ልሳነ ኢኮኖሚክስ

ECONOMIC FOCUS

Bulletin of the Ethiopian Economic Association (EEA)

VOL. 2 No. 3
June 1999

Economic Focus is published bi-monthly by the Ethiopian Economic Association and partially sponsored by Friedrich Ebert Stiftung of Germany.

FDI IN ETHIOPIA

In This Issue

P. O. BOX	TELEPHONE	ADDIS ABABA
34282	116902 553900 EXT 232	ETHIOPIA

E-mail Economic.dept@telecom.net.et (Attn EEA)

From the Editor

One of the driving forces behind the ongoing globalization is Foreign Direct Investment (FDI). However, the distribution of FDI across the globe is quite skew. In particular, its absence in Africa raises a number of issues. The EEA, noting the importance of FDI in developing countries such as Ethiopia, has organized a round table discussion among investors, academicians, government officials and the public to discuss this theme. This issue of *Economic Focus* brings to its readers issues raised in that forum.

We begin by a brief survey of the theoretical survey designed to introduce the readers to the major strands of the literature. In a rather empirically rich article, Dr. Berhanu will be telling us that Ethiopia is performing poor in terms of attracting FDI, in particular if MIDROC's share is left out of the analysis. It would be enlightening to pose the interesting question of why MIDROC is investing? And contrast it with the theories of FDI.

Mr. Joseph has given us an excellent account of current problems that investors in Ethiopia are facing. It is interesting to note Dr. Berhanu's argument about the need of doing something pertaining to domestic investors, which has a repercussion on foreign investors, has a supporting evidence in Mr. Joseph's piece.

Another view that stands in sharp contrast to the two papers is his Excellency Ato Tadesse's paper. These contrasting evidences certainly offer us the opportunity for deep thought. EEA is glad to have such different views for that is precisely the objective of such an exercise.

Ato Arega has also visited the issue of FDI from customs perspective. His piece underscores the importance of institutional factors in helping to attract FDI. In our Economic Issues/Information section we have an excellent paper by Ato Teshome Kebede on the potential of electronic commerce and its relevance to developing countries. The article elucidates how electronic commerce can help to pass intermediaries, image problems and related problems in international trade.

Finally, we have our usual columns of economic news and letters to the editor. We appreciate the encouragement and comments that our readers send us–such participation is crucial to strengthen our *Economic Focus*.

Enjoy your readings!

Letter to the Editor

To the Editor, EEA

Dear Editor,

I found your magazine excellent when I first read it last year. The articles really appeal to one's soul. I also wish other Ethiopian intellectuals to form "Ethiopian Political Association" that can do the same thing like EEA.

Economic Focus does not only teach the public about the need for economic development but also urges everyone's conscience to work hard in all walks of life in order to see the East Asian miracle happening here.

I am writing this piece because your magazine encourages readers to write about your magazine and where it needs improvement.

As your regular reader, I can comment that your magazine needs to go further and cover economic successes and failures in various regions of Ethiopia so that lessons can be learned from your commentators for alternative to be done to bring sound economic improvement throughout Ethiopia. For instance, the media always report corruption, embezzlement and mismanagement of public funds in various regions. I think your excellent commentators who wrote good articles had never commented about the problems mentioned above, and such problems will not allow East Asian miracle to be realized in Ethiopia.

I wish to extend my heartfelt thanks to EEA hoping that it will successfully accomplish such a remarkable job. Your hard-work will energize all your readers to achieve prosperity. Keep it up!

Thanks,
Gordon Buoy
P.O. Box 150321
Addis Ababa.

◆ ◆ ◆ ◆ ◆ ◆

The Editor in Chief
ECONOMIC FOCUS
P.O. Box 34282
Addis Ababa

Dear Sir,

My name is Peter Williams and I am the Manager of Ilamo Plc, a company with various interests in Ethiopia, but notably in the sector of agriculture and agro-industry. It is only fair to stress that our aspirations are much greater than our achievements to date. Moreover, I am somewhat of an imposter here because I am far from being an economist. However I am a practical businessman and my comments are based on that. Our company also represents, or attempts to represent, a number of foreign investors that have varying degrees of interest in Ethiopia. My comments reflect their interest and their frustration.

The first, simplistic point to make is that the hackneyed phrase "global village" is more applicable to the investment world than to any other sector of society. There is great merit in nationalism in investment but that, by definition, is limited to nationals of a country. Investment transcending national borders is based on hard, pragmatic factors-where can the greatest return be obtained for the least risk. Balancing this two contradictory factors brings in to play a complex matrix of pointers, all of which can be applied to every country.

As such the fortunes and declines of Venezuela or Vietnam or Poland directly impact upon the fortunes of Ethiopia. Because, surprise, surprise if Venezuela or Vietnam or Poland offers, or more importantly, is simply perceived to offer, a better investment profile than Ethiopia then that is where the funds will flow.

Bringing this closer to home, just within Africa, Ethiopia is in everyday competition with Ghana and Mozambique and Tanzania in attracting investment funds.

Let me provide a simple example, and one, by the way, that still has me baffled. I am, by birth, a New Zealander. This past Christmas I went back to New Zealand for a holiday. New Zealand is one of the most efficient agricultural producers in the world. From the other side of the world New Zealand exports meat produce and livestock to countries on our doorstep, notably Saudi Arabia and the Gulf.

It is cheaper to buy outright, proven farmland in New Zealand than it is theoretically lease farmland in Ethiopia. Moreover, the process takes a matter of two to three days-and this includes the provision of finance.

When we layer in risk factors the equation becomes even more lop-sided. New Zealand is one of the most stable countries in the world offering one of the highest quality of life to its residents. Little surprise then that New Zealand benefits from a high level of foreign investment, attracting investment from all over the world.

How can anyone justify that rental land in Ethiopia is more expensive than land owned in New Zealand? I can't.

I have observed that Ethiopia is capable of producing high quality agricultural produce of every description provided that it produces such products with consistency-consistency of quality, consistency of package and consistency of delivery.

Just as Ethiopia must compete on the world stage in order to attract investment, it must equally compete on the world stage to secure markets for its exports.

The private sector just isn't strong enough to achieve this unaided. This is a vital role for Government to play–in partnership with the private sector. I do not believe in the total withdrawal by Government from the economy. To the contrary, particularly in developing markets, the Government has to be the driving participant.

Let me again draw on the New Zealand experience. New Zealand has historically relied on the export of meat to Great Britain, just as Ethiopia relies on coffee. When Britain joined the then European Common Market, this market collapsed. The farmers were desperate, but individually didn't know where to turn. The Government stepped in and, in partnership with the private sector, formed marketing boards. These boards marketed everything from apples and pears to dairy products to kiwifruit (which incidentally was known as Chinese gooseberry until the marketing board responsible decided on a change of name). Only now are the marketing boards being dismantled.

Co-operatives, which unfortunately have a dirty name in Ethiopia due to the legacy of the past, have a vital role to play in the development of the agricultural base of Ethiopia. Ideally such cooperatives would have a tripartite nature–the private farmer, the government, and the foreign investor.

The answer, but I don't know how to achieve it, is to have greater involvement by government, but less bureaucracy from Government.

I could discuss many, many aspects of business in Ethiopia but that is for another time. I guess my conclusion is that we should not seek the withdrawal of Government from industrial development but, to the contrary, seek a much more active role, a much more focused role, a much more practical role for Government. A role that is in partnership with the private sector.

Thank You. ■

ANNOUNCEMENT

The 7th Annual Assembly of the Ethiopian Economic Association will be held on July 3, 1999. In this event a report on the activities of the Executive Committee over the past year will be presented.

In addition, there will be a round table discussion on the topic "Are there Alternatives to the Current Land Policy in Ethiopia". The speakers include Ato Neway Gebreab, Economic Advisor in the Prime Minister's Office, with the rank of Minister, Ato Desalegn Rahmato, Manager of Forum for Social Studies, Ato Assefa Tesema, and Ato Tsegay Kiros, Head of the Lease Office in the Addis Ababa Administrative region.

All members of the Association as well as those who are interested to be members of the Association are, therefore, invited to attend and participate in this event.

The venue will be at Ghion Hotel and the meeting will start at 8:30 a.m.

◆

ANNOUNCEMENT

The Ethiopian Economic Association (EEA) is organizing a Memorial Program for Dr. Eshetu Chole on the First anniversary of his death. The Association, thus, cordially invites all interested to attend the program.
Venue:- Faculty of Business and Economics Hall, AAU
Date:- June 19, 1999 Time:- From 9:00 to 12:00 a.m.

◆

YOUR URGENT COMMENT IS HIGHLY APPRECIATED.

Dear readers, we have been running our 'Economic News in the Last Two Months' column for quite sometime. The objective was to bring at our reader's fingertips economic new scattered at different places. We are planning to close this column if it is not crucial for our readers. Readers' quick comment on this plan is highly appreciated. We will accpmmodate your calls and e-mails, too.

THEORIES OF THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT AND THEIR RELEVANCE IN AFRICAN CONTEXT

Alemayehu Geda*

*Dr. Alemayehu is Assistant Professor of Economics at the Department of Economics, Addis Ababa University

Although foreign direct investment does not have an important weight in the total external financial flows to low income countries, like that of Africa, I will attempt to see briefly theories about the determinants of foreign direct investment to understand at least why it is not. It will also familiarize *Focus'* readers to the literature. Technical details are deliberately suppressed.

The early neoclassical approach, which is well summarized in the article of MacDougal (1960), hypothesized that capital flows across countries are governed by differential rate of return (in neoclassical market setting)[1]. It is argued that such capital inflows ensure the maximization of welfare[2] to both parties engaged in the capital movement. The MacDougal model is based on perfect competition and capital movement free of risk assumptions. It is also based on the assumption of movement of factors of production, no risk of default etc. The portfolio approach to FDI reacted to this early theory of FDI by emphasizing not only return differential but also risk (Iversen 1935, Tobin (1958) cited in Agarawal 1980). This is generally strengthened by a theory, which emphasizes the positive relationship between FDI and output (sales in host country), along the Jorgenson's (1963) model (see Agarwal 1980).

A major critic to these theories was to question the perfection of the markets. The works of Hymer (1960, published in 1976) and Kindleberger (1969) in which they argued that if foreign firms did compete and succeed in the host country, they must had firm specific and transferable (to the subsidiary) advantages over local firms as well as potential entrants became another strand of the theory. In this theory the advantages are identified to be: cheaper source of financing; brand name and patent right; technological, marketing and managerial skills; economies of scale and entry and exit barriers (Kindleberger 1969, Agarwal 1980). Besides, this analysis also focused on the micro foundation of FDI by moving from a simple capital movement/portfolio theory into production and industrial organizational theories.

A related micro based (with oligopolies strategic market share consideration) theory of FDI had also emerged with the development of Vernon's product cycle theory Vernon (1966). Based his argument on Vernon's theory of 'product cycle' and the existence of 'new' and 'old' goods Krugman (1979) further developed this theoretical avenue to explain determinants of FDI. He extended the analysis to a North-South framework with innovation (in North) and technology transfer (to South) as its crucial aspect. Krugman noted that technological progress raises the marginal product of capital and provides an incentive for foreign direct investment (FDI). On the other hand technology transfer is able to reverse this process (Krugman, 1979: 263-265). Main stream trade theories are usually at the back of such analysis. New theories of trade like that of the 'economies of specialization' which emphasis the existence of intra-industry (intra-firm) trade also provided a room for analysis of FDI (See for instance the survey of Ocampo, 1986:152-155).

Notwithstanding Vernon's theory, a second wave of refinement to the initial neoclassical capital movement/portfolio theory that builds upon Hymer's original contribution came when attention is strongly focused on the determinants of FDI based on the theory of 'international firm' and 'industrial organization'.

The fact that decision making about foreign direct investment (FDI) is characterized by oligopolistic firm structure and includes a package of other inputs (i.e. intermediate imports, capital flows etc.) led to the development of alternative explanations grounded in the theory of industrial organization (see Agarwal 1980, Helleiner, 1989:1452, Dunning 1993). In this approach, as initially argued by Hymer, foreign firms have an advantage over local. Their pursuit of FDI is explained by the theory of internalization which is necessitated by the desire to minimize transaction costs *a là* Coase (1937), tackle risk and uncertainty, increased control and

[1] See also Vos (1994) and Helleiner (1989) for detailed presentation.

[2] In contrast to this approach another strand of literature related to capital inflows is the one that focus on immiserization of the recipient. In their study of the implication of capital flows Brecher and Diaz-Alejandro (1977) showed that capital inflows to small open economies would reduce the recipients welfare (measured in terms of consumption). This condition is vividly shown when foreign profit remittance absorbs the increase in total output due to capital inflow (Breacher and Diaz-Alejandro, 1977 : 319). Quibria (1985), using a simple model of North (growing *al à* Solow and saves in a Keynesian way) and South (saving in a Kaleckian way), concluded that capital flows (even in a situation of no distortion) can result in immiserization of the recipient.

market power, scale economies and ensuring advantageous transfer pricing (Hymer 1976, Buckley and Casson 1976). In this approach oligopoly power is seen as tackling market imperfection (Helleiner 1989) as opposed to creating it. The recent works of Dunning (1993) which he termed, as the 'eclectic paradigm' to FDI determination is the culmination of this refinement drive to the earlier perfect competitions based models.

Without departing very munch from the Heckscher-Ohlin-Samuelson theory of trade in explaining spatial distribution of multinational firms, Dunning's paradigm summarizes this strand of the literature under the ownership-specific, locational and internalization advantages (OLI) (see Dunning 1993). Helleiner noted that "this 'eclectic' theory of direct investment...drawing on firm-specific attributes, locational advantages and internalization advantages - is widely accepted" (Helleiner, 1989: 1253).

