207 000 tons in 2002 and, a decline in the number of passengers by about 50 per cent during the same reference period.

Ethiopia is a landlocked country and, has been using ports in neighboring countries, namely Djibouti and Eritrea (prior to the 1998-2000 border conflict). Currently, it relies mainly on the port of Djibouti, which is connected to a good quality asphalt road. Although no major problems have been experienced, the need for enhancing the regional road network with Kenya and Sudan will enable Ethiopia to access additional ports for promoting external trade. It is essential to pursue the implementation of the planned multinational road corridor development projects (MoFED2006).



### **6.2.2 Telecommunications**

As a continuation of the last five-year plan and after concentrating its efforts on education, health and agriculture, the Ethiopian government has decided to focus on the improvement of telecommunication services, considering them as a key lever in the development of Ethiopia. Ethio-telecom is born from ambition of supporting the steady growth of the country and wish to implement state-of-the-art processes, to develop reliable network infrastructures and to provide the best quality of telecom services for Customers. Currently, Ethiopian government has reached an agreement with France Telecom, one of the world's leader telecommunication companies and this agreement will help ethio-telecom to improve its management capability through the transfer of world-renowned know-how and skills.

As a result, it increased its coverage from 400,000 in 2002 to over one million in 2005. In terms of enhancing the linkages among the cities, towns and localities, it was able to connect 300 towns and 3,000 villages by 2005. An increased connection of towns and villages has promoted information exchange, trade and business relationships among various regions and communities. This is believed to promote local market integration and attract domestic and foreign investment. The internet connection has helped the dissemination of various information that enhances business, education, research and etc. The recent experience which the Government and all partners recognize, was the role of the internet in informing the rest of the world about political developments in the country and, particularly in the absence of private media, it has served as the most accessible source of information for the general public (MoFED2006).

### **6.2.3 Electricity and water supply**

The number of electrified towns and rural villages highly increased for the last five years of the strategic plan period and by July 7, 2011 reached to a total number of 5,866 which brought the electric energy access to 46%. The Inter-Connected System (ICS) consists of 11 hydro, 13 diesel standbys and one geothermal power plant with total installed capacity of 1842.60 MW, 112.3 MW and 7.30 MW respectively. The electric energy generated from the main hydro power plants is transported through high

voltage transmission lines rated 45, 66, 132, 230, and 400 kV. The total length of the existing transmission lines is about 10,812.02 km.

Ethiopia is currently launching Millennium Hydroelectric Project; The Project is located on the Abay River in the Beneshangul Gumuz Regional State about 750 km from Addis Ababa via Debre Markos and Chagni. The project has envisaged a plant with an installed capacity of 5,250 MW and 15,128 GWh annual energy generation. The major components of the project include 145 m RCC Dam with 1,780 m long crest. The Dam will create 63 M m<sup>3</sup> reservoir with a surface area of 1,680 km<sup>2</sup> at full supply level. Two outdoor powerhouses with 3,500 and 1,750 MW installed capacity containing 10 and 5 generating units respectively each with a capacity of 350 WM. Two independent switchyards on the right and left bank of the dam are foreseen to transmit power from the two powerhouses to the grid. Gated Spillway equipped with 5 radial gates, having a capacity to discharge 11,870 m<sup>3</sup>/sec. at probable maximum flood occurrence is located on the left side of the main dam (<http://www.eepco.gov.et>).

The share of oil and electric power in the energy consumption of Ethiopia is only 5.5 per cent. The importance of electricity supply for the development efforts of the industrial and private sectors is vital. Safe water supply has also increased since 2002 through the interventions made to rehabilitate and expand urban and rural water supplies. The Government improved safe water supplies in 83 towns and constructed about 160,000 wells during the period 2002/03-2004/05 (MoFED,2006).

### **6.3 Major investment sectors in Ethiopia (Ethiopia's potential)**

Ethiopia as a country has a huge potential in offering different kinds of investment sectors for foreign investors. The major investment sectors in Ethiopia are discussed below.

#### **6.3.1 Agriculture**

Ethiopia's economy is chiefly agricultural, with more than 80% of the country's population employed in this sector. The size of Ethiopia's livestock resources is the largest

in Africa and the tenth largest in the world. While the contribution of the livestock industry to the country's total exports is currently low compared to its potential, this sector holds great promise as a source of export diversification for the future. Other parts of this sector with substantial opportunities for new investment include: plantation crops (such as tea, coffee and tobacco); production and processing of oil crops and cotton; fish farming; horticulture and floriculture (fruits, vegetables and flowers); livestock and poultry; and forestry and forest by-products. Although Ethiopia lies within the tropics, temperatures range from a mean annual high of 86 degrees Fahrenheit to a mean annual low of 50 degrees Fahrenheit (Tilahun Gemechu, 2007).

Since the new Ethiopian Government made agriculture its primary priority in 1991, Ethiopia has developed and implemented its Agricultural Development Led-Industrialization (ADLI) strategy. The key concept underlying ADLI is an export-led development strategy aimed at promoting economic growth in Ethiopia while coordinating agricultural and industrial development. Export growth has benefited from the economic liberalization process underway in Ethiopia and the Government's strong commitment to creating a supportive environment for the development of the private sector. Recognizing that large capital investments are needed to exploit Ethiopia's resources, various incentives are being provided to encourage foreign investment (including joint ventures and marketing arrangements) so that the agricultural sector makes a significant contribution to Ethiopia's development. The program, which covers all regions in Ethiopia, has become an integral part of the country's agricultural activities (PASDEP, 2006).

Major Ethiopian export products include: coffee, livestock products (skins and hides, leather, live animals and meat), oil seeds and pulses, fruits, vegetables and flowers, textiles, natural gum, spices and mineral products. In addition to the current efforts underway to increase the supply and improve the quality of these export products, Ethiopia is highly encouraging investments in other currently unexploited, higher value-added export sectors.

Ethiopia has tremendous potential for investment in agro-processing. Many of its agricultural products can be exported without being processed, while others can be processed before they are brought to domestic and foreign markets. While the government encourages the export of unprocessed agricultural products, it has placed a priority on the export of processed products, which involves and stimulates the growth of the agro-processing sector. Through the development of agro-processing, Ethiopia's agricultural sector can achieve swift and sustained long-term economic development (EIA, 2011).

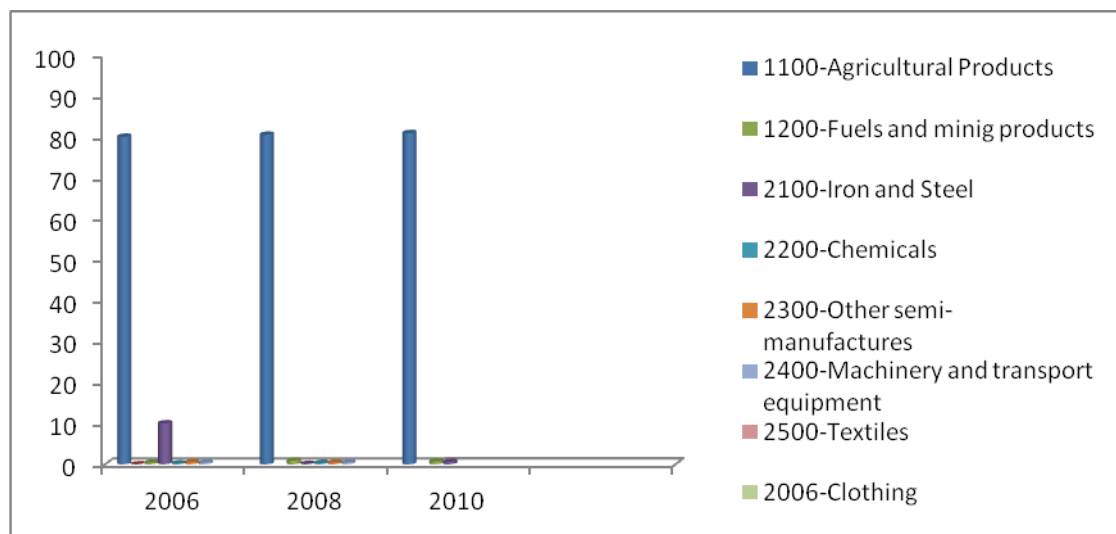


Fig.7 European Union, imports from...Ethiopia

Source: EUROSTAT (Comext, Statistical regime4); world excluding intra-EU trade and European Union: 27 members.

### 6.3.2 Coffee

The word "coffee" comes from the name Kaffa—one of the many parts of Ethiopia where coffee is grown. Ethiopia is the largest producer of coffee in Africa, with a reputation for producing some of the world's finest coffees. More than 60% of Ethiopian coffee is produced as forest or semi-forest coffee. The soil of the forest floor is enriched from falling leaves, making fertilizers unnecessary. In these forests, the high genetic diversity has created a balance between pests and parasites, also rendering chemical pesticides unnecessary. Approximately 65% of Ethiopian coffee exports are naturally dried, while 35% are pulped and "washed". Coffee grows at an elevation between 3,600 and 7,500 feet above sea level. The three main regions from which Ethiopian

coffee beans originate are Harrar, Ghimbi and Sidamo /Yirgacheffe/. The potential for the private production and processing of coffee is still significant (Tilahun Gemechu, 2007).

### **6.3.3 Livestock**

Ethiopia is the world's tenth largest livestock producer and the biggest exporter of livestock in Africa. The country has 40 million cattle, 25.5 million sheep, 23.4 million goats and 2.3 million camels according to a sample census carried out by the Central Statistics Authority of Ethiopia between 2001 and 2003. Ethiopia presently offers the global market a wide range of processed and semi-processed hides and skins. Some of the products, such as Ethiopian highland sheepskin, are renowned for their quality and natural characteristics. The export of finished leather and leather products (such as leather garments, footwear, gloves, bags and other leather articles) is also increasing (Central Statistics Agency, 2006).

### **6.3.4 Oilseeds and pulses**

Ethiopian oilseeds and pulses are mostly organically produced, and are known for their flavor and nutritional value. The Ethiopian white sesame seed is used as a reference for grading in international markets. Ethiopia's major oilseeds and pulses exports include the following: sesame seeds, Niger seeds, linseeds, sunflower seeds, groundnuts, rape seeds, castor oil seeds, pumpkin seeds, haricot beans, pea-beans, horse beans, chick peas, beans and lentils. The European Union, Asia, the Gulf States and neighboring African countries comprise the major markets for Ethiopia's oilseeds and pulses exports (Investment Proclamation, 2002).

### **6.3.5 Natural gum**

Ethiopia's unique climatic conditions enable it to grow diverse plant species used for industrial and pharmaceutical purposes. Acacia, Commiphora and Boswellia are just one group of the various plant species grown in the arid and semi-arid areas which produce gums. The production of gum and its use have grown in recent years due to the increasing trend of convenient food consumption. As in most other sectors of the

additives industry, increasing health consciousness on the part of consumers has also fueled growth for thickeners of natural origin (EIA, 2011).

### **6.3.6 Textile fabrics and garments**

State-owned and private textile and garment factories make textiles the largest manufacturing industry in Ethiopia. The industry employs about 30,000 workers and has a share of 36% of the entire manufacturing industry. An industry-specific institute slated to become a separate Department for Textile Engineering was set up at Bahir Dar University as a result of a Government initiative to promote quality products. The main textile products manufactured in Ethiopia are cotton and nylon fabrics, acrylic yarn, woolen and waste cotton blankets and sewing thread. The domestic potential of cotton production as a basic raw material is far more than the current installed spinning capacity demands. The availability of cheap labor is a major factor for making the industrial sector one of the strategic industries for export development (EIA, 2011).