There is also an international trade version of FDI determination (termed as the macro approach) associated with the works of Kojima (See Kojima 1982). The Kojima model essentially argues that FDI originates from the investing countries comparatively disadvantage industry with the potential of being comparatively advantageous industry in the host country and potentially exporting back to the original country. In the process FDI will facilitate trade (Kojima 1982).

Another strand of literature usually neglected in mainstream analysis is the Marxist version of FDI determination. By citing the historical and empirical record of Britain and US, Baran and Sweezy argued that FDI is an outlet for investment-seeking surplus caused by stagnation in centers of capitalism. It is also a mechanism designed for pumping surplus out of under developed areas (Baran and Sweezy, 1966:110-111).

This theoretical avenue is recently followed by Magdoff by relating it to the situation in 1970s and 1980s. For Magdoff (1992) the 1970s and 1980s exhibited a slow down in economic activity (which itself is an inherent feature of capitalism). This slow down spurred capital to seek and create new profit opportunities (as it was doing it historically). Thus, 'the speeded-up flow of direct investment from one country to the another is itself a reaction to the stagnation in the center of capitalist countries (Magdoff, 1992: 9-13)[3] Magdoff (1992) noted that in the 1980s recorded world FDI is growing at average annual rate of 29% and its pattern is increasingly changing to finance and insurance, real estate, advertising and the media (as opposed to the traditional sectors of manufacturing and extraction of raw materials)[4]. Despite such changing pattern, for Magdoff, the stagnation in the center and the search for profit are reasons for FDI.

In general, classification of FDI studies is a difficult task (See Agarwal 1980, Frey 1984, Dunning 1993, Jong and Vos 1994). Frey (1984) classified (empirical) studies about the determinants of foreign direct investment under three categories. 'Much politics little economics' (approach A), 'Much economics little politics' (approach B) and 'Unstructured amalgamation of economics and politics' (approach C). He noted, studies in approach A focus whether FDI is determined by political stability/instability. The conclusion in general is that FDI is not affected by political instability. Approach B basically employs economic variables (GNP, labour cost [location], human capital, R&D expenditure etc.) and analysts along this line in general found statistically significant results. Finally, approach C tries to specify economic factors by taking into account some variables like country risk indicators. Frey maintained that most of these studies rarely give convincing reasons based on theoretical notion. Hence, a politico-economic model with sound theoretical explanation is a good model to explain the determinants of FDI (Frey, 1984: 61-84, Schneider and Frey 1985).

In sum, the theory of determinants of FDI covers a range of explanations: the pure capital movement, product cycle, industrial organization, the stagnation thesis as well as other political consideration. In African context, the pure capital theory does not work for the assumptions simply do not hold. Krugman's hypothesis is not workable either, for it is more relevant to countries with good industrial base and infrastructure. The deterioration in terms of trade combined with the debt crisis will greatly undermine the relevance of this theory in African context. The most probable theoretical explanation seems to be found in the Marxist version and the one based on 'industrial organization' and 'the international firm'-'eclectic'. The Marxist version focuses primarily on the consequence of FDI, which is not the prime focus of most empirical studies. Besides, its stagnation thesis may not fully explain FDI destination as much as its source and might also be inferred from the industrial organization and international firm based theories. On the other hand, the concentration of multinational corporations in the mining sector of most African countries and to a good degree the importance of the colonial history in determining their spatial pattern might lend hand to the importance of the 'eclectic' approach. This theoretical insight is used in identifying the determinants of FDI in the empirical analysis that I have carried and had a good explanatory power (see Alemayehu 1999).

Note: Reference cited can be found in: Alemayehu (1999) <u>Finance and Trade in Africa: Modeling Macroeconomic Response in the World Economy Context</u> (Forthcoming, London: Macmillan). For application of Dunning's eclectic approach in Ethiopia see BA papers at the Department of Economics, AAU or can be obtained from me. ■

[3] Magdoff (1992) gave some statistics for the recent past. As far as the source of FDI is concerned in 1980 47% from US, 45% from Europe, 0.7% from Japan. The figures for the 1973 was 48%, 39% and 4.9%, respectively. For 1989 it was 28%, 50.2% and 11.5%, respectively. He also noted that contrary to the popular belief, the bulk of FDI goes to industrialized rather than third world nations. The latter's share declining from 31% in 1967 to 19% in 1989. In terms of its structure in 1990 the FDI invested in finance, insurance and banking in LDCs is almost one-third higher than in manufacturing (40.1% versus 31.3% of the total).

[4] See also Jungnickel (1993) about the recent pattern towards services.

FOREIGN INVESTMENT IN ETHIOPIA

By Berhanu Nega*

* Dr. Berhanu is chairperson of EEA and Assistant Professor (part-time) at the Department of Economics, AAU.

I. The Current Condition of the Ethiopian Economy and why Investment is Important.[1]

Ranked at 169th out of a total of 174 countries by the most recent Human Development Report, Ethiopia is, by any measure, one of the poorest countries on earth. The miserable condition of the Ethiopian economy is reflected in every sector and by all standard social and economic indicators one chooses to use. Ethiopia's real per capita GNP calculated in dollar terms for 1997[2] was $110 which surpasses only Mozambique with a GNP per capita of $90. The average figure for low-income countries for the same year was $350 while the average for Sub-Saharan Africa was $500[3]. If we use purchasing power parity (PPP) which is more indicative of people's buying power in their own countries, Ethiopia's real GDP per capita for 1995 was $455 which is the second lowest figure only better than the Democratic Republic of Congo with a value of $355.[4] This is a very low figure even compared with other developing countries. The average for LDCs was $1008 while the average for all developing countries was $3068. Our close neighbor Kenya has a value over three times more than Ethiopia with a PPP of $1438.

The level of poverty in the country is rather staggering. Over 46% of the population, roughly about 28 million people, currently live under a dollar a day. Increasing the poverty line to $2 a day raises the number of people living under the poverty line to 89% of the population or over 53 million people and a 42.6% poverty gap[5]. The adult literacy rate for Ethiopia stands at 35.5 compared with 49.2 for least developed countries and 77.6 for the rest of the world. Kenya stands over twice that of Ethiopia at 78.1. The gross enrollment ratio for 1st, 2nd and 3rd levels stand at 20 in 1995 compared with 36.4 for LDCs, 52 for Kenya and 61.6 for the rest of the world.

Life expectancy at birth stands at 48.7 for Ethiopia compared to 62.2 for all developing countries and 53.8 for Kenya. Only 27% of the population have access to safe water and 10% have access to sanitation while the infant mortality rate stands at 109 deaths per 1000 live births. These figures stand at 71 for safe water, 30 for sanitation and 80 for infant mortality rate for low-income countries. For Kenya the figures stand at 53 for access to safe water, 77 for sanitation and 57 for infant mortality rate.

The problem is not only about where we are now; it is more daunting when one looks at where we are heading and the degree to which we are able to narrow the development gap between Ethiopia and other countries.

For Ethiopia to reach the level of per capita GDP that is currently achieved by the average low income country (350 USD), it will take her about 30 years (Table 1) even if we assume the other countries register no per capita income growth and Ethiopia grew at an annual rate of growth of PCI of 4% or a real GDP growth of 7% per year. It will take 17 years if we grew by 10%. By the same token it will take us about 37 years to reach the level of the average Sub Saharan African country with a 7% GDP growth and 22 years with a 10% growth. On the other hand, achieving the growth level of middle income countries will take over three generations.

But, to be realistic, other countries will not wait for us when we register such a high growth rate. The situation looks even more hopeless when we consider a PCI growth rate of 4% for them while we grow at 7%. In this scenario, it will take about 41 years to achieve average low income level, 53 years to reach the average SSA country, 100 years for the average middle income country (assuming only 3% growth for the latter.)

To achieve such a fantastic rate of growth of PCI for Ethiopia it requires a historically unprecedented level of savings either from domestic or foreign sources. Ethiopia is required to ensure a saving rate of 16% of GDP to

[1] This section of the paper is adopted from Berhanu Nega and Seid Nuru "Macroeconomic Performance of the Ethiopian Economy, 1991-1998." Paper presented at the 8th Annual Conference on the Ethiopian economy: Nazereth, Palace Hotel, Ocotber 30–November 1, 1998.

[2] For data needing comparison between countries, we used the most recent World Bank World Development Report, 1998/99 and the Human Development Report of the United Nations Development Program, 1998. The WB report uses 1997 as the most recent reporting time while UNDP uses 1995. For strictly Ethiopian data, we used local sources which have data as recent as 1990 Ethiopian calender (1997/98 Gregorian Calender.)

[3] World Bank, op.cit., pp.190-191.

[4] Human Development Report, 1998.

[5] See Table 4, Poverty, World Bank, World Development Report, 1998/99 p.196.

achieve a 10% growth rate of GDP (assuming a capital output ratio of 1.6)[7]. The highest level of savings so far achieved in our country was 13% obtained in the last years of the imperial regime.

It is this dismal economic scene that prompted many Ethiopians to desperately seek a way out of this economic quagmire. In 1974, the educated strata of the Ethiopian population felt that the main factor responsible for the overall backwardness and the poor performance of the Ethiopian economy largely rests on the "feudo-bourgeois" regime of Emperor Haile Selassie and the largely pro-capitalist and pro-feudal policies that he pursued. The regime was particularly accused for its inability to generate rapid economic growth by inducing high levels of investment. The main reason for this inability to increase the level of investment was presumed to be the conspicuous consumption of the ruling class and the feudal-imperialist alliance which makes it impossible to generate indigenous capitalist development in peripheral economies such as Ethiopia[8]. The "Feudal" land holding system was also blamed for its disincentive effect on land improvement and its limited capacity to generate surplus for investment.

The preferred policies of these revolutionaries was to redirect the Ethiopian economy along socialist lines which was hoped to release the productive forces of the country for a more rapid economic growth on more egalitarian grounds. The financial resources for investment was to come from the reduced consumption of the former ruling class, the profits from the nationalized industries, and the increased savings that come from peasants who are now the direct beneficiaries of the land. After seventeen years of this experiment (although a stunted version) and incalculable human, social, political and psychological cost to the whole society, none of the promised achievements occurred. In fact, the Ethiopian economy was much worse off in 1991 when Mengistu's "socialist" dictatorship was overthrown than when it took power seventeen years earlier.

Eight years have passed since Ethiopia has again charted a new course to address these same economic issues. This time again, as in the past, the main problem with the economy was associated with policies of the previous regime.

A new pro-capitalist and market friendly regime that reverses the dirigiste policies of the past was instituted to stabilize the economy and eventually achieve a healthy economic growth.

Various policy measures, some of which are home-bred while others are standard medicines subscribed by multinational financial institutions, were taken to achieve the intended immediate objective of macroeconomic stability and the long-term objective of sustained economic growth.

To finance the expected rapid economic growth, the policy relies on high levels of savings from the population as a result of high real interest rates, increased income from the rural population, prudent government spending and above all from the expected high levels of foreign direct investment. For the purpose of this presentation, let us concentrate on foreign direct investment (FDI).

II. What is it that foreign investors are looking for in deciding to invest in a country?

There is no controversy about the intentions of foreign investors. They come to a country hoping to make more profit than at home, not for charity. The question for the recipient country is to understand the factors that attract these investors and attempt to make them attractive to them. It should be clear from the outset, however, that the factors that are necessary to make investment profitable are not always in the control of policy makers for easy manipulation. With that in mind, let us briefly look at these determinants of profits. For the purpose of this discussion, six factors are identified:

a) Resources
b) Cost conditions
c) Demand conditions
d) Macroeconomic conditions
e) Bureaucratic efficiency in general and the legal system in particular
f) Security and property rights

a) Resources

Foreign investors, particularly those involved in natural resource exploitation (mining...etc.) are usually attracted to a country when they feel that there is sufficient deposit of some mineral or another for purposes of commercial exploitation. For them the

[6] Let Y_0 and Y^*_0 be the levels of the per capita GDP of Ethiopia and other countries' group (low income, middle income and SSA countries), respectively, in year 0. And let Y_t and Y^*_t be levels of per capita GDP of Ethiopia and other countries' group, respectively, at year t. Then, the number of years required to catch up the other countries whose economy grow at an average of g^*. If Ethiopia's economy grows at a rate of g% per annum in per capita terms, can be calculated as follows.

$$Y_0(1+g)^t = Y^*_0(1+g^*)^t \Rightarrow (Y^*_0/Y_0) = [(1+g)/(1+g^*)]^t$$

$$\Rightarrow t = \{[\log(Y^*_0/Y_0)] - [\log((1+g)/(1+g^*))]\}.$$

To double the per capita income, the year required can be calculated as:

$$t = [\log 2]/[\log(1+g)].$$

[7] With a capital-output ratio of k, the saving rate required to achieve a growth rate of g may be derived using the simple Harrod-Domar model:

$$s = kg$$

For Ethipia, there is no reliable investment function made so far. Hence, we used the method used by J. Bognar, that is, we divided the total gross investment (data for depreciation is not available) for the past ten years by the incrmental change in GDP for the same period. This estimates the capital - output ratio to an average of 1.6 for the past 10 years. We have used this to calculate the figures that follow in the text.

[8] This thesis originally developed by Kusinen in 1926, was the standard Marxisist argument in defense of socialist takeover of power for the purpose of capitalist development in the periphery. For details, see Berhanu Nega: Structural Constraints to Socialist Accumulation in the Periphery. Unpublished Ph.D. dissertation, 1990.

central issue is the availability of such exploitable resources. If this is available in sufficient quantity, all other issues (conditions of exploitation, macroeconomic conditions, liberalization...etc.) are secondary issues that can be negotiated and agreed to. Even the most derigiste of regimes will attract these investors in so far as the resources are there.