### **6.3.7 Tea**

Tea offers another opportunity for production, processing and export. Tea was introduced to Ethiopia in the early 1920s. Since 1980, it has been planted on a commercial scale. Currently there are nearly 1,500 ha of land under tea. Tea production and processing, which began with 3 tons in 1974, had reached 3,900 tons by 2003, of which exports were 1,700 tons.

Climatic conditions, the type of soil and the method of processing combine to produce quality Ethiopian teas. In Ethiopia, tea is mostly grown in the dense forest highlands where the land is fertile and the use of fertilizer is very low. Manual weeding is employed thanks to the availability of abundant and cheap labor. Ethiopian tea is highly sought after thanks to its mostly organic cultivation. The “International Gold Star” award for quality was recently given by B.D.I. in Madrid, Spain, to Tea Production and Marketing Enterprise one of the major Ethiopian tea exporters. The agro-climatic conditions in the south-western parts of the country offer excellent opportunities for the production and processing of tea, especially for export (Tilahun Gemechu, 2007).

### **6.3.8 Fruits, vegetables and flowers**

With its variety of altitudes and microclimates, the long growing season and accessible irrigation sources, most fruits and vegetables can grow well in Ethiopia. The Ethiopian Government encourages companies with experience in agro-processing to invest in this sector. Current horticultural crops include citrus, banana, mango, papaya, avocado, guava, grapes, pineapple, passion fruit, apple, potato, cabbage, cauliflower, okra, egg plant, tomato, celery, cucumber, pepper, onion, asparagus, water melon, sweet melon, carrot, green bean, and cut flowers. Although most of Ethiopia's fruits and vegetables are grown for local consumption, there are categories for export as well. Ethiopia, for instance, exports large quantities of fresh fruits and vegetables to Djibouti. Ethiopia sells some processed fruits and vegetables to Yemen, Saudi Arabia, and other Middle Eastern countries. The two most important products are oranges (as canned and bottled orange juice) and tomatoes (as ketchup, tomato paste and tomato concentrate) (Tilahun Gemechu, 2007).

The most important fruit and vegetable exports from Ethiopia, however, are the high-value fresh produce grown mainly on state plantations and sold primarily to Europe. Most of these products are sold through the government-owned Ethiopian fruit and vegetable marketing enterprise Etfruit, which collects the fruits and vegetables from several state plantations and large private farms, transports them to the airport in refrigerated trucks, and ships them by air to Germany, Italy and the Netherlands. The major exports are green beans, tomatoes, mangoes, and papayas. In recent years, new private growers have started exporting vegetables to the Middle East and Europe outside of Etfruit's marketing channels. The share of these private exports is still quite low, less than 10% of the total value of fruit and vegetable exports (EIA, 2011).

### **6.3.9 Tourism**

Ethiopia has a proud and long history extending to the known beginnings of humankind. The Axumite kingdom was one of the great civilizations of the ancient world and has left behind the mystery of the great Stelae found at Axum. In the late middle Ages

great religious civilizations flourished in many parts of the country, particularly at Lalibela where churches hewn out of massive monolithic rock testify not only to great faith but also to great architectural skills. And in the former capital of Gondar many significant castles speak of the same legacy. All these would be enough to make Ethiopia a fascinating place to visit and travel through, but Ethiopia has so much more to offer (<http://www.ethioinvest.org/tourism>).

It has been said and said over that the country has actually its best potential in this sector. Although as most of the other sectors of the economy, it suffers from the underdevelopment of the overall economy in areas such as enough infrastructures. The country has best to offer for international tourists considering its historical and cultural heritage, unique scenes with ideal climatic conditions with hugely important historical sites. The United Nations Educational, Scientific and Cultural organization has identified eight national sites of Ethiopia as the world's heritage. They include Axum's Obelisks, the monolithic churches of Lalibela, Castles of Gondar, Island Monasteries on Lake Tana, Hadar, Tia's carved standing stones, the walls of Harrar and the Semien National park. Ethiopia is a country with huge cultural diversity with over eighty languages spoken within the country, Christianity and Muslim constituting a large proportion of the religion of the population with additional less recognized religions existing in the society.

Ethiopia has much to offer to international tourists. It has unique historical and cultural heritages, magnificent scenery, surprisingly pleasant climate and religious, archaeological, and historical places to visit. Ethiopia is a land of contrasts and extremes, a land of remote and wild places with a wide range of tourist attractions which have not yet been fully exploited. Among others, the main tourist attractions include about 7000 species of plants out of which 1100 are endemic; about 242 mammals out of which 23 are endemic; about 850 bird species, out of which 16 are endemic. As Ethiopia is also the cradle of mankind, there are a number of archaeological sites. Tourism opportunities exist in the construction of star-designated hotels, lodges and resorts, international and specialized restaurants and as tour operators. Potential investors can take ad-



vantage of these opportunities through direct investment or joint-ventures with Ethiopians (<http://www.ethioinvest.org/tourism>).

Tourism opportunities exist in the construction and operation of:

- Star-rated hotels, lodges, and restaurants; and
- Tour operation.

### **6.3.10 Mining**

Some geological studies have indicated that the country has a good potential for such economic activity hosting a wide range of mineral resources. Ethiopia's green stone belts contain substantial gold deposits and more than five hundred metric tons of gold have been already identified by the government exploration efforts (Ministry of Mines and energy 2005.) In addition to gold there have been speculations that there remain significant contents of tantalum, platinum, nickel, potash, soda ash. Wide range of industrial and construction minerals such as marbles and granite, gemstone, lime stones are present.

There are scientifically expected deposits of oil and natural gas in some key sedimentary areas of Ogaden, Gambella, the Blue Nile and the southern Rift Valley (Investment Guide to Ethiopia 2004, 44.) Despite these discoveries and speculations the mining sector remains at a very infant level. As a result there have been some steps made by the government to rescue this sector's development and its contribution to the national economy. Some of the action plans taken include issuing mining licenses to foreign firms from countries such as the US, Saudi Arabia, Canada and Italy (Tilahun Gemechu, 2007).

### **6.3.11 Manufacturing**

The manufacturing sector in the country is hugely noted for its dependent on the agricultural sector for its inputs. Apparently the unsatisfactory performance by the agricultural sector would eventually result in downside effect of this sector. The main

areas of activities within this sector are food, beverages, textiles, paper and tobacco production. Some key areas for potential business with regard to this sector are Textiles and Clothing, Food and Beverage products and Tannery & Leather goods (UNCTAD, based on information provided by Unilever Ethiopia plc.).

#### **6.3.12 Textiles and clothing**

As most of the sectors and sub sectors of the economy, the textile and clothing industry is at its infant level. Encouraging steps are being witnessed in the past years to ensure the potential of this sub sector of the economy is exploited. The activity covers the production of garments, spinning, weaving and finishing of textile fabrics. There have been significant entrants into this sector with export oriented activities. Majority of the firms engaged in this sector are export oriented making this sub sector more encouraged by the governmental institutions when seeking financial support for instance (EIA, 2011).

#### **6.3.13 Food and beverages**

Obviously the inputs for this sector come from the agricultural sector of the economy. The production of Food and beverage involves activities of processing and preserving products such as milk and meat, fish and its bi-products, fruits and vegetables. Additional activities of producing drinks and their bottling also falls under these sub sectors of the manufacturing industry. Significant foreign firms have engaged themselves in this sector and there exists good potential considering the population and the labour cost of the country (EIA, 2011).

#### **6.3.14 Tannery and leather production**

Ethiopian highland sheepskins and hides provide a strong base for semi-processed leather, finished leather and leather products. The Bati kidskin and the Selallie sheepskin in particular have a reputation for strength and other qualities attractive to the international market. The leather sector is one of the major components of Ethiopia's export earnings after coffee, representing 13.5% of total earnings in 2001–2002.

As the food and beverage sub sector, the Tannery and leather also depends on the agricultural sub sector for its inputs. Production of leather products such as jackets, purses and many more lay under this manufacturing sub sector. Processed and semi processed outputs of this sector are products with a growing demand domestically as well as internationally. Wide room remains untapped in this sub sector considering the livestock potential of the country (National Bank of Ethiopia, 2007).

#### **6.3.15 Building materials production**

The building Materials production comprises manufacturing of inputs needed for construction such as Cement, marble, granite etc which in turn are also dependent on inputs from the agricultural sector. However there has been a rapidly growing demand for such products in the country following the boom of the construction sector in the country. As a result the sector requires more and more entrants into the sub sector to fulfill the unbalanced demand for construction inputs and the producers (Ministry of Finance and Economic Development (2002).

#### **6.3.16 Plastic production**

Plastic production has also been on the rise following the growing demand locally and internationally. The rising population of the country and the world has played its part in increasing demand for such products. Some of the products of this sub sector include high pressure pipes required by households, wash basins, light fittings and office supplies. If deep market survey is conducted for such items, then there still remains a room for investment into this area (EIA, 2011).

#### **6.3.17 Pharmaceuticals and drugs**

The demands for products of this sub sector have been nothing but on the rise domestically as well as internationally. Considering the economic state of the nation, there remains a huge demand for medicines, drugs in the form of syrups, tablets, capsules and injections. So there definitely remains a room for investment into this sector of the economy if preceded by viable feasibility study (EIA, 2011).

### **6.3.18 Chemicals and chemical production**

Production of some basic chemicals from local raw materials is also on the increase in the country. The growing number of industries requiring chemicals for their operations or production is also on the rise increasing the demand for such products. Chemicals such as caustic soda, ethanol and several others are being produced locally and they would still benefit from further investment on the sector (EIA, 2011).

### **6.3.19 Ceramic and glass production**

This sector, as most of the other sub sectors, hugely depend on inputs from other sectors, Nevertheless, significant businesses have been engaged in the production of glasses, table ware and ceramic products used in toilets and kitchens. There is a promising market for such products locally as well as internationally which in turn might be an encouraging factor to attract investors on this sector (EIA, 2011).

### **6.3.20 Health services**

The country, more than any other sectors of activities, is in need of health services. And this sector holds one of the best potential are of FDI. The number of hospitals and health centers built by local as well as international businesses has been on the rise. The Government has announced that it welcomes the private including foreign provision of health services. Encouraging schemes such as offering of land at a lower rate is provided by the government to enhance this sector. Despite some progress in the sector, Ethiopia has poor health conditions, even within the content of sub-Saharan Africa. The Government has announced that it welcomes the private (including foreign) provision of health services. Land is offered at very low lease rates for up to 99 years to construct hospitals (EIA, 2011).

## **6.4 Foreign direct investment in Ethiopia**

Global Foreign Direct Investment (FDI) inflows rose in 2007, after four consecutive years of growth, by 30% to reach \$1,833 billion, well above the previous all-time

high set in 2000 (UNCTAD, 2008). Especially in developing countries FDI inflows reached their highest level ever (\$500 billion) – a 21% increase over 2006. The least developed countries (LDCs) attracted \$13 billion worth of FDI in 2007 – also a record high (UNCTAD, 2008).

This development causes the attention of economists, scientist, governments, international organizations and the civil society wanting to know what drives this high increases in FDI inflows, whether this is a lasting trend and what the consequences might be. Even though the international community shares the view that higher investments especially in the agricultural sector are necessary to foster rural development and to overcome food insecurity and poverty, recently several critical voices have been raised, addressing the potential negative impact of FDI in the agricultural sector in developing countries.

Critical voices like Jacque Diouf Direktor of the UN Agricultural Organization (FAO) talk of “Neo-colonialism” and "Land Grabbing". Up to now establishing an economic relationship through FDI was mainly driven by two different enterprise motives. The first one is to reduce production costs and through this to become more efficient compared to competitors (vertical FDI) and the second motive is to seek new markets (horizontal FDI). However, over the last 2 years, the economic surrounding in which the enterprises act has changed substantially: Two big global crises – the world food crises and the broader financial crises – have evolved two additional more economically and politically driven motives food security and secure financial returns - for undertaking FDI for a number of countries (GRAIN, 2008).

The total FDI inflows into Ethiopia have increased continuously from US\$ 135 mn in 2000 up to US\$ 545 mn in 2004. Since then up to 2007 the yearly FDI inflows have varied between US\$ 545 mn and US\$ 265 mn (UNCTAD, 2008). FDI inflows into the agricultural sector account for 32% of the total Ethiopian FDI inflows. FDI inflows remain quite constant after 2005. When regarding the FDI inflows into the agricultural sector according to the Federal Investment Bureau of Ethiopia they have increased heavily after 2005. This is not consistent with the UNCTAD database anymore. A

reason for this inconsistency between the two databases is that obviously the UNCTAD database does not take the Pre-Implementation investments into account which account for 90% of the agricultural FDI inflows after 2005 (UNCTAD,2008).

After 2005 the investment flows increase heavily. Total FDI inflows now reach about \$ 3500 million each year. This increase appears mainly through Pre-Implementation investments. This sort of investment has increased by 600% comparing before and after 2005. The rate of investments type implementation” and “Operation” has decreased slightly. A Pre- Implementation investment indicates that for some specific reason investors want to secure the possibility of producing in a certain agricultural sector in Ethiopia. Possible motives for this recent development will be discussed further on (Federal Investment Bureau of Ethiopia, 2009).

## ETHIOPIAN TRADE WITH MAIN PARTNERS (2010)

### The Major Imports Partners

Rk	Partners	Mio euro	%
	World (all countries)	6.404,4	1000,0%
1	China	1.002,9	15,7%
2	EU27	761,4	11,9%
3	United States	626,5	9,8%
4	Saudi Arabia	541,1	8,4%
5	India	216,4	3,4%
6	Turkey	145,2	2,2%
7	Canada	142,9	

### The Major Export Partners

Rk	Partners	Mio euro	%
	World (all countries)	1,310,1	1000,0%
1	EU27	434,4	33,2%
2	China	189,6	14,5%
3	United States	92,4	7,1%
4	Saudi Arabia	89,3	6,8%
5	Sudan	50,8	3,9%
6	Djibouti	32,7	2,5%
7	Israel	32,3	2,5%

### The Major Trade Partners

Rk	Partners	Mio euro	%
	World (all countries)	1,310,1	1000,0%
1	EU27	1,195,8	15,5%
2	China	1.192,4	15,5%
3	United States	718,9	9,3%
4	Saudi Arabia	630,4	3,0%
5	India	229,4	3,0%
6	Turkey	173,3	2,2%
7	Canada	154,0	2,0%

Source: IMF (Dots)

European Union: 27 members

## **6.5 Trade laws, agreements and foreign business in Ethiopia**

### **6.5.1 Ethiopia's political framework**

Regarding the development of the main political agreements it becomes apparent that Ethiopia tries to ease trade between itself and the investor countries as well as making FDI inflows easier. Ethiopia appears to be an FDI-friendly environment with the target of increasing the relaxation of regulations. After analyzing the changes in the FDI inflows in Ethiopia over the last years, it is important to take a look at the existing trade and (if established) investment agreements between the main investor countries and Ethiopia. The range of the investment and trade agreements show how FDI-friendly the environment is or whether high regulations are in place. As one assumed reason for the increase in FDI inflows is food security, favourable trade agreements between Ethiopia and the investor countries would have a positive effect on investment decisions (Getnet, 2009).

### **6.5.2 Ethiopian trade agreements with main trade partners**

On a multilateral level, Ethiopia has applied for becoming a member country of the WTO in 2003. At the moment negotiations are still carried out. Next to this, Ethiopia has few bilateral trade agreements, the main ones are addressed here.

#### **Ethiopia- EU**

As an ACP country Ethiopia had almost a duty-free access for its products imported to the EU markets up to 2007. According to the WTO, this non reciprocal preferential treatment was against the WTO regulations (Art. I) and had to expire by the end of 2007. Because of that, the EU currently negotiates the Economic Partnership Agreements (EPAs) with the ACP countries. These include a scheme to create a free trade area (FTA). Further, Ethiopia as an LDC country is allowed to trade under the "Everything but Arms" (EBA) agreement. This agreement includes unilateral trade preferences with almost duty-free access for most products even though very strict rules of origin are implemented. (IEDG, 2008)

## **Ethiopia- Africa**

COMESA (Common market for Eastern and Southern Africa) was founded 1994 following up the Preferential Trade Area for Eastern and Southern Africa (PTA) which already existed since 1981. COMESA contains of 20 member states including Ethiopia with a population of 390 million. The main targets were the establishment of a free trade area with capital, investment, goods and services being able to flow freely in a customs union. A common customs declaration has been implemented and in 2000 a free trade area between nine (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, zambia and zimbabwe) of the 20 member states was implemented (COMESA, 2009).

## **Ethiopia- USA**

The most important agreement between USA and Ethiopia is the African growth and opportunity act (AGOA) which was signed into law in May 2000. The first Title of this agreement comprises the extension of certain trade benefits towards the Sub-Saharan Africa (where Ethiopia is included). The negotiations are on reciprocal and mutually beneficial trade agreements and in the long run are to include the possibility of establishing a free trade area. (AGOA, 2000) A second major agreement between the USA and Ethiopia occurs through the trade and investment framework agreements (TIFAs) between the USA and COMESA. It entered into force in October 2001. Its target it the creation and expansion of trade and investments between the two parties (USTR, 2001).

### **6.5.3 Ethiopian investment agreements**

Over the past few years, African countries have increased their efforts to develop or enhance their national policies and laws with a view to improving the investment climate. Only recently, in May 2007, COMESA adopted an agreement for a Common Investment Area, which envisages a free investment area by 2010. The Agreement aims at attracting and promoting sustainable FDI by gradually eliminating



restrictions and conditions relating to investment and operation of projects (COMESA, 2009).

Ethiopia on its own, established bilateral investment treaties with China, Denmark, Italy, Kuwait, Malaysia, Netherlands, Russia, Sudan, Switzerland, Tunisia, Turkey, Yemen and only recently with Djibouti. Furthermore, double taxation treaties<sup>13</sup> are implemented between Ethiopia and Italy, Kuwait, Romania, Russia, Tunisia, Yemen, Israel and South Africa. An investment agreement with the whole EU does not exist yet (U.S. Department of State, 2008).

The USA has bilateral investment protection agreements with Ethiopia. The investment incentive agreement with the United States provides investment support through its Overseas Private Investment Corporation (OPIC) in the form of investment insurance and reinsurance, debt or equity investment and investment guarantees. On the other hand the government of Ethiopia provides exemption of taxes for all operations and activities undertaken by OPIC in connection with any investment support, and all payments, whether of interest, principal, fees, dividends, premiums or proceeds from liquidation of assets or any other nature. In addition, OPIC will not be subject to any taxes in connection with any transfer which occurs as a result of OPIC role as a creditor in support of investment in Ethiopia (Getnet, 2009).

The Netherlands have signed an agreement on encouragement and reciprocal protection of investment with the government of Ethiopia. This agreement guarantees transfers such as profits, interest, dividends in freely convertible currency of payments related to investment. For a company from the Netherlands investing in Ethiopia this would mean that they would not have to pay any tax and that profits can flow back to the Netherlands without any restrictions (Getnet, 2009).

## **6.6 Trade laws and foreign investment in Ethiopia**

In 1991/92 an incisive reform process on regulations of foreign investments started. The regulatory regime governing FDI and privileges provided to FDI in Ethiopia

underwent significant changes. Government relaxed the minimum capital required for foreign investors in its series of investment amendments e.g. the Ethiopian FDI policy does not require foreign investor to meet specific performance goals or guidelines in terms of export, foreign exchange restrictions for imports, minimum local content levels in manufactured goods, or employment limits on expatriate staff anymore. In the following, the regulatory regime for FDI and privileges provided to foreign investors are discussed (EIA).

#### **6.6.1 Regulations and privileges**

FDI across all sectors can be undertaken either in sole proprietor or jointly with domestic investor or with the Government of Ethiopia. In general there is a minimum investment capital requirement based on the type of the investors. This minimum capital requirement is not applicable for FDI that exports  $\geq 75\%$  of its output and/or reinvests its profit. It should be noted that there are areas where foreign investment is not permitted and therefore are reserved for domestic investors. These general restrictions are not applicable for foreign investors in the agricultural sector (Tilahun Gemechu October, 2007).

In Ethiopia land can only be leased. The lease period ranges between 20 and 45 years. Regarding the lease price of agricultural land, the price is determined based on each region's land use regulation. For example, in Oromia regional state, the lease price of rural land varies depending on the development level of that particular zone and its accessibility to roads. The rental price ranges from Birr 70.40 to Birr 135 per hectare per year. Investors who will be engaged in forestry can get land free of charge and those who will cultivate permanent crops such as tea and coffee are exempted from lease for the first four years (EIA, 2011).

Foreign investors are allowed to hire qualified foreign nationals necessary for the implementation of their projects. A foreign investor can hire foreign nationals on top management position without any restriction upon obtaining the prior consent of the Ethiopian Investment Agency. FDI projects producing for export, particularly investments in the horticultural sector have priority to get loan from the

Development Bank of Ethiopia but they are also allowed to obtain loan from foreign countries and are permitted to repay the principal and interest in convertible foreign currency. Investment guarantees for FDI include full repatriation of capital and profits. This encompasses profits, dividends, interest payments on foreign loans, asset sale proceeds and technology transfer payments. There is also a guarantee against expropriation<sup>21</sup>. Furthermore, the Ethiopian government has tried to provide investment guarantee and protection by being a member of various agencies and organization such as MIGA, ICSID, and WIPO (EIA, 2011).

Foreign investors are allowed to remit profit and dividends accruing from investment, principal and interest payment on foreign loans, payments related to technology transfer or management agreement registered in accordance with the proclamation, proceeds from the sale/liquidation of an enterprise, and proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor at any convertible currency at the prevailing exchange rate on the date of remittance. Expatriates employed in an enterprise may also remit salaries and other payments accruing from their employment (EIA, 2011).

### **6.6.2 Exemptions**

FDI in the agricultural sector is eligible for all exemptions which will be discussed below.

Investors in all sectors of the Ethiopian economy including foreign investors who will be engaged in agricultural activity are exempted from the payment of custom duties and other taxes levied on imports of all capital goods (machinery, equipment and accessories) and construction materials necessary for the establishment of new projects or expansion/upgrading of the existing one. However, these capital goods and construction materials shall be superior in quality, quantity and price compared to locally produced ones. Import of ambulances for employees is exempted from custom duty. The exemption of income tax begins from the day of production. The different conditions for income tax exemption and according to those the different length of income tax exemption are summarized in the table below.

Table 6: Conditions and periods of income tax exemption

Source: Article 2 of Regulation No. 146/2008 and Article 4 and 5 of Regulation No. 84/2003.