From what we know up to now, our natural resource base is not that strong to make us optimistic that such businesses will clamor to invest in Ethiopia [Note the experience of the Ashanti Gold Mines].

b) Cost Conditions

Here the main consideration for foreign investors is whether or not producing in this country will give them an edge over other competitors. In other words, the concern here is the ability to produce the product cheaply here and be able to sell in the world market. This requires a significant cost saving in the factor inputs used in the production process and on capital costs. In relation to the latter an important capital cost item is land and as we all know that is not very cheap in this country. The two important inputs relevant in this consideration are labor and material inputs. The issue, therefore, is the degree to which these factors are cheap in the country compared with other countries competing for the same FDI allowing for other factors such as transportation costs.

This is a very difficult issue to discuss in general terms as factor costs vary from industry to industry. Given this constraint, however, it is safe to say that Ethiopia's cost advantage is not to be exaggerated. In relation to labor costs, although in absolute terms wages seem to be very low in this country, I suspect, in relative terms it is not that cheap. For the business firm labor cost is in general evaluated in relation to the productivity of labor. The cost of a labor that produces a pair of shoes a day and is paid 5 birr per day is, as far as the cost to the firm is concerned, equivalent to a labor that produces 100 pairs per day and is paid 500 birr. Although relevant data on productivity and wage differentials are not available to make a definitive comparison between countries, I suspect, Ethiopia's wage, compared with its labor productivity, is not that attractive to foreign investors compared with Asian countries such as China or other FDI competing countries in SSA purely on labor cost comparison basis.

The other possible cost advantage is the cost of raw materials. This, if at all is an advantage for Ethiopia, is not very significant. As said earlier in relation to natural resources, we have not seen many investors knocking at our doors believing that we have a special natural resource advantage. As a predominantly agricultural society, our hope relies on raw material resources coming from the agricultural sector. That seems to be the expectation of our Agriculture Development Led Industrialization Strategy (ADLI). Even here it is a potential rather than an actual comparative advantage.

As it stands now, our agricultural productivity is so low, there is no reason to believe that we could be low cost suppliers of these inputs (especially considering the export subsidized international prices of agricultural products from Europe and the US) to attract investors to Ethiopia hoping for a cheap raw material, save, may be, for the Leather sector.

Even there, considering the local transportation costs, freights, prohibitive protectionist policies of importers...etc. I doubt that we could be so attractive.

c) Demand Conditions

Even when cost conditions are not favorable, investors could be attracted to a country believing that there is a sufficient and preferably protected market in the country. That is why it is generally suggested that investors are attracted to a growing economy rather than a poor economy with future promise. In relation to Ethiopia, there are two problems that make this expectation rather difficult to meet.

The first is the obvious problem of a very small effective demand in the country owing to very low per capita income despite the large size of the population. The second problem is the increasing difficulty of protecting local markets because of the increasing pressure from donor countries and multilateral institutions to liberalize the foreign trade sector.

d) Macroeconomic conditions

It is clear that our macroeconomic conditions, particularly inflation and GDP growth have performed reasonably well over the past eight years. However, the latter is still very much dependent on the performance of agriculture which it self depends on the vagaries of nature, hence, very unstable.

e) Bureaucratic Efficiency in General and the Legal System in Particular

Clearly that is not one of our strong suits. The overall inefficiency in the bureaucracy is an issue that is well acknowledged by the government. The terribly slow judicial process is clearly an impediment to effective contract enforcement.

The notorious land allocation system and the amount of time it takes to secure land for investment is all too well known to repeat here. Suffice it to say here that foreign investors will not be attracted to Ethiopia with the expectation of a better service from the bureaucracy compared with other countries competing for these resources.

f) Security and Property Rights

The issue of property rights is interrelated to the functioning of the legal system. As I said earlier that is not a strong and competent institution yet. While Ethiopia's membership with MIGA is sure to provide some confidence to foreign investors in terms of providing security from non commercial risk, that still will not be our strongest mark to attract foreign investors.

All this combined suggest, that while the macroeconomic condition looks promising, the most important microeconomic considerations for profit motivated investors is not very strong, while the institutional factors necessary to attract foreign investors leave much to be desired. In other words, our ability to attract strictly profit motivated investors, as most of them are, is much weaker than we are willing to admit.

III. How is Ethiopia Doing in Attracting Foreign Investment?

Since the reforms began in 1991 the government has made numerous pronouncements indicating its interest to attract private investment particularly foreign direct investment. In the last six years alone it has revised its investment code three times to make it more attractive for foreign investors to invest in Ethiopia. The degree to which this policy has achieved its intended objective is not easy to determine. The main problem, of course, is to find an appropriate basis for comparison.

There is no detailed comparable data for the pre EPRDF period to make a meaningful comparison. It is also analytically meaningless to compare it with the past since the policies pursued by the Derge had no intention of increasing foreign investment.

The only data I can obtain comparing the two periods was from the recent World Bank World Development Report, which compares the value of FDI in 1980 with that of 1996. According to these figures, FDI in 1980 was 12 million USD compared with 5 million USD for 1996.[9] Although this data is consistent with the data provided by UNCTAD's World Investment Report, I have difficulty in taking these values seriously as the data from the investment authority provides a much different picture. Furthermore, in the absence of the counter factual, we cannot compare the current performance with what would have happened with an alternative policy package.

There are two sets of data that we can use for comparison purposes, however. The first deals with FDI inflows in the last few years of the Imperial regime with that of the first few years of the EPRDF government (Table 4).

The second set of data looks at the performance of Ethiopia in attracting FDI compared with a few African countries in a similar level of development and pursuing similar policies (Table 2). Before we deal with these comparisons, however, let us look at the private investment data provided by the Ethiopian Investment Authority and the regional distribution of investment projects.

For the purpose of this paper we have collected the data for the number of investment licenses issued by the investment authority for various sectors of the economy and compared those with the projects that are under implementation and that started production to get a sense of the gap between early intention and implementation as an indicator of business confidence.

As can be seen from Table 6, between 1994-97 some 26 billion Birr worth of projects were licensed by the authority for 3530 projects. Of this total capital intended for investment, only 13.4% were in the implementation phase and 18.2% started production for a total conversion of 31.5%. This proportion roughly remained the same for the next year although the value of the total capital licensed increased by over 30% to 35 billion Birr.

Some critics of the government suggest that this low ratio of implementation is a result of bureaucratic red tape, which discourages investors in the process of implementing their project. Particular mention is usually made about the slow process of land allocation and the monopoly price charged by the municipality government in Addis Ababa as the key constraint to private investment in Ethiopia in the past seven years.[10]

Another interesting observation about private investment in Ethiopia is the low level of foreign investment despite the numerous attempts by the government to particularly encourage foreign investors. Between 1992 and 1998, only 3.46% with a capital share of 22.68%, of all the investments licensed in the country were owned fully or partially by foreigners (Table 7). Only 11.45% of the capital licensed was fully owned by foreigners.

Of the 85 businesses licensed for foreigners, only 7 new businesses started operation with additional 2 firms investing for expansion while 10 new businesses and 2 expansions started operation that are owned jointly by foreigners and local investors. The total capital of foreign owned businesses that started operation was roughly 3.2 billion birr for the whole six years of which about 52% is in joint venture.

This is an average of about 73 million USD per year assuming the exchange rate of 7.3 birr per dollar. The proportion of foreign

[9] World Bank World Development Report, 1998/99, table 21, p. 230

[10] So much is clearly stated in a recent study commissioned by the Addis Ababa Chamber of Commerce. The overwhelming majority of the business people surveyed indicated that one of the most important constraints for business development is the land allocation system in the country in general and in Addis Ababa in particular. See Addis Ababa Chamber of Commerce, "The business Community's attitude towards Government Policy" in Amharic. Miz - Hasab research center, A.A Sene 1990

investments (both wholly owned and joint venture) that started operation is about 24% of the total foreign investment licensed while it is 36.3% of the total investment that have started operation.

In terms of employment creation, the portion of employment to be created if all the licensed projects were implemented was about 227,000 permanent and 440,000 temporary of which only about 10% are accounted by foreign investment. The share of foreign investment in job creation is somewhat higher for projects under implementation which grew to about 14% for permanent jobs and 35% for temporary employment.

If we calculate the amount of capital required per employee, we can get some idea about the capital intensity of the projects submitted by foreign investors compared with domestic investors. Of all the projects licensed, the capital per permanent employee averages birr 139,291 for domestic investment compared with 281,230 for fully foreign owned and 443,618 for joint venture.

The gap gets even wider when we look at the projects under operation or those under implementation. For the former, the capital per permanent employee is birr 96,109 for domestic, 435,304 for fully foreign owned and 577,647 for JV. For projects under implementation, it is 143,144 for domestic, 153,696 for fully foreign and 539,507 for JV indicating that JVs have the highest capital intensity in all cases.

The situation regarding foreign investment gets even more dismal if we take out the investment activities of the MIDROC group which every one accepts to be a special case. This can be seen from Table 5 indicating the distribution of foreign investment in general compared with that of the MIDROC group up to 1997 where such data was available. As can be seen from the table close to 70% of all the foreign investment is accounted by the MIDROC group. If we take the five-year data to be roughly applicable for 1998 and the proportion between licensed investments and those that started operation and are under implementation roughly holds (there is good reason to suspect that this proportion would be higher for MIDROC than for other foreign investments), the non-MIDROC foreign direct investment inflow to Ethiopia ends up being less than 22 million USD per year for the past six years.

To get a sense of whether this is a good performance or not, it might be worth comparing this performance with a few comparable countries in our region.

Such a comparison is made in Table 2. For purposes of international comparison we have used the most recent World Bank data which uses 1996 as the last reporting period[11]. As can be seen from the table, FDI inflows to Ethiopia are the lowest by a wide margin both in actual quantity and as a proportion of the GNP. The gap is even wider when we compare Ethiopia with the two countries that are usually mentioned along with Ethiopia as countries pursuing prudent macroeconomic policies by the standards of multilateral financial institutions.

So, no matter which way one looks at it, the amount of foreign direct investment coming to Ethiopia is rather small. It is small in absolute quantity, it is significantly small compared with domestic investment and small compared to FDI inflows in comparable neighboring countries. This raises a very important question of why Ethiopia is unable to attract foreign investment and what needs to be done about it.

[11] We have checked this data with the recent UNCTAD publication and with some minor differences the data seem to be commensurate. See Unctad, World Investment Report, 1998.

IV. Common Explanations for the Poor Performance of Investment in Ethiopia

Clearly, as discussed above, the performance of investment was much better in the last eight years compared with the Derge period. However, investment in general and foreign direct investment in particular have fallen substantially lower than expectations and are significantly lower than investment inflows for comparable countries in the region. There are two schools of thought that attempt to explain this phenomena. For the sake of discussion, let us call them the liberal view and the structuralist explanation. Let us briefly present each of these explanations.

The liberal view essentially suggests that the reason investment is not flowing to Ethiopia is because the country did not liberalize its economic policy enough. They site numerous "restrictive policies" as proof of their explanations.

Until recently, the government has restricted private investments in power and telecommunications as well as defense related industries which, they argue, are serious disincentives for investors in all sectors as they are indicators of the government's overall openness to foreign investment.

The slow movement in financial liberalization in general and the restriction of the sector only to local investors is another indicator of lack of sufficient liberalization according to this view. The slow process of privatization is also considered a clear manifestation of the government's lack of clear commitment to liberalizing the economy. In addition to these specific areas, proponents of this view argue that the government's land policy, overall bureaucratic red tape and inefficiency, a dysfunctional legal environment, lack of infrastructural development are serious constraints to private investment in general and foreign investment in particular.

All these issues combined make the cost of doing business in Ethiopia very high compared to alternatives elsewhere in the world or even in neighboring countries according to this view[12]. Most of these arguments concentrated on the problem of lack of investment as it relates to FDI. Concerns about shortage of domestic private investment is seen as an extension of that rather than a unique problem to be looked at in its own right.

What could be labeled as the structuralist perspective, on the other hand, note that the main concern for lack of investment in Ethiopia should not be on the shortage of FDI. Instead it is more fruitful to look at the problem from the perspective of domestic investment.

Although they see the importance of some liberalization and agree with the liberal view on the constraints imposed by the land policy and overall bureaucratic red tape, they generally believe that the inflow of FDI generally reacts to the overall dynamism of the economy, the market size, and other cost variables than the degree of openness as such. For them foreign investment comes in a growing economy where profit possibilities are high rather than in a weak economy to help it grow no matter what the policy environment. In fact, if we look at the nature of foreign investment, it usually takes two forms according to this view.

The first is resource based investment such as mining, which is not particularly concerned with policies other than those specific to the industry and is largely concerned with political stability rather than liberalized economic environment.

The second kind of foreign investment deals with manufacturing and related activities and is mostly driven by the availability of markets which is determined by the size and income of the population and the degree of insulation from outside competitors. As such, these kinds of foreign investments prefer, just like domestic investment, a more protective policy environment than a liberalized one.

It is these factors that explain the scramble of foreign investors to China rather than its liberal policies. Although there was some liberalization in China since the 1980s, compared to many developing countries it is very difficult to argue that liberalized economic and/or political environment explains the massive inflow of investment to "Communist" China. This means, for a country such as Ethiopia, the initial impetus for growth must come from domestic investors and/or Ethiopians or foreign nationals with Ethiopian ancestry or some other attachment to the country [as is frequently claimed by the owner of MIDROC] whose motivation is more than just profits and whose interest does not necessarily coincide with the interest of foreign investors or those of multilateral financial institutions.[13]

The policy implication of this is rather obvious. If this analysis is roughly right, policy makers should then concentrate on matters that impede domestic investment and implement policies that would encourage it and make efforts to attract Ethiopians in the Diaspora.