Condition for income tax exemption	Period of Income	Period of Income tax exemption for investments made in underdeveloped
The FDI project exports at least 50% of its production	5 years	6 years
The FDI project exports less than 50% of its production	2 years	3 years
The FDI project supplies an exporter with at least 75% of its products	5 years up to 7 years	6 years Up to 8 years
The FDI project is declared as facing special conditions by the Council of Ministries	More than 7 years	More than 8 years
The FDI project only produces for the local market but is necessary according to the BOI	2 years	3 years
An expansion or upgrading increases the production value by 25% and 50% of the total production is exported	2 years	3 years

Foreign investors engaged in agro-processing activities or in the production of agricultural products are exempted from paying income tax for the period ranging between 2 to 8 years. In general it can be stated that the higher the proportion of produced goods for export, the longer the period of income tax exemption. Foreign-owned firms that export at least 50% of their production or supply an exporter with at least 75% of their

output are eligible for income tax exemption for 5 years. In the case lower than this, FDI projects receive only 2 years of income tax exemption (EIA, 2011).

The Board of Investment (BOI) as well as the Council of Ministries may, under special circumstances, grant exemption from income tax under special circumstances stated under Article 4 sub-article 4 of Regulation No. 84/2003. Further, investments necessary for expanding or upgrading the existing agro-processing activities or the production of agricultural products are eligible for income tax exemption for 2 years provided that at least 50% of the output is exported and the firms production value increases by over 25%. As producing for the domestic market is also necessary the BOI can decide an income tax exemption for 2- 3 years for those firms. In addition to all these incentives, FDI in all sectors are exempted from the payment of sales and excise taxes for export commodities. It can be concluded that firm regulations on FDI have become extensively FDI- and export-supportive since 1991/92 (EIA, 2011).

## **7 Findings**

As mentioned, when doing this research we conducted empirical research by sending questionnaires to both parties that are engaged in foreign direct investment policies in practice which are the Ethiopian Investment Agency moreover; their personnel and also to the foreign investors themselves. This chapter discovers what said questionnaires revealed.

### **7.1 Findings from an interview with personnel of Ethiopian Investment Agency (EIA)**

After conducting face to face interviews thoroughly and get some questionnaires filled by different personnel's in EIA we came across the following facts about FDI in the country.

#### **7.1.1 Ethiopia's potential to foreign direct investment**

In gathering primary information from EIA, an in-depth interview was conducted with the personnel of the agency; this section reveals their response concerning the major variables of FDI between the trade partners. According to Weissleder 2009 Ethiopia has become one of the most important target countries for FDI and agricultural FDI which accounts for 32% of the total FDI inflows to Ethiopia. According to this the two contributing factors are: (1) Ethiopia is well-endowed with water resources (World Bank 2006), and only 30% of the country's arable potential is being used for crop cultivation (Mowr 2002).

The respondent agreed that several recent policy frameworks such as the "Growth and Transformation Plan for the Period of 2010 to 2014" have opened up the way for large-scale commercialization of agriculture and industries by foreign investors. Additionally, investors encounter direct support in terms of customs duty or income tax exemptions. The estimated dimension of land area assigned for agricultural FDI in

Ethiopia differs according to the source, ranging from 390.000 hectare of land (Addis Fortune 2009) to just under 600.000 hectares (Die Zeit 2010).

The main investment flows occurred in the flori-/horticultural sector with the EU, India and Israel investing more than 60% of their total FDI in Ethiopia in this sector. From 2006 to 2008 investments in flori-/horticulture almost doubled and investment in meat and bio fuel crop production increased dramatically. In Ethiopia agriculture is the main source of livelihood and the main pillar of the economy contributing to approximately 43% of GDP, 86% of foreign currency earnings and 85% of rural employment (EIA 2010). Out of the 11 Regions of Ethiopia, Oromia, SNNP (Southern Nations, Nationalities, and People's) and Amhara regions are among those the one experiencing most of the FDI especially concerning agricultural sector.

### **7.1.2 Major investment sectors and FDI from EU**

As mentioned agriculture is the main source of livelihood and the main pillar of the economy contributing to approximately 43% of GDP (2008/2009), 86% of foreign currency earnings and 85% of rural employment (EIA 2010). Most of Ethiopia's cultivated land is used for rain fed agriculture with smallholder subsistence agriculture accounting for 85% of employment (Mowr 2002). Hydrological variation, recurrent floods and droughts as well as a lack in mitigating strategies such as water storage facilities lead to frequent crop failures and end up most farmers producing only one crop per year (Awulachew et al. 2007).

As a result of the above figures, majority of foreign investors from EU are highly involved in the agricultural sector especially flori/horticulture which is directly attached to favorable investment policies, climate, land and water resources, as well as an economy that heavily depends on agriculture in the country.

Having the above potential, that is the benefits of FDI inflow to Ethiopia and LDC's, that the respondent in the research reveal that FDI plays a key role in the globalization process as an important element of international relations and their development. Supplementing trade FDI creates more direct and deeper links between economies. It is a

source of extra capital, encourages efficient production, stimulates technology transfer and fosters the exchange of managerial know-how.

### **7.1.3 FDI, government policy and utilization of resources**

Due to the rising food prices, bio-energy policies and population growth, demand for arable land and its corresponding water resources has risen significantly. In the last years, the trend of foreign actors securing land for food, bio-energy crop cultivation and other agriculture-related production has increased substantially, both in terms of number and scale of the investments (GTZ 2009, The Economist 2009).

Many of the investment projects take place in areas that have previously been farmed at small-scale and low-intensity level. This phenomenon, often referred to as “land-grabbing”, has gained considerable attention over the last years. Many see major opportunities for low-income countries to generate foreign capital inflow and urgently needed investments in agriculture, while others raise concerns as to food security, as fertile agricultural land is devoted to producing export goods instead of staple crops for the local population (Daniel and Mittal 2009). The impact of agricultural foreign direct investment (FDI) on the local water situation has not so far been given adequate attention, although some attempts have been made.

Foreign investors are allowed to hire qualified foreign nationals necessary for the implementation of their projects. A foreign investor can hire foreign nationals on top management position without any restriction upon obtaining the prior consent of the Ethiopian Investment Agency. FDI projects producing for export, particularly investments in the horticultural sector have priority to get loan from the Development Bank of Ethiopia but they are also allowed to obtain loan from foreign countries and are permitted to repay the principal and interest in convertible foreign currency. Investment guarantees for FDI include full repatriation of capital and profits. These encompasses profits, dividends, interest payments on foreign loans, asset sale proceeds and technology transfer payments. There is also a guarantee against expropriation. Furthermore, the Ethiopian government has tried to provide investment guarantee and protection by being a member of various agencies and organization such as MIGA



(Multilateral Investment Guarantee Agency), ICSID (International Center for Settlement of Investment Disputes), and WIPO (World Intellectual Property Organization) (Ethiopian Investment Agency, 2011).

#### **7.1.4 Investment regulations and exemptions practiced in Ethiopia**

Considering an interview in regulation of investments in Ethiopia the regulatory regime governing FDI and privileges provided to FDI in Ethiopia have undergone significant changes. Government relaxed the minimum capital required for foreign investors in its series of investment amendments. In the following, the regulatory regime for FDI and privileges provided to foreign investors are discussed (EIA, 2010).

Ethiopian FDI policy does not require foreign investor to meet specific performance goals or guidelines in terms of export, foreign exchange restrictions for imports, minimum local content levels in manufactured goods, or employment limits on expatriate staff anymore.

FDI across all sectors can be undertaken either in sole proprietor or jointly with domestic investor or with the Government of Ethiopia. In general there is a minimum investment capital requirement based on the type of the investors. This minimum capital requirement is not applicable for FDI that exports  $\geq 75\%$  of its output and/or reinvests its profit. It should be noted that there are areas where foreign investment is not permitted and therefore are reserved for domestic investors. These general restrictions are not applicable for foreign investors in the agricultural sector (EIA, 2010).

#### **7.1.5 Ethiopian main regions and sectors of FDI**

Depending on the transportability and especially on the dependency of the climate the regions of production (destination of FDI) are chosen independent from the foreign investor. Obviously floriculture can be found mainly in Oromia. Considering its climatic conditions Oromia appears to be excellent for floriculture production. The climatic conditions in Oromia are warm-temperate with an average temperature of 16 °C. Oromia lies at a height between 1600 m and 2400 m. All EU investors engaged

in horticulture/ flori have placed production plants in Oromia. The same appears in vegetable production which is also mainly seated in Oromia.

On the other hand, Israel as an exception has seated also plants in Amhara and multi-regional. An explanation for this behavior could be further technological development as Israel is specialized in flori/horticulture. Through this know-how it is possible for them to produce flori/horticulture also in regions that are not that favorable for this sector.

Meat and food production as well as Bio fuel production is not that dependent on the climatic conditions. Therefore, the investors are not that much restricted to a certain region. The result is that the production of these sectors appears in more different regions. As the focus on specific sectors has slightly changed from 2000 to 2008, more regions receive investment flows now. Up to 2005 it was mainly Oromia. But after 2005 also Amahara, SNNPR (Southern Nations, Nationalities, and People's Region), Tigray and on a multiregional base other regions receive also FDI flows.

Despite the above figure, Oromia was thereby chosen because of the climatic conditions necessary for the flori/horticulture production. Even though investment in the sector creates several job opportunities in rural areas leading to a positive social development it might also confront the local infrastructure with serious challenges - without sustainable water, waste and pesticide management in the flori/horticulture sector the production leads to long term negative ecological effects.

#### **7.1.6 Food insecurity, foreign investment and government**

Depending on the regarded sub-sector different reasons seem to appear for the increase in FDI inflows. Investors in the flori/horticultural sector seek for more efficiency. In contrast, investors in the meat sector seem to try to secure their own domestic food supply such as Saudi Arabia. These identified changes need further investigation especially against the background of the impact of FDI's on rural development, poverty and food security in Ethiopia and other LDC's. Respondents agreed that, to answer these questions further surveys would be necessary for these continuative questions. Changes in the political framework and the investment procedure for single

firms have not been regarded up to now as the political conditions are very complex and will be shown in detail in the next sections.

IEDG 2008 illustrates that EU negotiates the Economic Partnership Agreements (EPAs) with the ACP countries. These include a scheme to create a free trade area (FTA). Further, Ethiopia as an LDC country is allowed to trade under the “Everything but Arms” (EBA) agreement. This agreement includes unilateral trade preferences with almost duty-free access for most products even though very strict rules of origin are implemented.

#### **7.1.7 Adverse effect of FDI from EU and other trade partners in Ethiopia**

It is clear that land intensive investments might cause extreme negative effects on food security and poverty especially because of possible competition on fertile production land and water with domestic farmers. Different sources of economic statics reveals that in Ethiopia more than 45% of the total populations are food insecure and one of the main reasons is the low availability of fertile land (in combination with the high overuse of arable land) this development seems to drive rural development in the complete wrong direction. How FDI inflows will influence the short and long-term development of Ethiopia’s economy as well as the ecological and social rural development and also how sustainable this development will be depends on the international policy framework on the Ethiopian government and the single investors.

#### **7.1.8 Environmental framework to protect ecological aspects in Ethiopia**

The Environmental Impact Assessment (EIA proclamation (299/2002) regulates offences and penalties and it states that ‘any person who violates the provision of this proclamation commits an offence and shall be liable accordingly’. Furthermore any person who, without obtaining authorization from the Authority, implements any project subject to environmental impact, or makes false presentations in an environmental impact assessment study report commits an offence and shall be liable.

In 2003, the Environment Protection Authority (EPA) published Environmental Impact Assessment Procedural Guide-lines, which provide a background and general guidance to Ethiopian Investment Agency (EIA) and environmental management in Ethiopia. The document provides guidelines for EIA standard procedures and defines the roles and responsibilities of all parties involved. Additionally, the guidelines list specific environmentally sensitive areas and ecosystems, but without particular reference to Ethiopian conditions. Additionally it highlights aspects of potential environmental impacts related to water, air, noise pollution and so forth. Furthermore the guidelines provide a list of projects and activities which require full preliminary and no Environmental Impact Assessment.

Additionally, the Environmental Protection Authority (EPA) published an impact Assessment Guideline Document in 2000, which identifies key sectors that should be subject to environmental impact assessment. Those sectors highlighted are agriculture, industry, transport, mining, dams and reservoirs, tannery, textile, hydro-power generation, irrigation projects and resettlement projects. These key sectors are described in general and potential environmental impacts are specified and emphasized.

However, Dominik Ruffeis et al, 2010, stated that reasons of the limited application of EIA, besides the institutional weaknesses, include:

- Lack of environmental awareness of government officials and the public in general;
- Lack of political will to implement environmental impact assessment law;
- Lack of multidisciplinary experts and expertise with environmental impact assessment skills in the sectoral agencies and the EPA;
- Baseline data and information on the environment are missing or outdated;
- Lack of legally binding list of projects which require environmental impact assessment;
- Lack of guidelines for the registration and certification for consultancy firms;
- Lack of public participation guidelines
- Missing or poor public participation;

- Lack of monitoring and post-auditing

## **7.2 Findings from EU investors in Ethiopia**

Our research found that economic links between EU and LDC's including Ethiopia has increased significantly during recent years and the fundamental aim of this paper is to assess the development of FDI between EU and LDC's particularly with Ethiopia. It also examines investment potential of the country (Ethiopia), capability to attract multinational firms and contribution of the sectors to properly utilize resources. According to different economical statistics of Ethiopia, agriculture sector play a vital role in the economical development of the country.

In this section a detailed response gathered from selective EU investor's in case of FDI through distribution of questionnaire will be discussed. Forty foreign companies majorly including EU member countries and other foreign trade partners invested in different sectors and regions of Ethiopia have participated in the research. From the total FDI destinations in Ethiopia, Oromia SNNP and Amhara regions are the major areas of investment in the country. 72% of investors participated in the survey were from in Oromia region, Amhara 10% and 18% of these investors are investing in SNNP regions. The type of investment that these investors engaged to varied but was highly dominated by agricultural sector especially floriculture which accounts 85% of the total respondents. Meat, textile and multi sector accounts 12%, 2% and 1% of the sample size approximately.

70% of the respondents who participated in this research agreed that Ethiopia has satisfactory investment policy to attract FDI in the country and 15% of the respondents highly satisfied, 7% no dissatisfaction, 6% dissatisfied and 2 percent of respondent's rate as non satisfactory.

Related with progress of FDI inflow in Ethiopia, they rate that it is relatively good when it is compared with the previous regimes; however it is underutilized when it is compared with current potential of the country especially in agriculture sector as the country is endowed with fertile land which is suitable for farming. Concerned with ac-

accessibility main inputs that influence investors in accessing long term credit and fair interest respondents agreed that it is quite fair, and they found the land lease price of the country also affordable and acceptable in majority of foreign investors.

Land lease policy and technical support of the country rated as less satisfactory by investors who are considered as a sample population and it is because of inconsistent nature of the land lease policy and poor technical support by the Government. On the other hand, Ethiopia's duty free privileges also rated satisfactory among the majority of respondents. To the question related with PESTLE of the country and its influence on the company's decision on their investment, majority of respondents concluded that political factors are relatively safe as the country is situated and found in the most sensitive and insecure zone of Africa (Sub-Saharan).

The country (Ethiopia) GDP, export level, job opportunity and infrastructure shows consistent raise and keep growing especially considering the last 5 years. Respondents agreed that economical development of the country have direct relation with their investment as it increases the consumption level of populations. However, the inflation level situated from internal and external economical factors should get more attention and improvement as per the respondents.

Social and cultural factors existing in the country is quite positive, according to the respondents. Concerned with technological factors, respondents rate that it has relatively less influence on day to day activity of their investment in the country. However, the government policy to introduce technological advancements in the country is promising. Especially, a telecommunication and electricity service of the country shows consistent improvement and change at large. In addition access to road is also the major improvement in the country.

It is known that the federal Government language of the country is Amharic but a large number of populations are orromiffa language speakers, both the above languages are complimentarily working with a subtitle of English which can help EU and other foreign investors to be familiar with. Environmental factors, including pollution

natural resource consumption, and related factors shows that, Ethiopia endowed with naturally rich, soil, water, forest and other endowments needs at most care to keep the country safe and better place for any investment the country as per the respondents.

Having all the benefits from FDI inflow to the country, as stated in the previous section and other researches, Ethiopia is in “transition era” which means that every sector in the economy and industry is in progress (growth) but needs continuous assessment and measures to be complementary with any variables of change in the country.

Majority of respondents who participated in this research have invested for more than three years in the country. Their investment shows fruitful progresses and also would have a contribution to expand their investment share in the country which also helps to attract potentials from EU and other major trade partners of the country.

## **8 Conclusion and recommendation**

The five-year Growth and Transformation Plan that Ethiopia unveiled in October 2010 presents a government-led effort to achieve the country's development goals. The banking, insurance, and micro-credit industries are restricted to domestic investors, but Ethiopia has attracted significant FDI in commercial agriculture, textiles, meat, and manufacturing. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants; land use certificates are now being issued in some areas so that tenants have more recognizable rights to continued occupancy and hence make more concerted efforts to improve their leaseholds. While GDP growth has remained high, per capita income is among the lowest in the world as per different sources of the economy. Currently, different foreign enterprises engage in different sectors, including agriculture, meat, bio-fuel, and textile. At this time, agriculture enterprises are found to be more attractive than others. As a result, foreign investors from EU and other trade partners are highly attracted to invest in the country.

The major objective of this paper is to assess the development of EU FDI inflow to LDC's particularly in Ethiopia. It also assesses Ethiopia's potential in investment sectors in the country. A detailed summary about the research problems found during the survey and review of different sources and the possible remedies to improve and upgrade FDI between Ethiopia and EU discussed as follows.

### **8.1 Conclusion**

As this research shows that despite the strong positive impact of Foreign Direct Investment to the host countries economy and development, it is clear that there is significant other diverse disadvantages as well.

In Ethiopia, Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms



of capital flows, it is also more stable, with a longer-term commitment to the host economy.

Despite the global financial crisis in 2008/09, FDI inflows in to LDC are including Ethiopia increased to their highest level. There are two mutually exclusive assumptions about the high rate growth of FDI; the first group states that EU and other foreign investors are attracted to Ethiopia and LDC's due to their resource potential and climate. On the other hand, the second group argues that there are three main reasons which can account for this significant change in the development of the FDI inflows and contradictory host countries disadvantages. The first one is a significant change in the exchange rate of investors, leading to a depreciation of the Ethiopian currency (Birr) compared with the currencies of the investors. The second reason is especially emphasized against the background of the world food crises which leads to the grabbing of natural resources to secure the food demand in the investor's country. And finally the investment climate of Ethiopia can be seen as the third reason (Sunil Sanghvi & Roberto Uchoa, 2011).

Ethiopia is one of the developing countries that has arouse the attention of foreign investors as it is highly endowed with fertile land and has developed a very investor-friendly environment over the last 10 years through strong changes in their national policy framework and are becoming the major market for the EU-27 in FDI. EU has a lion market share on FDI inflow as main investor countries in Ethiopia are: EU, India, Israel, Saudi Arabia and the US respectively.

In Ethiopia, the agricultural sector regulations on investments have been relaxed significantly no minimum capital is required anymore. Foreign agricultural activities are exempted from the payment of custom duties and taxes on imports of capital goods, according to the export orientation of the foreign investor they are exempted from income tax for a certain time period and to all these incentives foreign investments are exempted from the payment of sales and excise taxes for export commodities. Flori/horticulture, meat production, bio fuel and food production are the major sectors and the main regions of investment are: Oromia, Amhara, and SNNPR (Southern

Nations, Nationalities, and People's Region). Flori/horticultural sector lead to an increase in the economic and social development in Ethiopia as it creates numerous job opportunities.

Besides the potential risk regards with land grabbing, food insecurity and poor practice of the government in environmental aspects will be a threat to the country to progress in investment as it is clearly stated in the previous sections.

## **8.2 Recommendation**

Foreign direct investment has come to be widely recognized as a major potential contributor to growth and development. It can bring capital, technology, management know-how and access to new markets. In comparison with other forms of capital flows, it is also more stable, with a longer-term commitment to the host economy.

We believe that findings and figures presented in this paper can help as an initial guide to investment agency of the host country (Ethiopia) and the investors too. But it needs crucial follow up and improvement on the following areas:

- Resource utilization by investors including land and water should get better attention and needs strong regulation to keep foreign direct investment trend healthy.
- Some projects including meat and bio-fuel also need further study on project value analysis and long and short term impacts as it stated a means to food insecurity and pollution in general.
- Investment proclamations of Ethiopia should consider time based situations and also there must be amendments to protect the country from Win-Lose FDI projects.
- The investment climate of Ethiopia needs at most care by all stakeholders and must back up by laws and regulations as well.

If and when the above comments are revised by the concerned bodies the current FDI development from EU and other major trade partners will attract a win-win project in Ethiopia and other LDC's.