One area of conflict, for example, between the interest of domestic investors and the "liberalizers" will be on the issue of protection.

The recommendation of liberal free traders to fully open the domestic market for foreign competition does not bode well with the interest of domestic or for that matter foreign investors who might seek protection for infant industries that they wish to invest in.

Domestic investors starving for capital would like to see some government regulation on interest rates and even interest rate subsidies for high capital requiring strategic investments rather than leaving financial allocation and interest rate determination for blind market forces. Putting a provision such as domestic input content might not be very attractive to foreign investors but certainly is of significant interest to domestic investors. In other words, there are a number of areas where the role of the state in the economy is crucial to encourage domestic investment whose dynamism will produce the most important incentive to attract foreign investment.

So, the main constraint to private investment in Ethiopia and what explains the poor performance of this sector is not lack of sufficient liberalization although there are some areas that need such liberalization. Instead, it is all the factors that domestic investors have been complaining about such as shortage of demand, inability to compete with cheap imports, shortage of capital, difficulty in obtaining land at a reasonable cost, bureaucratic incompetence, unfair competition from parapartals...etc.

The traditional animosity between the state and the domestic private sector has to be broken and a new partnership has to be established with national development as its main focus. As Mkandawire forcefully put it, the problem with lack of such partnership in Africa is largely a result of the states'

---

[12] This view is particularly advocated by IMF as reflected by the strains in negotiations with the government for further liberalization. A specific advocacy of this position in Ethiopia can be seen from a recent study commissioned by the Addis Ababa Chamber of Commerce. See Rosalind Thomas: "Review of the Investment Regime in Ethiopia: Recommendations made to the Ethiopian Chamber of Commerce," 1998.

[13] For studies reflecting this general theme for Africa, see a number of the articles written for the conference on "African Development in a Comparative Perspective" organized by UNCTAD in September 1998. For a good summary of the role of the state in Africa, See Mkandawire's article in this collection "Thinking about Developmental States in Africa." For a reflection of such a view in Ethiopia, see for example Befkadu Degfe in *Economic Focus* vol.1, no.3, and my own article on domestic industry and international competition (in Amharic) on the same issue of *Economic Focus*.

hostility to the local capitalists. He says:

...[O]ne should note that, whereas the first generation of African leaders concentrated their energies on the politics of nation building, there are signs of a new leadership whose focus is on the economics of nation building. These new leaders swear by economic growth and seem to view good growth indicators as the main source of their legitimacy. In addition, if the earlier nationalist leaders associated capitalism with foreign control, the new leadership seems much less preoccupied with that. They have embraced privatization and attraction of foreign capital as centerpieces of their policy initiatives. Ominously, these leaders are more attentive to the apprehensions and appreciation of international organizations than to their domestic capitalists. While assiduously cultivating a good image in the eyes of international financial institutions (IFIs) and seeking out foreign capital, they tend to have a jaundiced view of domestic capitalists, whom they hold in spite and incessantly vilify for parasitism, failure jointly to set up modern enterprises able to compete internationally, etc. [14]

The only point I would like to add and emphasize here is on the issue of attracting Ethiopians from the Diaspora. Unlike Vietnam, Lebanon, China and other such countries which are very successful in this area, Ethiopia has not successfully attracted Ethiopians in the Diaspora to participate in the country's development effort. I believe this is a very important resource that need to be looked at carefully. Small decisions such as building a house by a sizable number of these Ethiopians could have a significant impact in attracting them[15]. Although there might be some sensitive political issues that need addressing, this is an area that need concerted effort on the part of the government even if it means some political compromise.

V. Looking Ahead: What Need to be Done to Increase Investment in Ethiopia?

Thinking about the future prospect of investment in Ethiopia, the obvious starting point is the explanation for the past weak performance. Ethiopian policy makers, in an attempt to lure investment, particularly foreign investment, have been trying to improve the investment environment by taking more and more liberalization measures that are demanded of them by multilateral institutions. In these respect three improvements have been made in the investment code over the last five years with very little tangible benefit by way of increased FDI inflow.

This suggests that, while some liberalization measures might help in attracting some FDI, the more structural issues raised by the "structuralist" argument above might be where our policy makers' attention should be geared. This means that our policy should, rather than restricting the role of the state in economic affairs, better target its presence in areas that it could be more productive and even expand its activities when necessary to promote domestic entrepreneurship and the expansion of educated and skilled work force to improve the microeconomic conditions for investment.

The main trust of this argument is that there is a need for close cooperation [including close consultation in policy formulation] between the state and the private sector in a wide range of clearly defined areas and objectives that takes into account the fundamental weaknesses of the domestic entrepreneurial class and the structural problems of the economy as a whole.

[14] Mkandawire, Tandika, "Thinking about Development States in Africa." UNCTAD, study no. 9, p. 9.

[15] Assuming there are 500,000 Ethiopians living abroad and only 20% of these decide to invest in a house that costs roughly $20,000 over the next 10 years. That would make 10,000 people per year for the next ten years. That is equivalent to $200 million dollars per year of foreing currency inflow. That is much bigger than whatever foreign direct investment we are able to attract until now and almost half of our forex earning from our most important export commodity, coffee.

Table 1. The Number of Years Required for Ethiopia to Catch up With Other Countries

		Low Income Countries (USD 350)		SSA (USD 500)		Middle Income Countries (USD 1890)		To Double PCI
Ethiopia with Per Capita GDP of $110		g = 0%	g = 4%	g = 0%	g = 4%	g = 0%	g = 4%	
No. Of Years	g = 4%	29.5	∞	36.6	∞	72.5	∞	17.7
Required for Ethiopia to Catch up	g = 7%	17.1	40.7	22.4	53.3	42	100	10.2

where g = growth rate of per capita GDP **Source;** Author's calculation using the method provided in footnote 6.

Table 2. Foreign Direct Investment for comparable Countries

Country	FDI (million USD)		FDI as per cent of GNP(1996)
	1991-95	1996	
Ethiopia	6	5	0.084
Ghana	102	120	1.94
Uganda	54	121	2.00
Kenya	13	13	0.15
Low-income Countries	27702	49531	Na
All LDCs	6642	118960	2.05

Source: World Bank, Global Development Finance, 1998.

Table 3. Foreign Investment and Share of MIDROC (July 1992-July 1997)

Region	Foreign Investment '000 birr		Foreign over Total		MIDROC's investment	MIDROC over foreign	MIDROC over Total
Tigray	1	3602	0.11	-	-	-	-
Afar	3	494,376.2	45.1	3	494,376.2	100	45.1
Amhara	3	1,452,435	39.1	2	1,265,700	87.1	49.6
Oromiya	11	456,951.9	13.0	1	354,100	75.5	9.8
Somali	-	-	-	-	-	-	-
Benishangul-Gumuz	-	-	-	-	-	-	-
SENNP	3	175,196.5	2	2	153,422	93.4	11.4
Gambella	-	-	-	-	-	-	-
Harari	-	-	-	-	-	-	-
Addis Ababa	42	1,457,050.3	7	7	530,907.7	36.4	4
Dire Dawa	-	-	-	-	-	-	-
Ethiopia	63	4,039,611.9	15	15	2,789,505.9	69	10.6

Source: Data from Ethiopian Investment Authority (extracted from *Economic Focus*, Bulletin of the Ethiopian Economic Association, Volume 1, December 1997, Issue No. 2, p. 28).

Table 4. Trends in Savings and Investment in Ethiopia: 1980/81 - 1997/98

YEAR	GDScmp	GFCFcmp	RGcmp	GDPcmp	GDS rate	GFCFrate	RG rate	Pvt Cons.	Govt Cons	Total Cons
1980/81	763.7	1366.8	-603.1	10079	7.6	13.6	-6.0	14.2	78.3	92.6
1981/82	630.6	1456.6	-826	10635.8	5.9	13.7	-7.8	15.3	78.7	94
1982/83	644.7	1435.7	-791	11775.4	5.5	12.2	-6.7	16.8	77.8	94.6
1983/84	890.5	1850.7	-960.2	10987.6	8.1	16.8	-8.7	17.3	74.6	91.9
1984/85	368.3	1394	-1025.7	13026.5	2.8	10.7	-7.9	15.3	81.8	97.1
1985/86	1171	2225.6	-1054.6	13575.2	8.6	16.4	-7.8	15.8	75.6	91.4
1986/87	1093	2244.6	-1151.6	14391	7.6	15.6	-8.0	15.7	76.7	92.4
1987/88	1867.4	3060.5	-1193.1	14970.5	12.5	20.4	-8.0	18.1	69.4	87.5
1988/89	1399.7	2269.2	-869.5	15742.1	8.9	14.4	-5.5	19.4	71.7	91.1
1989/90	1335.2	2100.5	-765.3	16825.7	7.9	12.5	-4.5	19.2	72.9	92.1
1990/91	650.4	1996.4	-1336	19195.3	3.4	10.4	-7.0	16.5	80.1	96.6
Average					7.2	14.3	-7.1	16.7	76.2	92.8
1991/92	625.2	1911.1	-1285.9	20792	3.0	9.2	-6.2	10.5	86.9	97.4
1992/93	1494.1	3792.1	-2298	26671.4	5.6	14.2	-8.6	11.2	83.8	95
1993/94	1426.2	4293.7	-2867.5	28328.9	5.0	15.2	-10.1	11.7	83.8	95.5
1994/95	2267.8	5569	-3301.2	33685	6.7	16.4	-9.7	11.6	82.5	94.1
1995/96	2488.8	7246.1	-4757.3	37937.6	6.6	19.1	-12.5	11.7	82.5	94.2
1996/97	3440.4	7919.8	-4479.4	41465.1	8.3	19.1	-10.8	12.1	80.7	92.8
1997/98	4059.3	9128	-5068.7	45204.2	9.0	20.2	-11.2	12.4	79.7	92.1
Average					6.3	16.2	-9.9	11.6	82.8	94.4
Overall Average					6.8	15.0	-8.2	14.7	78.8	93.5

Source: MEDaC. National Income Accounts, 1998.

Table 5. Foreign Investment and Share of MIDROC (July 1992-July 1997)

Region	Foreign Investment '000 birr		Foreign over Total		MIDROC's investment	MIDROC over foreign	MIDROC over Total
Tigray	1	3602	0.11	-	-	-	-
Afar	3	494,376.2	45.1	3	494,376.2	100	45.1
Amhara	3	1,452,435	39.1	2	1,265,700	87.1	49.6
Oromiya	11	456,951.9	13.0	1	354,100	75.5	9.8
Somali	-	-	-	-	-	-	-
Benishan-gul-Gumuz	-	-	-	-	-	-	-
SENNP	3	175,196.5	2	2	153,422	93.4	11.4
Gambella	-	-	-	-	-	-	-
Harari	-	-	-	-	-	-	-
Addis Ababa	42	1,457,050.3	7	7	530,907.7	36.4	4
Dire Dawa	-	-	-	-	-	-	-
Ethiopia	63	4,039,611.9	15	15	2,789,505.9	69	10.6

Source: Data from Ethiopian Investment Authority (extracted from *Economic Focus*, Bulletin of the Ethiopian Economic Association, Volume 1, December 1997, Issue No. 2, p. 28).

Table 4. Cumulative Private Investment in Ethiopia by sector of investment: 1994/95 - 1997/98

SECTOR	1994/95- June, 1996/97							1994/95-March, 1997/98									1994/95- June, 1996/97		19946/95-March, 1997/98	
	Approved		% to the total	Implementation Phase		Started Production		Approved		% to the total	Implementation Phase		Started Production				Implementation Rate			
	No.	Capital 000'Birr		No.	Capital 000'Birr	No.	Capital 000'Bir	No.	Capital 000'Bir		No.	Capital 000'Birr	No.	Capital 000'Bir	I/A	P/A	(P+I)/A	I/A	P/A	(P+I)/A
Agriculture	1001	4718164	18	114	527060.7	378	1442369	1124	5506409	15.6	122	103240.1	404	2518147	11.2	30.6	41.7	18.8	45.7	64.5
Fishing	4	4854.8	0.02	1	1478.9	1	1276.5	4	4854.8	0.01	1	1478.9	2	2957.3	30.5	26.3	56.8	30.5	60.9	91.4
Mining & Quarrying	21	384566.9	1.5	7	128606.5	5	190412.5	27	448169.6	1.3	7	128806.5	5	190412.5	33.5	49.5	83	28.7	42.5	71.2
Manufacturing	1451	9801519	37.3	241	1449190	201	822033.7	1798	13376803	38	303	1936774	357	1212652	14.8	8.4	23.2	14.5	9.1	23.5
Construction	97	3719275	14.2	17	887644.7	19	1060103	137	4552536	12.9	18	848410.5	27	1269389	23.9	28.5	52.4	18.6	27.9	46.5
Real Estate	310	3153490	12	21	79391.5	7	19997.3	350	5603538	15.9	20	79323.6	8	19465.8	2.5	0.6	3.2	1.4	0.4	1.8
Trade	122	392896.5	1.5	12	54006.6	12	33178	140	434354.6	1.2	20	99892.5	16	62883.5	13.8	8.4	22.2	23	14.5	37.5
Hotel & Tourism	300	1563666	6	70	337242.5	21	32009.5	320	1693748	4.8	78	423143	41	199427.7	21.6	2.1	23.6	25	11.8	36.8
Transport	32	1230982	4.7	1	6000	6	903275.9	35	1237169	3.5	0	0	9	945786.1	0.5	73.4	73.9	0	76.4	76.5
Education	61	283260.8	1.2	1	3983.2	9	233580	108	808020.5	2.3	3	10034.5	3	6269.2	1.4	82.5	83.9	1.2	0.8	2.0
Banking	11	312330	1.2	0	0	4	15240.6	11	312330	0.9	0	0	9	233580	0	4.9	4.9	0	74.8	74.8
Health	55	441389.3	1.7	5	35335.7	1	397	94	847745	2.4	8	75025.3	6	26152.7	8	0.1	8.1	8.9	3.1	11.9
Other Service	65	249491.2	0.95	2	6317.5	5	10270.6	89	374617.5	1.1	8	2945599.5	6	10951.5	2.5	4.1	6.7	7.9	2.9	10.8
Total	3530	26255885	100.27	492	3513458	669	4764143	4237	35200294	99.9	588	4664748	893	6698074	13.4	18.2	315	13.3	19	32.3