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## **Attachments**

### **Attachment 1 Terminology**

**ACP Countries-** African, Caribbean, and Pacific countries

**AFT-** Aid For Trade

**AFTA-** Asian Free Trade Area

**ADLI-** Agriculture Development

**AGOA-** African Growth and Opportunity Act

**AOSIS-** Alliance of Small Island States

**APRM-** African Peer Review Mechanism

**ARV-** Antiretroviral (drug)

**ASEAN-** Association of South East Asian Nations

**BPOA-** Brussels Program of Action for least developed countries

**AU-** African Union

**BOI-** Board of Investment

**CARICOM-** Caribbean Community

**CCFF-** Compensatory and Contingent Financing Facility

**CCL-** Countercyclical Loan

**CDM-** Clean Development Mechanism

**CDP-** Committee for Development policy

**CER-** certified emission reduction

**CFC-** Common Fund for Commodities

**CFF-** Compensatory Financing Facility

**CLACC-** Capacity Strengthening of LDCs for Adaptation to Climate Change

**CO2-** carbon dioxide

**COMESA-** Common Market for Eastern and Southern Africa

**COP-** Conference of the Parties

**CPA-** country programmable aid

**CPIA-** Country Policy and Institutional Assessment

**CRED-** Centre for Research on the Epidemiology of Disasters



**CRW**- crisis response window

**DAC**- Development Assistance Committee

**DANIDA**- Danish International Development Agency

**DFQF**- duty-free and quota-free

**DSF**- debt sustainability framework

**DTIS**- Diagnostic Trade Integration Study

**EAC**- East African Community

**EAEC**- Eurasian Economic Community

**EBA**- Everything But Arms

**EC**- European Commission

**ECCAS**- Economic Community of Central African States

**ECF**- Extended Credit Facility

**ECOWAS**- Economic Community of West African States

**EIF**- Enhanced Integrated Framework for Trade-Related Technical Assistance

**EITI**- Extractive Industries Transparency Initiative

**EM-DAT**- Emergency Events Database

**EPA**- Economic Partnership Agreement

**ESAF**- Enhanced Structural Adjustment Facility

**ESF**- Exogenous Shock Facility

**EU**- European Union

**EVI**- Economic Vulnerability Index

**ECX**- Ethiopian Commodity Exchange authority

**EEC**- European Economic Commission

**EIA**- Ethiopian Investment Agency

**ECOSOC**- United Nations Economic and Social Council

**EPAs**- Economic Partnership Agreements

**EBA**- Everything but Arms

**ETC**- Ethiopian Telecommunication Corporations

**FDI**- >Foreign Direct Investment

**FAO**-Food and Agriculture Organization

**FTAs**- Free Trade Agreements

**FATs**-Foreign Affiliate Statistics

**GDP-** Gross Domestic Product

**GATT-** General Agreement on Tariffs and Trade

**GATS-** General Agreement on Trade in Services

**GNI-** Gross National Income

**ICSID-** International Center for Settlement of Investment Disputes

**IMF-** International Monetary Fund

**IEDG-** Integrating Evolution, Development, & Genomics

**IPRS-** Intellectual Property Rights

**ICS-** The Inter Connected Systems

**LDC-**Least Developed countries

**MIGA-** Multilateral Investment Guarantee Agency

**M&A-** Merge& Acquisitions

**MOFED-** Ministry of Finance and Economic Development

**MOWR-** Ministry of Water Resources

**NIDA-** The new International Development Architecture

**OAU-** Organization for African Union

**OECD-** Organization for Economic Co-operation and Development

**OPIC-**Oversea Private Investment Corporation

**PSNP-**Productive Safety net Programme

**PTA-** Preferential Trade Area

**R&D-** Research & Development

**TRIPS-** Trade- Related Aspects of Intellectual Property Rights

**TRIMS-** Trade-Related Investment Measures

**TFG-** Transitional Federal Government

**TIFAs-** Trade and Investment Frame Work Agreements

**UNCTAD-** United Nations Conference on Trade and Development

**WFP-** World Food Programme

**WTO-** world Trade Organization

**WIPO-** World Intellectual Property Organization

## Attachment 2 ETHIOPIA - THE FACTS

Official name (FDRE)	Federal Democratic Republic of Ethiopia
Political system	Federal system with multi-party democracy.
Head of state	President Girma Woldegiorgis
Head of government	Prime Minister Meles Zenawi
Capital city	Addis Ababa
Location	Ethiopia is situated in the north-eastern part of Africa. It is bordered by the Sudan to the west, Eritrea to the north, Djibouti and Somalia to the east and Kenya to the south, extending 3° to 15° north of the equator and 33° to 48° east of the Greenwich meridian.
Area	1.14 million square kilometers.
Arable land	513,000,000 hectares (45%)
Irrigated land	3,420,000 hectares (3%)
Government	The Ethiopian constitution was adopted in 1995. The Constitution provides for federal system, which is structurally based on the federal government with nine autonomous regional states and two chartered city administrations. The FDRE has a parliamentary form of government with a bicameral parliament which comprises the House of the Peoples' Representatives and the House of the Federation. The House of the Peo-

	<p>ples' Representatives is the highest authority of the Federal Government.</p>
Climate	<p>There are two major seasons encompassing</p>
dry and wet	<p>Seasons. The dry season prevails from October through May. The wet season runs from June to September. Much of Ethiopia has a surprisingly temperate climate by African standards, because of its elevation.</p>
Topography	<p>Ethiopia has an elevated central plateau varying in height from 2,000 to 3,000 meters above sea level. In the north and centre of the country, there are some 25 mountains whose peaks reach over 4,000 meters. The most famous Ethiopian river is the Blue Nile or Abbay, which flows a distance of 1,450 kilometers from its source to join the White Nile at Khartoum.</p>
Population	<p>82.8 million (2009)</p>
Population density	<p>68 per sq. km</p>
GDP per capita	<p>US\$ 345 (2009)</p>
GDP	<p>US\$ 35 billion (2010) with average growth of 11% for the past 7 years</p>
Religion	<p>Major Religions in the country are Christianity and Islam. But there are a number of traditional religions as well. One prominent feature of Ethiopia is religious tolerance that exists among different groups.</p>
Language	<p>Ethiopia is a multi-ethnic state with a great variety of</p>

Languages spoken; out of which 83 have over 200 dialects. Amharic is the working language of the Federal Government. Oromiffa and Tigrigna are other major languages widely spoken in the country. English is widely spoken particularly in business transactions.

#### Calendar

Ethiopia uses the Julian calendar which divides the year into 12 months of 30 days each. The remaining five or six days in a leap year constitute the short 13th month of 'Pagume'. The calendar is seven years behind the Western or Gregorian calendar, with the Ethiopian New Year falling in the month of September.

#### Regional States /Adm.

Tigray, Afar, Amhara, Oromia, Somalie, Benshangul, Gumuz S.N.N.P, Gambella, Harari ,Dire Dawa Adm. Council and Addis Ababa city Adm.

#### Currency

The currency of Ethiopia is based on the decimal system. The units of currency are the Birr and cents. The Birr is divided into 100 cents (US\$1 – Birr 18.17). And (€1 – Birr 24.00).

### Attachment 3 Investment services, delivery times and processing costs

No.	Type of service Delivery	Time	Cost/fee (£)
1	Issuance of investment permit • New investment • Investment expansion	4 hours 4 hours	£23 £17
2	Renewal of investment permit • New investment • Investment expansion	1 hour 1 hour	£12 £8
3	Substitution of lost or damaged investment permit	1 hour	£8
4	Issuance of trade registration certificate • Principal registration • Summary registration	4 hour 4 hour	£4 £0.40
5	Issuance of business license	4 hour	£3
6	Issuance of work permit	1 hour	£23
7	Notarization of memorandum of association and articles of association	4 hour	£23
8	Investment permit amendment/change	3 hour	£8
9	Construction contractor grading	2 hour	-
10	Investment permits revocation	2 hour	-
11	Registration of technology transfer agreement	2 hour	£12

## Attachment 4 Potential Areas for FDI in Farming

No.	Type of farming	Area (ha)	Region
<b>1</b>	Rice	280,000	SNNP, Oromiya, Amhara, Benshangul Gumuz, and Somali
<b>2</b>	Maize	1,400,000	SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella and Somali
<b>3</b>	Horticulture	763,300	SNNP, Oromiya, Amhara and Dire Dawa
<b>4</b>	Coffee	426,000	SNNP, Oromiya, Amhara and Gambella
<b>5</b>	Tea	150,000	SNNP, Oromiya, Amhara and Gambella
<b>6</b>	Cotton	3,000,810	Tigray, SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella, Afar and Somali
<b>7</b>	Oil crops	1,601,323	Tigray, SNNP, Oromiya, Amhara, Benshangul Gumuz, Gambella, Afar and Somali
<b>8</b>	Pulse	3,274,469	Tigray, SNNP, Oromiya, Amhara, and Benshangul Gumuz
<b>9</b>	Rubber	200,000	SNNP and Gambella
<b>10</b>	Palm oil	450,000	SNNP, Oromiya and Gambella
<b>Total</b>		11,545,902	

Source: Ministry of Agriculture and Rural Development

## Attachment 5 Useful addresses

<b><i>Ministry of Trade</i></b> PO Box 704 Addis Ababa Ethiopia Tel: 00251 11 551 80 25 Website: www.ethiopia.gov.et	<b><i>Ministry of Agriculture</i></b> PO Box 623470 Tel: 00251 646 07 46 Email: minagr3@ethionet.et Website: www.moard.gov.et/eng/
<b><i>Ethiopia Investment Agency</i></b> PO Box 2313 Addis Ababa Ethiopia Tel: 00251 11 553 00 33	<b><i>Ministry of Foreign Affairs</i></b> <b><i>Economic Business Affairs Directorate General</i></b> Tel: 00251 11 515 51 39 Fax: 00251 11 551 43 00
<b><i>Ethiopian Airlines</i></b> PO Box 1755, Addis Ababa, Ethiopia. Tel: 00251 11 517 84 07 00251 11 517 89 07 00251 11 517 81 65 00251 11 517 85 29 Fax: 00251 11 661 14 74 Email: publicrelations@ethiopianair-	<b><i>Ethiopian Customs and Revenue Authority</i></b> PO Box 3087 Addis Ababa, Ethiopia Tel: 00251 11 662 98 87 Fax: 00251 11 662 98 18 Email: erca@ethionet.et Web site: www.erca.gov.et
<b><i>Privatization and Public Enterprises Supervising Agency</i></b> PO Box 1907 Addis Ababa Ethiopia Tel: 00251 011 64 65 007 00251 011 64 64 604 Fax: 00251 011 64 64 882	<b><i>Ethiopian Chamber of Commerce and Sectoral Association</i></b> PO Box 517 Addis Ababa Ethiopia Tel: 00251 11 551 82 40 Fax: 00251 11 551 76 99 Email: ethchamb@ethionet.et



Email: pesa@ethionet.et Website: <a href="http://www.ppesa.gov.et">www.ppesa.gov.et</a>	Website: <a href="http://www.ethiopoianchamber.com">www.ethiopoianchamber.com</a>
<b><i>Ethiopian Shipping Lines S.C</i></b> B.O. Box 2572 Tel: 00251 11 55 18 280 Fax: 00251 11 55 15 263 Email: amb.abrh@ethionet.et Website: <a href="http://www.ethiopianshippinglines.com.et">www.ethiopianshippinglines.com.et</a>	<b><i>National Bank of Ethiopia</i></b> P.O.Box 5550 Addis Ababa Ethiopia Tel: 00 151 11 551 74 38 Fax: 00 251 11 551 45 88 Email: nbe.edpc@ethionet.et Website: <a href="http://www.nbebank.com">www.nbebank.com</a>

## **Attachment 6 Main Economic Indicators of Ethiopia**

### **GDP (Purchasing power parity):**

\$94.76 billion (2011 est.) country comparison to the world: 73

\$88.13 billion (2010 est.)

\$81.6 billion (2009 est.)

### **GDP (official exchange rate):**

\$30.5 billion (2011 est.)

### **GDP - real growth rate:**

7.5% (2011 est.) Country comparison to the world: 17

8% (2010 est.)

10% (2009 est.)

10% (2009 est.)

### **GDP - per capita (PPP):**

\$1,100 (2011 est.) country comparison to the world: 208

\$1,000 (2010 est.)

\$1,000 (2009 est.)

### **GDP - composition by sector:**

Agriculture: 41%

Industry: 13%

Services: 46% (2011 est.)

### **Labor force:**

37.9 million (2007) country comparison to the world: 17

### **Labor force - by occupation:**

Agriculture: 85%

Industry: 5%

Services: 10% (2009 est.)

Country comparison to the world: 118

### **Investment (gross fixed):**

25.7% of GDP (2011 est.)country comparison to the world: 61

**Budget:**

Revenues: \$4.645 billion

Expenditures: \$5.25 billion (2011 est.)

**Taxes and other revenues:**

15.2% of GDP (2011 est.)country comparison to the world: 184

Budget surplus (+) or deficit (-):

-2% of GDP (2011 est.)country comparison to the world: 76

**Public debt:**

42.3% of GDP (2011 est.)country comparison to the world: 74

48.3% of GDP (2010 est.)

**Inflation rate (consumer prices):**

33.2% (2011 est.)country comparison to the world: 221

8.1% (2010 est.)

**Commercial bank prime lending rate:**

15% (31 December 2011 est.)country comparison to the world: 52

14.5% (31 December 2010 est.)

**Agriculture products:**

Cereals, pulses, coffee, oilseed, cotton, sugarcane, potatoes, Chat, cut flowers; hides, cattle, sheep, goats; fish

**Industries:**

food processing, beverages, textiles, leather, chemicals, metals processing, cement

**Industrial production growth rate:**

9.5% (2010 est.) country comparison to the world: 11

**Current account balance:**

-\$1.656 billion (2011 est.) country comparison to the world: 146

-\$3.009 billion (2010 est.)

**Exports:**

\$2.75 billion (2011 est.) country comparison to the world: 126

\$2 billion (2010 est.)