I= Capital of projects under implementation; P= Capital of projects that started production; A= Total capital of projects approved (=I+P+Pre-implementation phase Source: Ethiopian Investment Authority

Table 4 : Number, Capital and Employment Creation of Investment Projects (July 1992 - July 7, 1998) (Investment Capital In Millions of Birr)

Description		DOMESTIC			FOREIGN							GRAND TOTAL	% TO APPROVED	FOREIGN OVER TOTAL (%)
					WHOLLY FOREIGN			JOINTLY WITH DOMESTIC			TOTAL			
		NEW	EXPAN.	TOTAL	NEW	EXPAN.	TOTAL	NEW	EXPAN.	TOTAL				
APPROVED	Number of Projects	3857	389	4246	80	5	85	63	4	67	152	4398	100	3.46
	Investment Capital	24341.71	3940.14	28281.85	3954.92	235.69	4190.61	3986.12	116.91	4103.03	8293.64	36575.49	100	22.68
	Permanent Job	174198	28843	203041	12877	2024	14901	9122	127	9249	24150	227191	100	10.63
	Temporary Job	373294	22055	395349	3133	6	3139	41184	-	41184	44323	439672	100	10.08
OPERATION	Number of Projects	1031	132	1163	7	2	9	10	2	12	21	1184	26.92	1.77
	Investment Capital	4373.79	1188.36	5562.15	1338.16	151.45	1489.61	1604.68	75.12	1679.80	3169.41	8731.56	23.87	36.30
	Permanent Job	48973	8900	57873	1823	1599	3422	2813	95	2908	6330	64203	28.26	9.86
	Temporary Job	247864	18420	266284	50	-	50	34846	-	34846	34896	301180	68.50	11.59
IMPLEMENT-ATION	Number of Projects	605	68	673	18	-	18	15	-	15	33	706	16.05	4.67
	Investment Capital	3557.84	956.34	4514.18	418.36	-	418.36	1257.05	-	1257.05	1675.41	6189.59	16.92	27.07
	Permanent Job	26757	4779	31536	2722	-	2722	2330	-	2330	5052	36588	16.10	13.81
	Temporary Job	8711	2464	11175	-	-	-	6000	-	6000	6000	17175	3.91	34.94

Source: Ethiopian Investment Authority

REFERENCES

Addis Ababa Chamber of Commerce (1998): The Business Community's Attitude Towards Government Policy (in Amharic), Miz-Hassab Research Center, Addis Ababa.
Amsale, Kassahun (1998): Increasing Savings from the Peasant Sector; Unpublished paper
Arrieta, G. (1988): "Interest Rates, Savings, and Growth in LDCs: An assessment of Recent Empirical Research," In World Development, Vol.16, No.5, UK.
Asmerom Kidane (1992):" The Determinants of Savings in Ethiopia," In J.Frimpong-Ansha and B.Ingham (eds.) Saving for Economic Recovery in Africa, African Centre for Economic Policy Research, London and Portsmouth.
Befkadu Degfe (1998): "Relevance of Structural Adjustment Policies in a Subsistence Economy", In Alemayehu Geda (ed.), Economic Focus, Vol.1, No.3.
Berhanu Nega (1990): Three Essays on the Structural Problems of Accumulation in Peripheral Socialist Economies: An Ethiopian Illustration, Unpublished Dissertation.
Berhanu Nega (1998): "Domestic Industry and International Competition" (In Amharic), In Alemayehu Geda (ed.), Economic Focus, Vol. 1, No.3.
Berhanu Nega and Seid, Nuru (1998): Macroeconomic Performance of the Ethiopian Economy 1991-1998, Paper Presented at the Eighth Annual Conference of EEA on the Ethiopian Economy, Unpublished.
Bognar, J. (1975): Economic Policy and Planning in Developing Countries, Budapest.
Daniel, Ayalew (1995): Determinants of Private Savings in Ethiopia, Unpublished Msc. Thesis.
Dornbusch, Rudiger and Fischer, Stanley (1981): Macroeconomics. MacGraw-Hill, Inc., USA.
Eshetu Chole and Mekonnen, Manyazewal (1992): " The Macroeconomic performance of the Ethiopia Economy," In Mekonnen Tadesse (ed.), Ethiopian Economy: Structure, Problems and Policy Issues, Proceedings of the First Annual Conference on the Ethiopian Economy, Addis Ababa.
Frimpong-Ansah, J.H.(1992): "The Mobilisation of Domestic Resources for Africa's Economic Recovery and Development," In J.H. Frimpong Ansah and B. Ingham, Saving for Economic Recovery in Africa, African Centre for Economic Policy Research: London and Ports-mouth.
Fry, Maxwell J. (1988): Money, Interest and Banking in Economic Development, The Johns Hopkins University Press, Baltimore and London.
Gersovitz, Mark (1988): "Saving and Development, "In Hollis Chenry and T.N. Srinivasan (eds.) Handbook of Development Economics: Volume I, Elsevier Science Publishers B.V.
Gillis, Malcolm, et.al.(1992): Economics of Development, W.W Norton and Company, New York, London.
Giovannini, Alberto (1985): "Saving and the Real Interest Rate in LDCs," In Journal of Development Economics, North Holland.
Greenwald, Douglas (1982): Encyclopaedia of Economics, McGraw Hill.
Gupta, Kanhaya and Islam, M. Anisul (1983): Foreign Capital Savings and Growth, An international Cross- Section Study, D. Rediel Publishing Agency, Dordrecht, Holland.
Gupta, Kanhaya L. (1987): "Aggregate Savings, Financial Intermediation and Interest Rate," In The Review of Economics and Statistics, Vol. LXIX, No.2.
Gylfason, Thorvaldur (1981): "Interest Rates, Inflation and the Aggregate Consumption Function," In The Review of Economics and Statistics, Vol. LXIII No.2.
Hicks, John Richard (1965): Capital and Growth, Oxford, Clarendon Press.
Howard, David H. (1987):" Personal Saving Behaviour and the Rate of Inflation", In S. Hendrik Houthakker (ed.), The Review of Economics and Statistics, Vol. LX, No.4.
Imperial Ethiopian Government (1950): The First-Five-Year Development Plan (1957-1961), Addis Ababa.
---------- (1963): The Second-Five-Year Development Plan (1963-1967), Addis Ababa.
----------(1968): The Third-Five-Year Development Plan (1968-1973), Addis Ababa.
Keynes, John Maynard (1936): The General Theory of Employment, Interest and Money, Macmillan, London.
MEDaC: National Income Accounts (Revised Series), 1998.
Meier, Gerald M. (1976): Leading Issues in Economic Development, Oxford University Press, New York.
Mikesell, Raymond F. and Zinser, James E. (1973): "The Nature of Savings Function in Developing countries: a Survey of the Theoretical and Empirical Literature," In Journal of Economics Literature., Volume 11, No.1.
Misra, S.K and Puri, V.K.(1991): Economics of Growth and Development, Himalaya Publishing House, New Delhi.
Mkandawire, Thandika (1998) Thinking about Developmental States in Africa, United Nations Conference on Trade \and Development , "African Development in a Comparative Perspective" Study no. 9, Geneva.
Nurkse, Ragnar (1955): Problems of Capital Formation in Underdeveloped Countries Oxford Basil Blackwell.
Rosalind, Thomas (1998): Review of the Investment Regime in Ethiopia: Recommendations made to the Ethiopian Chamber of Commerce.
Sachs, Jeffrey D. and Larrain, F. B. (1993): Macroeconomic in the Global Economy, Prentice Hall Inc. New Jersey.
Schmidit-Hebbel, Klaws and Webb, Steven G.(1992): "Public Policy and Private Saving", In Corbo, et.al, (eds.): Adjustment Lending Revisited Policies to Restore Growth, The World Bank, Washington D.C.,
Seid, Nuru (1997): "Ethiopian Investment: Structure and Performance," In Alemayehu Geda (ed.), Economic Focus, Vol. 1 No. 2.
Thirlwall, A.P. (1974): Inflation, Saving and Growth in Developing Countries, Macmillan, London and Basingstoke.
UNDP: Human Development Report (1998).
World Bank (1990): Ethiopia's Economy in the 1980s and Framework for Accelerated Growth, Country Operation Division, Eastern Africa Department, Africa Region, Report No. 8062- ET.
World Bank:World Development Report (1998/99).
EPRDF: Y'ehadeg Y'limat, Y'selamna Y'democracy Merha-Gibr (In Amharic). ■

ATTRACTING FOREIGN INVESTMENT IN ETHIOPIA– WHAT NEEDS TO BE DONE?

By Edwards Joseph*

*Advisor to the Ethiopian Privatisation Agency

1. The Context

A. The Need For Foreign Investment

The need for foreign investment in the Ethiopian Privatization Programme is characterized by:

- The need for state owned enterprises (SOEs) to have access to cash for implementing proposed capital expenditure and rehabilitation programmes and working capital, improved technology and enhanced managerial and technical skills.

- The need for the Government of Ethiopia to maximize its revenues through sales proceeds realized from the sale of the state owned enterprises (SOE) in the short term and from tax revenues earned through expansion and enhanced growth and profitability of the enterprise in the future.

- The need for the Government of Ethiopia to enhance the foreign exchange earnings of the country and to minimize its subsidies to SOEs thereby reducing Government expenditure in this regard and enabling investment by the Government in priority sectors such as infrastructure development, health and education.

- The low level of domestic savings which may potentially inhibit the efficient transfer of state-owned enterprises (SOEs) to the private sector due to lack of private capital; thus foreign investors could be made to fill the gap and enhance the success of privatization programme.

- The need to market Ethiopia in the international market as an attractive place to do business in Africa.

The privatization programme serves as an attractive opportunity for countries in search of foreign direct investment. Achieving the right balance in a privatization programme between domestic and foreign investors is often one of the most challenging areas for any government privatization agency.

B. Recent Foreign Investments

Over the period May 1992 to December 1997, a total of 3, 186 projects with an aggregate investment requirement in excess of US$ 3 billion were approved by the Ethiopia Investment Authority and the regional investment bureaux. When completed these projects will create employment opportunities for more than 160,000 people. Foreign investors sponsored 152 of these projects. The total investment cost of these projects is estimated at US$ 1.1. billion, of which US$600 million is committed to projects that are under implementation or have become operational. So there are signs that private investment, including foreign investment is picking up.

The major transactions where foreign investors have participated in the privatization programme include:

- Lege Dembi Gold Mine acquired for US$ 25 million
- Awash Tannery acquired for US$ 15 million
- St George Brewery acquired for US$ 10 million
- Adwa Flour Mill acquired for US$ 3.5 million

Offsetting this positive trend, unfortunately, will undoubtedly be the impact of the present conflict with Eritrea. The resolution of this issue might be critical in terms of attracting foreign investment.

2. General Constraints to Attracting Foreign Investment to the Ethiopian Privatisation Programme

Last year, interviews were conducted with a number of government organizations, financial institutions, private sector associations and enterprises, and foreign companies. The interviews revealed a number of constraints which the Ethiopian private sector in general and foreign investors in particular face while investing in Ethiopia. Below are presented constraints that pertain to foreign investors wishing to participate in the Ethiopian Privatization Programme. It must be stressed that these are anecdotal and have value only as indicators of attitudes from an extremely limited yet focussed sample of respondents.

- Foreign investors are encouraged to invest in the country in general and participate in the Privatization Program in particular when they see domestic investors doing the same, and doing it successfully. In spite of significant reforms implemented so far, there still seem to be number of policy-related constraints on the way of private sector investment. The constraints include relatively high tariffs on a good number of imported inputs and inability to borrow abroad although the government has recently allowed foreign borrowing for exporters.

- In addition to policy-related constraints, domestic investors also face difficulties in the areas of availability of technological information and support services, availability of information on export markets, high and specific collateral requirements for bank loans, inadequacy or absence of basic utilities, and lack of human resource with appropriate technical skills.

- The Ethiopian Privatization Agency is actively handling cases of properties confiscated in extra legal manner. Accordingly, a number of properties confiscated by the previous regime have been and are being returned to former owners. However, the process of compensating ex-owners for properties nationalized through legal instruments appear to be slow, which may not bode well in reassuring foreign investors about prevailing official attitudes in the area of property rights.

- EPA has consistently tried to be as transparent as possible in all privatization transactions heretofore conducted. However, there is a general perception among domestic constituencies that the Program has still not been sufficiently transparent. The perception relates not so much to the procedures involved but rather to such matters as lack of informing the public ahead of time, say one year in advance, what is up for sale and to what use the proceeds from sale of SOEs is being put. As mentioned above, a more structured and professionally designed information and communication campaign will be implemented soon that should lay to rest most of these complaints.