**Exports - commodities:**

coffee, khat, gold, leather products, live animals, oilseeds

**Exports - partners:**

Switzerland 17%, Germany 11.5%, China 9.1%, Somalia 8.2%, Netherlands 6% (2011 est.)

**Imports:**

\$8.25 billion (2011 est.) country comparison to the world: 104

\$8.46 billion (2010 est.)

**Imports - commodities:**

Food and live animals, petroleum and petroleum products, chemicals, machinery, motor vehicles, cereals, textiles

**Imports - partners:**

China 15.6%, Saudi Arabia 9%, India 7.2% (2011 est.)

**Reserves of foreign exchange and gold:**

\$2.029 billion (31 December 2011 est.) country comparison to the world: 119

\$1.808 billion (31 December 2010 est.)

**Debt - external:**

\$6.402 billion (31 December 2011 est.) country comparison to the world: 105

\$5.593 billion (31 December 2010 est.)

**Exchange rates:**

birr (ETB) per US dollar -

17.2 (2011 est.)

14.41 (2010 est.)

11.78 (2009)

9.57 (2008)

8.96 (2007) Source:(CIA) world-factbook/2011.

## Attachment 7 Major foreign investors

<b>Name of company</b>	<b>Ownership</b>	<b>Business</b>	<b>Address</b>
Abdullahi S.A.A.L. Hosaini Mr Abdullahi S.A.A.L. Hosaini General Manager	Saudi Arabia	Animal fattening & animal feed processing	Addis Ababa Tel: 251109214504
Addis Corrugated Sheet Production Plc	Ethiopia, United Kingdom, United States	Corrugated sheet	P.O. Box 4737 Addis Ababa Tel: 251-1-111950
Addis TYRE Company S. Co. Mr Reda Tamirat General Manager	Ethiopia, Japan	Tires manufacturing	P.O. Box 2394 Addis Ababa Tel: 251-1-421555 Fax: 251-1-422108
Akaki Modern Tannery Mr Said Hussien Ali General Manager	Saudi Arabia	Leather manufacturing	P.O. Box 12633 Addis Ababa Tel: 251-1-341404 Fax: 251-1-341400
Alala Agro-Industry & trading Plc	Yemen, Ethiopia	Vegetable oilseed	P.O. Box 3026 Addis Ababa Tel: 251104400819 Fax: 251-1-625340
Bauer-MIDROC Foundation Specialist Plc Mr Achim Braun General Manager	Germany, Saudi Arabia	Special foundation & underground construction	P.O. Box 1912-1110 Addis Ababa Tel: 251-1-421876 Fax: 251-1-4027003
Bereka Agricultural Enterprise Plc,	Saudi Arabia, Ethiopia, Yemen	Oil crop farming and bee keeping	P.O. Box 30260 Addis Ababa Tel: 251-1-516474 251-1-615795
Beverly International Plc Mr Tesfaye Dinssa Deputy General Manager	United Kingdom, Ethiopia	Soft drinks	P.O. Box 399 Addis Ababa Tel: 251-1-342923 Fax: 251-1-342944
BGI (Ethiopia) Plc Mr Jean Paul Blavier General Manager	Ethiopia, France	Beer and soft drinks	P.O. Box: 737 Addis Ababa Tel: 251-1-515196 Fax: 251-1-511711

B.I.M.A.A.P. Plc	Ethiopia, Italy	Medicinal aromatic plants, essential oil and green beans	P.O. Box 153470 Addis Ababa Tel: 251-1-654944
BIOSOL Plc Mrs Muna Ahmed General Manager	Ethiopia, France	Intravenous solution, IV	P.O. Box: 15-1027 Addis Ababa Tel: 251-1-461754 Fax: 251-1-465713
Blue Nile Consultants Plc Mr Richard Beaudoin General Manager	United States	Technical consultancy service	P.O. Box 1766-1110 Addis Ababa Tel: 251-1-660243 251-1-09-217039
BURAYU Spring Water Plc Mr Ryaz Shamji General Manager	Ethiopia, United Kingdom	Mineral water	P.O. Box 19900 Addis Ababa Tel: 251-1-780009 Fax: 251-1-669970
China Geo-Engineering Corporation/Eth.	China	Water well drilling branch	P.O. Box 8536 Addis Ababa Tel: 251-1-713592
COVIT Plc	Italy	Pastries and biscuits	P.O. Box 27804 Addis Ababa Tel: 251-1-755426
Danie Johannes Oberholezen Mr Danie J. Oberholezen General Manager	South Africa	Mine drilling and related consultancy	P.O. Box 4146 Addis Ababa Tel: 251-1-668571 Fax: 251-1-668572
Daylight Engineering Plc Mr Tibebe Argaw General Manager	Ethiopia, Saudi Arabia	Incandescent & fluorescent lamps; tumblers	P.O. Box 8964 Addis Ababa Tel: 251-1-A5r19041 Fax: 251-1-422148
DHV Ethiopian Plc Mr Tjalling Mak Area Manager	Netherlands	Consultancy Service	P.O. Box 5910 Addis Ababa Tel: 251-1-110107
East African Pharmaceuticals Plc, Dr Abdurahim R. Hashim General Manager	Sudan U.K.	Human and Veterinary medicines & drugs	P.O. Box 9036 Addis Ababa Tel: 2511632903 Ge- Fax: 251-1-519395
EDGE Plc	Ethiopia, Germany	Building Construction	P.O. Box 10015 Addis Ababa Tel: 251-1-612914
ELFORA Agro Industries Mr Getachew Hagos General Manager	Saudi Arabia	Meat processing	P.O. Box 2500 Addis Ababa Tel: 251-1-611102 Fax: 251-1-610208

Ethio Horizons Investment and Development Plc Oman,	Ethiopia, Yemen	Paints Manufacturing Plant	P.O. Box 899 Addis Ababa Tel: 251-1-167506 Fax: 251-1-751955
Ethio-Japan Synthetic Textiles Share Co. Mr Zegaw Tilaye General Manager	Ethiopia, Japan	Nylon Fabric	P.O. Box 2184 Addis Ababa Tel: 251-1-513333 Fax: 251-1-51507
Ethiopia Crown Cork & Manufacturing Industry S. Co. Mr Feseha Berhanu General Manager	Ethiopian Government, United States	Cork manufacturing	P.O. Box 5501 Can Addis Ababa Tel: 251-1-340244 Fax: 251-1-340216
Ethiopian Steel Plc Mr Rakesh Bahatragar General Manager	Kenya, Mauritius	Galvanized corrugated iron sheets, tubes and pipes	P.O. Box: 8692 Addis Ababa Tel: 251-1-342718 Fax: 251-1-341940
0 EV Industries Plc Mr Vijay Kumar General Manager	India	Yarn processing	P.O. Box 228481000 Addis Ababa Tel: 2511662640/42 Fax: 251-1-655947
Gaffar Enterprise Plc (Blue Nile Tannery) Mr Mohamed Gaffar Mustafa General Manager	Sudan	Tannery and leather processing	P.O. Box 9339 Addis Ababa Tel: 251138081618 Fax: 251-1-518288
Garment Express Plc Dr Worku Zewde Managing Director	United States	Garments	Woreda28,Kebele24 Addis Ababa Tel: 2511463509/ 463562 Fax: 251-1-463510
Genesis Farms Ethiopia Plc Mr Bahilu Wolde General Manager	Netherlands, United States	Integrated agricultural development	P.O. Box 1565 Addis Ababa Tel: 251-1-339966 Fax: 251-1-339180
Golden Rose Agro Farm Plc Mr Ryaz Shamji General Manager	United Kingdom	Flowers farming	P.O. Box 19900 Addis Ababa Tel: 251-1-669971 Fax: 251-1-669970
Imperial Agro-Farm Industry Plc Mr Dereje Asfaw General Manager	Ethiopia, Israel	Tomatoes production	P.O. Box 2966 Addis Ababa Tel: 251-1-293329 Fax: 251-1-293332
Kality Garment Factory Plc Mr Artimis Misilides General Manager	Ethiopia, Italy	Garments factory	P.O. Box 1290 Addis Ababa Tel: 251-1-340127 Fax: 251-1-514971

Kombolcha Steel Products Industry Plc, KOSPI Plc Mr Terefe Mengesha General Manager	Ethiopia, Saudi Arabia	Corrugated roofing sheets, structural and metallic profiles	P.O. Box 207721008 Addis Ababa Tel: 251-1-620836 Fax: 251-1-630528
MAMCO Plc Mr Merdudf Zalaha General Manager	Saudi Arabia	Paper production factory	P.O. Box 5710 Addis Ababa Tel: 251-1-341413 Fax: 251-1-341424
Michael D.Wills Mr Michael D.Wills General Manager	United Kingdom	Engineering consultancy	P.O. Box 101317 Addis Ababa Tel: 251-1-653425 Fax: 251-1-654640
MIDROC Construction Et. Plc Dr Arega Yirdaw Chief Executive Officer	Saudi Arabia	Multi-sectoral holding company	P.O. Box 8677 Addis Ababa Tel: 251-1-711277 Fax: 251-1-711912
MIDROC Construction Et. Plc Mr Shimelis Eshete Deputy General Manager	Saudi Arabia	General constructor,	P.O. Box 16960 GC1 Addis Ababa Tel: 251-1-510899 Fax: 251-1-512244
MIDROC Lega Dembi Gold Mines Mr Kasahun Endailalu Director	Saudi Arabia	Gold mining	P.O. Box 2318 Addis Ababa Tel: 251-1-655205 Fax: 251-1-655208
MIDROC Et. Plc Sheraton Mr Jean Pierre Manigoff General Manager	Saudi Arabia	Hotel	P.O. Box 1223 Addis Ababa Tel: 251-1-171717 Fax: 251-1-172727
Mobil Oil East Africa Ltd. Mr Tichafa Tederara Lead Country Manager	United States	Petroleum products distribution	P.O. Box 1365 Addis Ababa Tel: 251-1-651125 Fax: 251-1-651039
Modern Building Industries Plc Mr Ketema Asefa General Manager	Ethiopia, Saudi Arabia	Non-metallic Filler Production	P.O. Box 8964 Addis Ababa Tel: 251-1-720555 Fax: 251-1-712921
MOENCO Mr Chris De Muynck Managing Director	Japan	Motors and engineering	P.O. Box 5727 Addis Ababa Tel: 251-1-613688 Fax: 251-1-611766
National Mining Corporation Mr Melaku Beza General Manager	Saudi Arabia	Marble, limestone, granite tiles and slabs production	P.O. Box 1174 Addis Ababa Tel: 251-1-711887 Fax: 251-1-711677
Nestlé P.E.C.	Switzerland	Food and beverages	P.O. Box 19992