- Whilst significant progress has been made to date, liberalization is still not complete. In particular, exchange controls, which are viewed as major indicators of government's policy stance of an economy's openness, are still in place although relaxation is meant to be achieved gradually. As a result of this and other factors, Ethiopia does not have a very strong relative credit rating by such internationally recognized third party rating agencies as Dun & Bradstreet.

- The judicial system seems to be lacking the capacity to cope with the volume of ordinary commercial disputes and more serious breaches of law, affecting the image of Ethiopia in the eyes of potential foreign investors. Delayed justice is viewed as being as damaging as no justice.

- Foreign investors want to be assured that a mechanism exists for exiting their investments as quickly as possible and at a fair price whenever the need arises. This applies to all foreign investors whether they invest in a country with a long-term view or invest to reap short-term gains. An efficient vehicle for exiting investments is a stock exchange, which does not presently exist in Ethiopia, although fortunately, steps are being actively taken by the private sector to develop one.

- The current perceived uncertainty regarding land ownership of privatized companies presents potential concerns to investors. This subject attracts wide attention for obvious reasons. Provision exists in current legislation for conversion of rentals to leasehold, but the leasehold value (mandated by state agencies) is based on thin market experience to date.

- Unlike EIA, EPA does not yet have the resources to act as a "one-stop-shop" to foreign investors eventually buying SOEs under privatization.

- With increasing worry amongst donors and governments alike about environmental degradation, environmental issues are of great concern to foreign investors. These relate both to potential inherited environmental liabilities as a result of enterprise pollution in the past, and changing policies and regulations concerning future pollution.

Recommendations

Ethiopia has been seriously embarking on a broad-based economic reform programme since 1992. Domestic prices and markets, the foreign exchange and import regimes, and more recently interest rates have been liberalized. Corporate profit taxes, personal income taxes, and duties have been reduced successively. A privatization programme has been initiated and a host of other reform measures taken.

The Government is cognizant of the ongoing nature of reform programmes and is accordingly committed to continue the reform effort. In line with that, the country's investment code, for example, has been revised several times in the past, with more liberalization introduced in each revision.

We believe that such pragmatism and flexibility on the part of the Government towards the reform programme will continue in the future. The following recommendations, which are specific to the Ethiopian Privatization Programme, are predicated on such a belief that through the Government's continued liberalization of the economy any remaining barriers to investment will be removed and a progressively liberal enabling environment will be created for foreign investors. The following recommendations can also advance this effort:

• As noted previously, foreign investors are encouraged to invest in a country when they see domestic investors actively pursuing opportunities and making profits. Thus, whatever measures the Government may take to alleviate the problems of the private sector will have an important externality in attracting foreign investors. In light of this, we recommend that the Government tackle the constraints identified above with respect to the private sector.

• Foreign investors' participation in the financial sector should be encouraged as soon as possible. For example, currently the Construction and Business Bank (CBB) is being prepared by outsource consultants for privatization, but current restrictions limit the target buyers to domestic investors. It is understood that the Government will eventually open the financial sector to foreign investment. It would send a strong signal to the investment community if this opening occurred sooner rather than later, and in fact the privatization of CBB would be facilitated and the benefits of privatization to the bank enhanced by allowing a foreign strategic banking investor to acquire control of this institution. Many Ethiopian bankers have told us that they do not fear involvement of foreign financial institutions in the financial sector here; on the contrary they express the desire to welcome such involvement because of the impact on technological improvements, operations, and growth that such foreign capital and know-how would bring.

• With a view to avoiding any procedural complications to foreign investors participating in the Ethiopian Program, we propose that EPA, just like EIA, start acting as a one-stop shop. The best way to accomplish that will probably be through coordination with and making use of the resource of EIA.

• The land lease law allows full right to use, transfer, collateral's etc. of land acquired under the law. This needs to be clearly explained and publicized while at the same time the status of land ownership of already privatized enterprises is cleared. This is an area where EPA, as a one-stop-shop, could assist investors acquiring SOEs.

• The Government should speed up the process of compensating the previous owners of nationalized enterprises in accordance with the law providing for the nationalization of those assets. It would be important for the Privatization Program that the foreign investor community at large continues regarding the Government as seriously handling the compensation issue.

• EPA should eliminate the perception of lack of transparency in the program held by various domestic constituencies by means of disseminating regularly information that the public should know. That will ensure that foreign investors are not discouraged before they even contemplate investing in the Privatization Programme.

• In order to allay any fear on the part of prospective foreign investors regarding past environmental damages, the Government should make it clear by issuing a policy that the new owners of SOEs are exempt of any responsibility for past liabilities. It will also be comforting to foreign investors if the Government announces officially that future environmental policies and regulations will not be too onerous on privatized SOEs as to adversely affect their profitability. The spirit of the latter policy is not to make privatized SOEs pay for mistaken decisions of previous owners.

• In privatizing SOEs to foreign investors, it will be worth EPA's effort to concentrate on strategic investors who not only bring in capital but also provide technical and management know-how as well as export marketing contacts. Their participation immensely helps in attracting other foreign investors who are less inclined to get involved in the management of the enterprise but at the same time want to see a credible management in place.

• Despite the relatively modest record to date in attracting foreign investment to Ethiopia, the opportunities provided through the privatization programme to invest in existing firms with track records may be more attractive than investing in green field projects. The best practices and the experience of developed and developing countries in conducting the privatization of large SOEs provides guidance on how such opportunities in Ethiopia may be packaged and marketed to foreign investors. As described earlier, each large SOE to be privatized or a selection of smaller firms grouped by sector should be treated as a separate project with a dedicated project team of professionals. The team should typically be composed of appropriate staff from EPA and third party professionals preferably from foreign financial advisory houses or investment banks. This team should then conduct a comprehensive packaging and marketing programme aimed at international investors.

There is a substantial pool of corporate and institutional capital potentially available internationally for investments in Ethiopia. These investors have a large number of competing investment opportunities that they are constantly reviewing. In order to attract their attention and commitment, EPA should conduct an organized, focused and targeted packaging and marketing effort.

• With respect to public offering of shares as a modality for privatisztion , while the original intention of the bulk of the buyers of shares under public offering will then conduct a comprehensive packaging and marketing programme aimed at international investors.

There is a substantial pool of corporate and institutional capital potentially available internationally for investments in Ethiopia. These investors have a large number of competing investment opportunities that they are constantly reviewing. In order to attract their attention and commitment, EPA should conduct an organized, focused and targeted packaging and marketing effort.

- With respect to public offering of shares as a modality for privatisztion , while the original intention of the bulk of the buyers of shares under public offering will be for long-term investment, their circumstances are likely to change over time prompting them to sell their shares or exchange them for other shares. The development of securities market will very much facilitate that process, and in addition will help in many other ways, including enhancing the participation of foreign investors in the privatization programme.

Finally, the Government must review its fiscal, tax, foreign investment regimes and other policies and laws in relation to other countries in Africa where privatization is currently underway. The objective of this review process must be to compare notes with other countries and implement policies and laws that are competitive and conducive to foreign investment. The foreign investors must perceive Ethiopia to be the right place to do business in Africa. ■

ATTRACTING FOREIGN DIRECT INVESTMENT (FDI) IN ETHIOPIA

By Taddese Haile
General manager of Ethiopian Investment Authority

Introduction

Before discussing the current status of FDI in Ethiopia, it is necessary to have a clear understanding of its importance and determinants. It is also important to highlight on the historical background of the country relative to the policies pursued by the previous regime and the current government's private investment activities.

It is now widely accepted that expansion of private investment is considered to be the main source of economic growth, including the alleviation of poverty and the development of social infrastructure. In this respect, FDI can play an important role. It may bring not only additional capital but also technology, know-how, managerial skills and access to foreign markets which many of the developing countries including Ethiopia currently lack and need badly.

As indicated in the world Investment Report of 1998, attraction of FDI is, however, determined mainly by the following factors:

a) National FDI policy which includes economic, political and social stability; rules regarding entry and operations; standards of treatment of foreign affiliates; privatization policy; tax policy; etc.

b) Economic factors such as market size, growth and access to regional and global markets; raw material base; availability of skilled labour; existence of basic infrastructural facilities; costs of production factors; etc.

c) Business facilitation services such as promotional activities, incentives, after investments services, etc.

The above mentioned FDI determinants are related to host country conditions. In addition, FDI is also determined by such external factors as bilateral investment treaties, regional integration frameworks and multilateral framework on investment.

With respect to the private investment policy followed by the previous military government, in addition to its undemocratic nature, the emphasis was on the development of the public sector by deliberately and sometimes vehemently curbing the role of the private sector in the development of the national economy. For example most of the major business enterprises were either nationalized or confiscated, prices were set for most agricultural and industrial products, ceilings were imposed on investment capital and on the number of business participation and restrictions were made on credit availability to the private sector, in addition discriminatory interest rate policies disfavoring the private sector were followed.

These policies, which were inconsistent with the then prevailing social and economic conditions, had severely hampered the much desired socio-economic development of the country and resulted in wide-spread poverty among the vast majority of the Ethiopian peoples.

After the fall of the military government, however, the Transitional Government of Ethiopia (TGE) issued and adopted a new market oriented economic policy in order to rehabilitate and rejuvenate the national economy and to create favorable conditions for rapid socio-economic development. Consequently, the economy has been opened for wider and active participation of private investors both local and foreign, and the role of the state in the economy has been limited mainly to the management of the economy and the development of basic infrastructure.

To strengthen the market-oriented economic policy, the Government has also undertaken a wide-range of macro-economic reform measures including, among others, abolition of legal restrictions on the activities of private investment and the issuance of a new investment code, deregulation of domestic prices in order to foster market competition and efficient allocation of resources, liberalization of foreign trade in order to speed up the integration of the Ethiopian economy with world economy, liberalization of bank lending rates to be determined on market basis, privatization of public enterprises and devaluation of the national currency (Birr) against the US dollar and installation of an auction system to determine the exchange rate.

The question that will be addressed in this paper is what is the effect of these policies. To answer this question the rest of the paper is organized as follows. In the next section of the paper, trends of FDI as well as investment climate and opportunities in the country will be assessed. Finally, the paper winds up with brief conclusions and recommendations.

1. Investment Climate and Opportunities in Ethiopia

Before discussing on the current status of FDI in Ethiopia, it is important to examine the country's current investment climate and opportunities which are important factors affecting the flow of FDI in any country. I will, therefore, examine these factors in the following few paragraphs.

1.1. Investment Climate

Factors which are usually considered under investment climate and their impact on FDI in Ethiopia are discussed below.

a) Political Environment

Generally, despite the current war with Eritirea over a border dispute which is relatively localized and confined to its far north edges, the country is politically and socially stable which, together with a federal system of government, has created a conductive environment for attracting FDI.

b) Economic Conditions

Since the adoption of a new market-oriented economic policy by the government and the subsequent introduction of economic reform programmes, the Ethiopian economy has registered a marked improvement with annual average growth rate of about 7% for the last 6 years. The rate of inflation declined from a pick rate of 21% in 1992 to below 4% in 1998. The country's foreign exchange reserve has also improved reaching to a level sufficient to cover 7-8 months of import requirements. The budget deficit, which was huge in the past has virtually been eliminated and the government has stopped borrowing from local banks.

To sum up the country's economy is healthy and is growing which shows the existence of a favorable situation for attracting FDI.

c) Legal Framework

In order to encourage, promote and expand private investment, both foreign and local, the government issued a liberalized investment code in may 1992. Since this code lacked the required transparency and comprehensiveness, the government had revised it twice in 1996 and 1998.

The recently revised code has opened up telecommunication and defense industries for foreign nationals to invest jointly with the government and hydropower generation for wholly owned foreign investment. This code has also granted additional incentives for investments in education and health sectors. In addition, the code provides a provision for foreign nationals who were Ethiopian by birth to be treated, if they wish to, as domestic investors.

Foreign investors are welcome to invest in most areas of the economy other than those areas which are reserved for domestic investors. A foreign national investing on his or her own is required to allocate a minimum capital of US$ 500,000. However, for a foreign investor investing jointly with domestic partners, the minimum capital required of him or her is only US$ 300,000. On the other hand, the minimum capital required of a foreign investor investing in engineering, architectural, or other technical consultancy services; in accounting and audit services; in project studies or business and management consultancy services is US $ 100,000.

The transparency of the legal framework, together with the existence of a good governance and minimal corruption, has created conducive business climate for attracting FDI in the country. Accordingly, the confidence of investors in Ethiopia's legal framework is strong. This is evident as shown in table 1 of World Economic Forum's survey of investors in Africa, and also in the specific views of individual firms which ranked Ethiopia 7th among 20 African countries as it scored 5.2 out of 7.

d) Guarantee and Protection

The Constitution of the Federal Democratic Republic of Ethiopia protects private property. The investment Proclamation also provides adequate guarantee and protection to foreign investors. Accordingly, no private investment may be nationalized or expropriated except when required by public interest and only in strict compliance with the requirements of the law.

In case of expropriation or nationalization of an investment for public interest, adequate compensation corresponding to the prevailing market value will be paid without any delay. A foreign investor has also the right to remit profits, dividends and other incomes accrued from his investment including compensation paid to him out of Ethiopia in convertible foreign currency.