Mr Olivier Mange Delegate for the Horn of Africa			Addis Ababa Tel: 251-1-713389 Fax: 251-1-713394
Oxford Industries Plc Mr Hiren A. Savla Manager	Ethiopia, India	Plastic packaging material	P.O. Box 100725 Addis Ababa Tel: 251-1-636521 Fax: 251-1-711157
Pioneer HI-Breed seeds Plc Mr Worede Woldemariam General Manager	Ethiopia, United States	Technical consultancy service in agro-chemicals	P.O. Box 1134 Addis Ababa Tel: 251-1-510725 Fax: 251-1-510155
Ropack International Plc Mr Binyam Asefa General Manager	Ethiopia, United Kingdom	Powder soft drinks	P.O. Box 4737 Addis Ababa Tel: 251-1-634840 Fax: 251-1-552876
ROTO Plc Mr Kumar S. Bangera General Manager	Kenya	Plastic production	P.O. Box 922-1110 Addis Ababa Tel: 251-1-431045 Fax: 251-1-431046
Saleh A.S.Hosaini Mr Saleh A.S. Hosaini General Manager	Saudi Arabia	Integrated livestock farming and meat processing	Addis Ababa Tel: 2511-09-405009
Salini Construction Private Ltd. Co. Eng. Blanda Leonardo Area Manager	Italy	Construction	P.O. Box 101463 Addis Ababa Tel: 251-1-53848 Fax: 251-1-517195
Salam Health Care Plc Mr Melaku Yoseph Deputy General Manager	Saudi Arabia	Nurses training school	P.O. Box 1038 Addis Ababa Tel: 251-1-713155 Fax: 251-1-710352
Shell Ethiopia Ltd Mr Tadesse Tilahun General Manager	Netherlands, United Kingdom	Petroleum products distribution	P.O. Box 3174 Addis Ababa Tel: 251-1-53848 Fax: 251-1-653017
Sino Ethiop Associate (Africa) Plc Mrs Zaf G/Tsadik Executive Director	China, Ethiopia	Capsules manufacturing	P.O. Box 30609 Addis Ababa Tel: 251-1-714555 Fax: 251-1-710486
Summit Engineering Plc Mr. Dagim Tadesse A/Deputy General Manager	Ethiopia, Saudi Arabia	Woven polypropylene and plastic	P.O. Box 17758 Addis Ababa Tel: 251-1-626863 Fax: 251-1-626853
Target Ethio-China investments Plc Mr Dai General Manager	Ethiopia, China	Blanket factory	Addis Ababa Tel: 251-1-621133 251-1-628700

TASTY Foods Plc Mr Eyob Bekele General Manager	Ethiopia, United Kingdom	Snacks and powdered drinks	P.O. Box 2964 Addis Ababa Tel: 251-1-751556 Fax: 251-1-751555
TOTAL Ethiopia Share Co. Mr Jean-Jacques Legrand Managing Director	France	Aviation depots and retail network	P.O. Box 1462 Addis Ababa Tel: 251-1-516077 Fax: 251-1-510410
UNILEVER Ethiopia Plc Mr Richard Ponsford General Manager	Ethiopia, Netherlands	Soaps, detergent, tea, vaseline and VSM factor	P.O. Box 233531000 Addis Ababa Tel: 251-1-655775 Fax: 251-1-655777
Victory Plc D.R Mr Kassaye Zewdie General Manager	Korea	Photo albums and frames	P.O. Box 41759 Addis Ababa Tel: 251-1-712519 Fax: 251-1-712519
Woinu Curtain Trade Plc Ms Woinshet Shewatsega General Manager	Ethiopia, Sweden	Blind curtains	P.O. Box 100230 Addis Ababa Tel: 251-1-509068 Fax: 251-1-509067

## Attachment 8 Major laws and regulations affecting foreign investment

### NAME AREA

#### (a) Investment

Proclamation No. 375/2003, A Proclamation to Amend the Investment Re-enactment Proclamation No. 280/2002	Amended Law governing investment
Proclamation No. 280/2002, Re-enactment of the Investment Proclamation	Law governing investment
Council of Ministers Regulation (No. 84/2003) on Investment Incentives and Investment Areas	Regulation governing investment incentives and reserved areas Reserved for Domestic Investors

#### (b) Trade, taxation, finance and insurance

Commercial Code (1960)	Law governing company formation, operation, dissolution, etc.
Civil Code (1960)	Law governing various types of con- tracts
Proclamation No. 67/1997, Commercial Registration and Business Licencing Proclamation	Law governing business registration and licencing
Federal Government Commercial Registration and and Licencing Regulation No. 13/1997	Regulation governing procedures for business registration and licencing
Proclamation No. 123/1995 Concerning Inventions, Minor Inventions and Industrial Designs	Law governing the protection of inventions, utility models & industrial designs
Council of Ministers Regulation No. 12/1997, Inventions, Minor Inventions and Industrial Designs Regulation	Regulation governing patents, utility models and industrial designs
Proclamation No. 227/2001, A Proclamation to Amend the Income Tax Proclamation (No.173/1961,as amended)	Law governing tax identification number, tax withholding, directives and penalties
Proclamation No. 286/2002, Income Tax Proclamation	Law governing income tax
Proclamation No. 285/2002, Value Added Tax Proclamation	Law governing value added tax

Proclamation No. 20/2002, Excise Tax Proclamation	Law governing excise duties
Proclamation No. 49/2001, A Proclamation to Provide for the Establishment of Export Trade Incentive Scheme	Law governing duty draw back, voucher and bonded manufacturing ware house incentive schemes
Proclamation No. 83/1994, Monetary and Banking Proclamation	Law governing the powers & duties of the National Bank
Proclamation No. 84/1994, Licencing and Supervision of Banking Business Proclamation	Governs the licencing and supervision of banks
Proclamation No. 86/1994, Licensing and Supervision of Insurance Business Proclamation	Law governing the licencing and supervision of insurance businesses
Proclamation No.329/2003, Trade Practice Proclamation	Law governing unfair trade practices
(c) Labour and industry	
Proclamation No. 42/1993, Labour Proclamation	Umbrella law governing worker-employer relations, work permits, etc
Proclamation No. 152/1999, International Labour Organization Convention Ratification Proclamation	Law on ratification of ILO conventions
Proclamation No.146/1998 Privatization of Public Enterprises Proclamation	Law governing the processes and modalities of privatization
Proclamation No. 17/1996, Establishment of the Board of Trustees for Privatized Public Enterprise	Law governing the establishment of the Board and the scope of its duties and responsibilities
Proclamation No. 11/1995, Tourism Commission Establishment Proclamation	Law governing the establishment of the Commission and the scope of its duties and responsibilities
Proclamation No. 86/1997, Electricity Proclamation	Law governing the generation, transmission & supply of electricity for commercial purposes
(d) Environment	
Proclamation No. 299/2002, Environmental Impact Assessment Proclamation	Law governing environmental impact assessment of investment projects
Proclamation No. 9/1995, Environmental Protection Authority Establishment Proclamation	Law governing the establishment of the Authority and its powers, duties and responsibilities
Proclamation No.120/1998, Establishment of the Institute of Biodiversity Conservation and Research	Law governing the establishment of the Institute and its duties and responsibilities

## Attachment 9 Questionnaires

HAAGA- HELIA

UNIVERSITY OF APPLIED SCIENCES

Department of International Business

A sample in-office interview questions to be replied by Personnel's in Ethiopian  
Investment Agency

Dear Respondent, You are invited to participate in this research to elicit information regarding **Foreign Direct Investment (FDI) Development between European Union (EU) and Least Developed Countries (LDC'S) a case study on Business Opportunities in Ethiopia.** We believe that the study will help Ethiopia to evaluate and refine foreign investment policy as well as other development programs in the country. All responses will be handled with full confidentiality and not be identified in any way with the respondent. We hope you will engage fully in this questionnaire. A summary of the findings of the study can be requested from the authors. We would like to express our appreciation in advance for your cooperation and participation in this survey.

1. Do you agree that Ethiopia is really a potential market to foreign direct investors?

A. Strongly agree ☐

B. Agree ☐

C. Somewhat agree ☐

D. Disagree ☐

E. Strongly disagree ☐

Please specify your reason(s) \_\_\_\_\_

2. What are the major industry sectors Government highly encourages to attract FDI from EU in Ethiopia?

A. Agro Industry ☐

B. Manufacturing ☐

C. Information communication technology ☐

D. Mining ☐

E. Fishery ☐

F. Forestry ☐

G. Livestock and skin and hides processing ☐

H. Textile ☐

I. Service ☐

J. Other Please

Specify\_\_\_\_\_

3. What are the major benefits of FDI inflow to Ethiopia and LDC's?

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4. Does the Government FDI policy consider utilization of highly endowed fertile land of the country?

- A. Strongly agree ☐
- B. Agree ☐
- C. Somewhat agree ☐
- D. Disagree ☐
- E. Strongly disagree ☐

Please specify your reason

---

5. What sector(s) get relaxed regulations on investment and what kind of exemptions practiced in Ethiopia to Foreign investors?

- A. Agro Industry ☐
- B. Manufacturing ☐
- C. Information communication technology ☐
- D. Mining ☐
- E. Fishery ☐
- F. Forestry ☐

Please state some

exemptions\_\_\_\_\_

6. Please specify the main regions of FDI and sectors in Ethiopian region?

- A. SNNP ☐
- B. Oromiya ☐
- C. Amhara ☐

D. Benshangul ☐

E. Gumuz ☐

F. Other Please Specify

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7. Is there statistical data on Economical development contribution of FDI from EU and other Trade Partners?

A. A lot of data ☐

B. Moderate data ☐

C. No data at all ☐

Other please specify 

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8. Is there any existing environmental framework to protect ecological development in Ethiopia?

A. Yes, frameworks are in place

B. No environmental frameworks developed.

Please state some frameworks

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HAAGA- HELIA  
UNIVERSITY OF APPLIED SCIENCES  
Department of International Business  
Close ended questionnaire to be replied by foreign investors in  
Ethiopia

Dear Respondent, You are invited to participate in this research to elicit information regarding **Foreign Direct Investment (FDI) Development between European Union (EU) and Least Developed Countries (LDC'S) a case study on Business Opportunities in Ethiopia**. We believe that the study will help you as a foreign investor and Ethiopia to evaluate and refine foreign investment policy as well as other development programs in the country. All responses will be handled with full confidentiality and not be identified in any way with the respondent. We hope you will engage fully in this questionnaire. A summary of the findings of the study can be requested from the authors. We would like to express our appreciation in advance for your cooperation and participation to fill this questionnaire.

1. Trade Name of an Organization\_\_\_\_\_

2. Place of Investment (region)

A. Oromia

B. SNNP

C. Amhara

D. Benshangul Gumuz

E. Gambela

F. Tigray

G. Other Please Specify\_\_\_\_\_

3. Type of investment engaged

Agro Industry ☐

Manufacturing ☐

Information communication technology ☐

Mining ☐

Fishery ☐

Forestry ☐

Livestock and skin and hides processing ☐

Textile ☐

Service ☐

4. Duration of your organization's investment in Ethiopia?

A. >4 years ☐

B. >3 years ☐

C. >2 years ☐

☐

D. >1 year ☐

E. 1 year or less

Ref No.	<b>Major Evaluating Factors of Development of FDI between EU and LDC's Investment Opportunities in Ethiopia</b>	Numerical code					
		Highly satisfied	Satisfied	No satisfied	No Dissatisfied	Dissatisfied	Highly dissatisfied
		6	5	4	3	2	1
5.	How do you rate the current Investment policy of Ethiopia in attracting foreign direct Investment inflow in Ethiopia?						
6	How do you rate FDI development and potential investment opportunities in Ethiopia?						
7	How do you Evaluate accessibility of the following factors in Ethiopia in related with your Investment?						
7.1	Access to long term credit with low interest rate						
7.2	Provision of land at competitive lease price						
7.3	Technical support						
7.4	Land Lease Policy						
7.5	Duty free Privileges						
8	How do you see the impact of PESTLE factors on the success of your organization?						
8.1	Political						
8.2	Economical Factors						
8.3	Social and cultural						
8.4	Technological Factors						
8.5	Language						
8.6	Environmental factors						
9.	How do you rate the effectiveness of Foreign Direct Investment in the country?						
10.	How do you find communication tools to promote new products/service in Ethiopia to the entire external market?						
11	How do you rate that the country has attractive tax and duty						

	free compared with other countries in the region?						
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