In addition, Ethiopia has signed bilateral investment promotion and protection agreements with several countries including Italy, Kuwait, the Netherlands, Switzerland, China and Malaysia and is ready to sign similar agreements with many other countries to provide a legal framework for protecting their investment and give national treatment to admitted foreign investment. In addition, Ethiopia is a signatory of MIGA which provides guarantee against non-commercial risks such as expropriation, convertibility of local currency, etc. Ethiopia has also signed the World Bank Treaty, "The Convention on Settlement of Investment Disputes Between States and Nationals of other States (ICSID), " and preparation is underway for its ratification by Parliament.

Thus, foreign investors would not have any ground to fear abuse of any kind as their property is fully guaranteed and protected both by national and international laws.

e) Access to Market

Ethiopia, with a population of about 60 million, provides a steady and growing domestic market which is the second in Africa South of the Sahara. The yearly average GDP growth rate of 7% and the average population growth rate of 3% are clear indications of the growth of purchasing power of the population.

Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) agreement embracing 23 countries with a population of about 300 million. Exports and imports with member countries enjoy preferential tariff rates.

Ethiopia is also a signatory of the Lome Convention which enjoys trade preferences including duty free entry of all industrial products and a wide-range of agricultural products.

Under the Generalized System of Preference (GSP), a wide range of Ethiopia's manufactured products are entitled to preferential duty treatment in North American, European and Scandinavian countries as well as in Japan.

As Ethiopia is also strategically located in the Horn of Africa which is close to the Middle Eastern and European countries, export products of Ethiopia can easily reach the markets of these countries with relatively cheaper transportation costs.

f) Labour Condition

Ethiopia has a large and relatively young work force. A number of universities currently provide higher education courses including business, accounting, economics, engineering, agriculture, water technology, information sciences and medicine. Around 3,000 students graduate each year from the universities with diplomas, first degrees and advanced degrees. English is the medium of instruction starting from secondary education. Members of the skilled labour force can also speak and write English. In broad terms, investors experience with skilled labour availability and trainability of the Ethiopian work force appears to be positive.

With regard to skilled labour availability, the Africa Competitiveness Report of 1998 ranked Ethiopia 3rd and 5th out of the 20 African countries respectively in terms of university education availability to meet the needs of business and the local market's ability of supplying educated workers to meet the needs of business as shown in Table 2.

Labour Costs in Ethiopia are low, even in comparison with other African Countries. Over all, labour regulations in Ethiopia have been considerably modernized and brought into line with international practices in recent years. The new labour law of Ethiopia provides adequate provisions for the beginning and termination of employment with safeguards that do not allow infringing the rights of investors. No labour strike is recorded in Ethiopia in recent years. Therefore, there is a complete industrial peace in the country.

Employment of expatriates without any restriction for key management posts during the life of the project is also allowed. Expatriates may also be employed for non-management positions in areas where suitable Ethiopians are not available.

Generally, the labour condition in the country, i.e., availability, trainability cost and industrial peace, is highly favorable for undertaking profitable foreign investments.

g) Land

In Ethiopia land is public property. Both urban and rural land is provided for investors on leasehold basis. The value and lease period of urban land is established by public auction or via preset rate established by the market. On the other hand ,the value and lease period of rural land are determined by land use regulations of each region. Lease right over land can be renewed, transferred, mortgaged or sub–leased together with on built facilities.

From the experience we had in the implementation of the land lease policy, investors encounter long bureaucratic procedures in acquiring land for their investment although some improvements are being observed in recent years in this regard particularly in most regional states. Although it may require detailed studies on the cost of land, some investors also indicate that the prices of land is on the high side as compared to similar developing countries. In addition, most of the urban land is not connected with road, water supply and electricity and other infrastructure services, thus creating delay in implementing investments.

So far no difficulties have been encountered with regard to the allocation of land for foreign investors as the EIA assists them in the acquisition of land for their investment by directly contacting the concerned regional governments. But this doesn't mean that the existing land allocation procedure does not have a negative impact on the attraction of FDI into the country.

h) Utilities and Infrastructure

Power Supply: Ethiopia gets its electricity supply from two sources, hydroelectric power plants and thermal power plants. The former, with an aggregate power generation capacity of 350 MW, is by far the largest source. The present regional distribution of electric service is undertaken through the Inter-Connected System (ICS). All the main industrial towns are connected into this national grid.

The supply system is being expanded through the construction of additional power plants at four sites, two of which, with aggregate capacity of 250 MW, are at advanced stage, and has been expanding at annual rate of 5% per annum since the early 1980s. The country's hydro-power potential is estimated at 30,000 MW, out of which only about 1% is utilized. Electricity in Ethiopia, derived mostly from hydropower, is relatively cheap.

Currently, there is no supply problem and as new systems are expected to be in operation in few years time, the country's electricity production will even be more reliable for undertaking investment activities. Therefore, foreign investors wishing to invest in the country will not face a problem of power supply.

- Water Supply: Ethiopia is known as the water tour of North-East Africa. Both underground and surface water resources are abundantly available in most parts of the country. Currently all the major cities and towns have municipal water supply systems which can be used also for any investment activity.

- Road Transport: Road Transport is the most important means of transport in Ethiopia, providing for over 90 percent of passenger and freight carriage. Ethiopia's transport infrastructure is currently a significant weakness, and the improvement of the country's road network has been identified by the government as a core component of its development programme. More that 20% of the government's total capital budget in 1998 was allocated to road construction and rehabilitation. Altogether there are 20,000 kms of all-whether road in the country, including international links with Asmara, Djibouti and Nairobi. According to World Investment Report 1998, paved roads are only 15% of the total roads in Ethiopia, which is better of course than in Kenya (13.9%), Tanzania (4.2%) and Namibia (12.1%). Normalized road index is also estimated at 55 in Ethiopia which is below normal (i.e. below 100) and one of the lowest in Africa.

- Rail and Ports: A limited rail service stretches 780 km linking Addis Ababa with the port of Djibouti. The railway line with a one meter gauge is very old and out of date which requires significant improvement if it is expected to handle a significant portion of the country's export and import trade.

Currently, almost all the country's import and export trade is handled through the port of Djibouti. There is also a possibility to use other ports of Eastern and the Horn of African countries.

- Air Transport: Aviation is an important means of transport in Ethiopia, with 18 domestic and 2 international airports. Addis Ababa had developed as an important aviation hub serving Africa and the Middle East. Ethiopian airlines is considered to be one of the best in Africa flying to over 40 destinations in Africa, Europe, North America, the Middle East, South and East Asia, with about 50 weekly outbound flights from Addis Ababa.

- Telecommunications: Telecommunication services including telephone, telex, facsimile, internet and data communication are currently provided by the state owned corporation. Direct microwave links are available to all major cities and towns in the country. International communication links are maintained via satellite. Microwave links exist with Eritrea, Kenya and Djibouti. Presently, about 200,000 direct exchange lines are served. This number is expected to increase dramatically to over 750,000 lines in two years time. A mobile system is also being introduced in Addis Ababa. Overall, the telecom system in Ethiopia is considered reliable to support the expansion of both local and foreign investment.

I) Tax and Incentives

Generally, the tax regime is relatively benign for the investor with low corporate tax and assistance with import and export duties.

Income and corporate tax is charged on employment income (10%-40%), dividend (10%), chance winning (10%), royalty (40%), corporate profit (35%) and capital gains (30%). Interest income is not taxed. Sales tax is imposed on goods produced locally, goods imported and services rendered locally.

The rates are 5% to 12% for goods and 10% for services. Excise tax is imposed on specific goods mentioned by name. The basis of computation is with respect to goods produced locally, the production cost and, in respect to goods imported, the CIF price of the goods. The excise tax rate ranges from 10% in the case of textile and television sets to 50% in the case of alcohol.

For personal income taxes, the basic wage, i.e. Birr 120, is tax free. Salaries and wages above Birr 120 are taxed progressively at 10% to 40%.

There are no taxes on export products and services from Ethiopia except on coffee.

Ethiopia has a treaty for avoidance of double taxation with Italy and Kuwait. Discussions are also underway with several other countries for having similar agreement.

In order to encourage investment, the Ethiopian Government has developed a range of incentives for investors engaged in new enterprises and expansions for the various sectors of the economy. According to proclamation No. 37/1996, these include:

- Income Tax Holiday: Any income derived from an approved new investment shall be exempted from the payment of income tax for periods ranging from 1 to 5 years, depending on the priority of investment and the location in which the investment is undertaken. Income derived from an expansion project whose invested capital is in accordance with the stated requirement of the Incentives Regulations No. 7/1996 is exempted from the payment of income tax for a period of 2 years for pioneer activities and 1 year for promoted activities.

- Customs Import Duty: 100% exemption from the payment of import customs duties and other taxes on imports is granted for all investment capital goods, such as plant, machinery, equipment, etc., as well as spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced and not available locally in comparable quality, quantity and price.

Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges.

- R&D Incentives: An investor is entitled to deduct expenses for research, improvement studies or training from his taxable income.

- Remittance of Capital: Remittance of capital is exempted from the payment of taxes. Thus any remittance made by a foreign investor from the proceeds or the sale or transfer of shares of assets upon liquidation or winding up of an enterprise is exempted from the payment of any tax.

- Loss Carried Forward: Business enterprises that suffer losses during the tax holiday period can carry forward such losses following the expiry of the exemption period for period ranging from 3 to 5 years depending on the priority of the investment and the location in which the investment is made.

- Depreciation: An investor may opt for a straight line or an accelerated method for depreciation of assets based on good value.

Generally, the country's tax regime and the incentives provided for private investors is said to be competitive with many African countries which can place Ethiopia in a better position to attract FDI as it has locational advantages than many of these countries.

J) Support Services to Investors

The Ethiopian Investment Authority (EIA) is the principal government organ responsible for the promotion and facilitation of foreign investments in the country. Organized as one-stop-shop, the EIA provides all the necessary information required by foreign investors; approves investment application and issues investment permits for foreign investors; provides registration services to newly incorporated business organizations; approves expatriate posts in an approved investments and issues work permits to foreign employees; issues trade and operating licenses to approved foreign investments; and facilitates the acquisition of land by foreign investors in accordance with the relevant federal and regional government laws and regulations.

2. Investment Opportunities

a) General

With regard to investment potentials, Ethiopia offers virtually unlimited opprtunities in agriculture and agribusiness, manufacturing, mining and energy as well as hotel and tourism. The Government's privatization programme also offers an attractive option for investment in the country. The following are the main investment opportunities in the country.

b) Agriculture and Agro-processing

Ethiopia has rich soil and diverse agro-ecological zones suitable for the cultivation of wide-ranging agricultural crops. Out of the total area of about 113 million hectares of land, over half is regarded to be suitable for agriculture. Currently, however, only about a sixth of the total land area is being used for the production of agricultural crops.

The country has abundant water resources capable of irrigating more than 3.5 million hectares of land. Currently, however, only about a sixth of the total land area is being used for the major crops grown such as cereals, oilseeds, coffee, cotton, fruits and vegetables.

In light of the above, extensive investment opportunities exist for foreign direct investment in the production and processing of cash crops, horticultural products, flowers and other ornamental crops. Also, the potential for livestock development is tremendous as Ethiopia has the largest cattle population in Africa, abundant area for ranching and good potential for export of meat.

c) Apiculture

Given Ethiopia's rich indigenous flora, its apiculture resources afford considerable opportunities for the production and processing of honey and beeswax, an area of activity where Ethiopia already possesses a leading position in Africa.

d) Agribusiness

In the area of agribusiness, significant opportunities exist in the production of fertilizers, agrochemical as well as agricultural machinery and farm emplacements, especially in view of the current drive to increase food production and expand exportable agricultural products through improved extension services.

e) Industry

The Ethiopian industrial sector is currently dominated by food, beverages and textiles which together account for over half of gross value of industrial production in the country.

Opportunities for investment in the sector are based on the country's comparative advantages in labor-intensive industries, the potentially large domestic market and its natural resource endowments, as well as the availability of cheap and skilled labour.

Ethiopia's natural resources could also support various resource-based industries such as the production and processing of dairy products, edible oil, starch, and fruits and vegetables both for domestic and export markets.

f) Mining and Energy

With regard to mineral resources, Ethiopia is endowed with wide-ranging and promising mineral resources including gold, platinum, potash, nickel, copper, and other industrial and construction minerals.

According to recent studies, the green stone belts of Ethiopia offer great prospects for gold exploration and production. The sedimentary regions cover nearly half of the country and comprise five distinct sedimentary basins which have high prospects for petroleum and natural gas development. The largest discovery to date is the Calub natural gas field with proven reserves of 75 billion cubic meters.

A part of this reserve is currently under development for commercial production. Vast opportunities do also exist for foreign investors to participate in the generation of hydropower generation.

g) Tourism

Ethiopia is destined to be one of the leading tourist destinations in Africa as it offers a large combination of attractions including scenic beauty, historical sites and wildlife spread all over the country. Its pleasant climate, and friendly and hospitable people are yet other tourist attractions of Ethiopia.

The total number of international tourist arrivals, although growing, is by no means commensurate with the potentials of the country's attractions. The present constraints to growth are identified largely as shortage of tourist catering facilities along the Historic Routes as well as in the Rift Valley lakes region, the national parks and the major cities in the country offer opportunities to foreign investors who want to benefit from the great potential of Ethiopia's tourism industry.

h) Privatization

It has been almost four years since Ethiopia launched a privatization programme and has since actively been engaged in privatizing state-owned enterprises. So far over 170 enterprises and units have been privatized.

Currently, negotiations are underway with foreign investors for the privatization of different state-owned enterprises. Furthermore, cotton farms, textile mills, shoe factories, and a natural gas company have been put to tender. The cotton farms, textile mills and garment factories may be acquired individually or in combination for an integrated operation.

Enterprises that are in the pipeline for privatization include more cotton farms, more textile mills and more garment factories. In addition, a number of agro-industries, tanneries, breweries, hotel chains, dairy farms, and construction enterprises are being readied for privatization.

3. Trends of Foreign Direct Investment

a) Trends of FDI in Developing Countries

There has been a large increase in the global FDI flows during the last six years. According to World Investment Report, total FDI inflows to all countries rose from an average of US$215 billion between 1991 – 1995 to US $ 349 billion in 1996 and to US $ 400 billion in 1997. As Table 3 indicates, FDI inflows into developing countries rose by 23% between 1995 and 1996 and by 15% between 1996 and 1997. The share of developing countries in the FDI inflows in the world total was 32% in 1995, 38% in 1996 and 37% in 1997. Africa's share in the world total is decreasing, however (See Table 3). The least developing countries received only 0.4% and 1.2% of the world total and developing country total FDI inflows respectively.

As can be seen from Table 4, in 1997 Africa South of the Sahara received only 0.7% of the world total and 1.9% of the developing country total. The value of FDI inflows to Africa South of the Sahara also decreased from US $3.8 billion in 1995 to US $ 3.5 billion in 1996 and to US $ 2.9 billion in 1997.

In Africa, the largest recipients of FDI in 1997 were Nigeria (US $ 1 billion), Egypt (US $ 0.8 billion), Morocco (US $ 0.5 billion), Tunisia (US $ 0.4 billion) and Angola (US $ 0.35 billion) accounting together to two-thirds of FDI inflows to Africa. Several factors might have contributed to these relatively high FDI inflows for these African countries. Among these, their sizable reserves of natural resources and their competitive locations for FDI to service larger markets of neighboring countries can be sighted. Generally, despite the relentless efforts made by African countries South of the Sahara to attract FDI and the high profitability of investment undertakings in these countries, the result achieved so far is very minimal as compared to other developing countries.

b) Trends of FDI in Ethiopia

Ethiopia received about US $ 229 million FDI inflow both in cash and in kind in 1997 (the inflow in kind is shown in Table 6). This is 1.5% of the total developing country inflow and 5% of the total African countries inflow.

This figure is different from that indicated in the UNDTAD'S 1998 World Investment Report as only the foreign investment cash inflow estimates are recorded in this document. In 1997, only 4 African countries South of the Sahara attracted more FDI than Ethiopia, namely, Nigeria (US $ 1000 million), Angola (US $ 350 Million), Uganda (US $ 250 million) and Tanzania (US $ 250 million). In 1997 the total FDI attracted to Ethiopia is about 4% of the country's GDP at current factor cost in that year.

Over the period between July 1992 and January 1999, a total of 163 wholly foreign owned and joint-venture investment projects with an estimated investment capital of Birr 9 billion were approved in Ethiopia. These projects are shown in Table 5.

Out of the total 163 foreign investments approved so far, 70 projects (43%) are currently under implementation and operational phases. The estimated capital of these projects is Birr 7.06 billion or 78% of the total approved foreign investment capital (Table 7)

As shown in Table 7, only a total of 42 foreign investment projects with an investment capital of Birr 2.03 billion were approved by the EIA between 1992 and 1996. However, the number of approvals of foreign investments in the country has shown a dramatic increase in 1997 and 1998 showing a positive response of foreign investors after the issuance of the revised investment code in June 1996. In those years, a total of 121 projects with an estimated capital of Birr 7.0 billion were approved.

The combined cash (Table 4) and in kind (Table 6) inflow of FDI to Ethiopia increased from US$ 18.4 million in 1995 to US $ 29.9 million in 1996 and to US $ 229.1 million in 1997. This shows that the FDI inflow to Ethiopia has shown a rapidly increasing trend in recent years. This yearly increase of FDI inflow demonstrate the constant improvement of the investment climate in Ethiopia which has become increasingly friendly to foreign investors.

Conclusion and Recommendations

As I have tried to show above, the inflow of FDI into Ethiopia has shown an increasing trend in recent years. However, the flow, I think, is not satisfactory when seen in relation to the far-reaching economic reform measures undertaken by the government, the enactment of a liberalized investment code, the macroeconomic stability achieved and the availability of enormous potential and opportunities for undertaking profitable investment activities in the country. This is because during the almost two decades of the military regime, foreign media reports on Ethiopia focused on civil war, political unrest and starvation. As a result, Ethiopia faced a serious problem of perception vis-à-vis foreign investors. The low level inflow of FDI is not only peculiar to Ethiopia. As discussed above, the flow of FDI into the African continent, is very low as compared to the total world-wide flow. For example, in 1997 the continents share of total global FDI flow was only 1.2% amounting to US $4.7 billion.

Some of the often sighted reasons for this low record of FDI in Africa are poor infrastructure facilities, political instability in a number of countries and lack of relevant information on investment opportunities of the continent as well as the unfavorable business climate created including the implementation of economic reform programmes, the enactment of liberalized investment laws and the adoption of democratic form of governments in many countries.

Finally, we strongly believe that foreign investment will contribute positively to the development effort of our country as it will bring not only additional resources to augment the development of domestic capital but also entrepreneurship skills, technology and management skills which our country currently lacks. Therefore in order to accelerate the inflow of FDI to our country, I believe that the following measures need be taken:

- Deepening of the economic reform programmes to further liberalize the economy and create even a better environment for attracting FDI;
- Conducting an image-building campaign and formulation and implementation of an FDI promotion strategy which is proactive and targeted to selected countries and companies to invest in areas where the country possesses comparative advantages;
- Establishment of industrial estates with the necessary infrastructural facilities like roads, water and electricity supply and telephone lines;

Facilitation of land allocation procedures for foreign investors by way of eliminating unnecessary bureaucratic hurdles.

The above proposed measures could be implemented in the short- and medium-term periods. In the long run, however, improvement and development of the country's social and physical infrastructure wold be of crucial importance in order to attract FDI. ■

Table 1. The Investor Friendliness of the FDI Regulatory Framework in Africa, 1997.

No.	Country	Ranking FDI Protection Regime
1	Botswana	4,00 (17)
2	Burkina Faso	5.20 (7)
3	Cameroon	4.92(13)
4	Cot d'Ivoire	5.25 (5)
5	Egypt	5.59 (4)
6	Ethiopia	5.20 (7)
7	Ghana	4.94 (12)
8	Kenya	4.72 4.72
9	Malawi	3.95 (19)
10	Mauritius	5.13 (9)
11	Morocco	5.88 (2)
12	Mozambique	4.68 (15)
13	Namibia	5.61 (3)
14	Nigeria	4.00 (17)
15	South Africa	3.70 (20)
16	Tanzania	5.23 (6)
17	Tunisia	6.43 (1)
18	Uganda	4.96 (13)
19	Zambia	4.96 (16)
20	Zimbabwe	5.10 (10)

Source:- UNCTAD, Based on World Economic Forum, 1998a

YOUR URGENT COMMENT IS HIGHLY APPRECIATED

Dear readers, we have been running our 'Economic News in the Last Two Months' column for quite sometime. The objective was to bring at our reader's fingertips economic new scattered at different places. We are planning to close this column if it is not crucial for our readers. Readers' quick comment on this plan is highly appreciated. We will accommodate your calls and e-mails, too.

Table 2: Investor Satisfaction Levels with skills Availability.

No.	Country	University Education:Available meets the needs of business(1=Strongly dis-agree7=Strongly agree)	Local labour market: The local labour market has a sufficient supply of educated workers to meet hiring needs of business(1=Strongly disagree7=Strongly agree)
1	Tunisia	4.80 (1)	5.60 (1)
2	South Africa	4.75 (2)	2.71 (18)
3	Ethiopia	4.67 (3)	4.80 (5)
4	Mauritius	4.40 (4)	4.03 (15)
5	Malawi	4.31 (5)	3.74 (17)
6	Burkina Faso	4.17 (6)	5.00 (4)
7	Ghana	4.11 (7)	5.14 (3)
8	Botswana	4.11 (8)	3.83 (16)
9	Tanzania	4.00 (9)	4.30 (11)
10	Uganda	4.00 (10)	4.10 (13)
11	Zambia	3.94 (11)	4.10 (13)
12	Cot d'Ivoire	3.92 (12)	4.76 (6)
13	Zimbabwe	3.89 (13)	4.64 (8)
14	Morocco	3.88 14)	4.71 (7)
15	Nigeria	3.85 (15)	5.19 (2)
16	Kenya	3.74 (16)	4.11 (12)
17	Cameroon	3.67 (17)	4.38 (10)
18	Egypt	3.48 (18)	4.47 (9)
19	Namibia	3.45 (19)	2.65 (20)
20	Mozambique	3.32 (20)	2.68 (19)

Source: The Africa Competitiveness Report, 1998

Table 3. FDI inflows in developing countries, by region, 1986-1997 (Billions of US Dollars) .

Region	1986-1994 (Annual average)	1995	1996	1997
Developing Countries				
Value ($ billion)	43.8	105.5	129.8	148.9
Share in the world total (%)	24.7	31.9	38.4	37.2
Africa				
Value ($billion)	3.3	5.1	4.8	4.7
Share in the world total (%)	1.9	1.5	1.4	1.2
Share in developing-country total (%)	7.6	4.8	3.7	3.2
Latin America and Caribbean				
Value ($ billion)	13.4	31.9	43.8	56.1
Share in the world total (%)	7.6	9.6	13.0	14.0
Share in developing-country total (%)	30.6	30.2	33.7	37.7
West Asia				
Value ($ billion)	1.6	-0.7	0.3	1.9
Share in the world total (%)	0.9	-0.2	0.1	0.5
Share in developing-country total (%)	3.7	-0.7	0.2	1.3
Central Asia				
Value ($ billion)	0.2	1.6	2.1	2.6
Share in the world total (%)	0.1	0.5	0.6	0.6
Share in developing-country total (%)	0.4	1.5	1.6	1.7
South, East and South-East Asia				
Value ($ billion)	24.9	66.6	77.6	82.4
Share in the world total (%)	14.1	20.1	23.0	20.6
Share in developing-country total (%)	56.8	63.1	59.8	55.3
The Pacific				
Value ($ billion)	0.2	0.6	0.2	0.4
Share in the world total (%)	0.1	0.2	0.1	0.1
Share in developing-country total (%)	0.5	0.6	0.2	0.3
Central and Eastern Europe				
Value ($ billion)	2.3	14.2	12.3	18.4
Share in the world total (%)	1.3	4.3	3.6	4.6
Share in developing-country total (%)	5.2	13.5	9.5	12.4
Memorandum:				
Least developed Countries				
Value ($ billion)	1.0	1.1	2	1.8
Share in the world total (%)	0.6	0.3	0.6	0.4
Share in developing-country total (%)	2.2	1.0	1.5	1.2
Developing Countries excluding China				
Value ($ billion)	33.6	69.7	89	103.6
Share in the world total (%)	19.0	21.0	26.4	25.9
Share in developing-Country total (%)	76.8	66.1	68.6	69.6

Source: UNCTAD, World Investment Report. Trends and Determinants, 1998, Annex Table B.1

Table 4. FDI inflows in developing countries, by region, 1986 1997 (Billions of US Dollars)

Region/country	1986 –1994 (Annual average)	1995	1996	1997
Africa				
Value($ Million)	3,302.8	5,136.0	4,828.0	4,710.0
North Africa				
Value ($ Million)	1,411.2	1,262.0	3,313.0	1,811.0
Other Africa				
Value ($ Million)	1,891.6	3,874.0	3,515.0	2,899.0
Angola	197.1	250.0	290.0	350.0
Benin	-	1.0	1.0	3.0
Botswana	43.4	380.0	272.0	10.0
Burkina Faso	3.2	2.0	3.0	1.0
Burundi	1.0	2.0	-	1.0
Cameroon	-7.9	7.0	35.0	45.0
Cape Verde	1.1	10.0	2.0	13.0
Central African Republic	-0.6	2.0	5.0	6.0
Chad	12.9	13.0	18.0	15.0
Comoros	1.8	1.0	2.0	2.0
Congo	27.3	8.0	9.0	9.0
Congo, Dem. Rep.	-6.2	-	-	1.0
Cote d'vorie	19.8	19.0	21.0	50.0
Djibouti	0.4	3.0	4.0	5.0
Equatorial Guinea	11.7	127.0	376.0	40.0
Ethiopia	1.0	8.0	5.0	15.0*
Gabon	25.7	-113	65.0	-100
Gambia	5.7	8.0	11.0	13.0
Ghana	49.7	107.0	120.0	200.0
Guinea	14.6	1.0	24.0	1.0
Guinea-Bissau	1.1	-	-	2.0
Kenya	24.7	33.0	13.0	40.0
Lesotho	11.4	23.0	28.0	29.0
Liberia	137.0	21.0	17.0	15.0
Madagascar	12.7	10.0	10.0	17.0
Malawi	12.3	13.0	17.0	2.0
Mali	1.9	17.0	23.0	15.0
Mauritania	4.9	7.0	5.0	3.0
Mauritius	21.6	19.0	37.0	38.0
Mozambique	15.6	45.0	29.0	35.0
Namibia	47.4	118.0	1520	131.0
Niger	11.9	7.0	-	1.0
Nigeria	952.1	2,201.0	1,391.0	1,000.0
Rwanda	10.1	2.0	2.0	1.0
Senegal	18.3	32.0	45.0	30.0
Seychelles	19.8	40.0	30.0	49.0
Sierra Leone	-8.6	-2.0	-	4.0
Somalia	-1.3	1.0	1.0	1.0
Swaziland	58.6	26.0	14.0	75.0
Togo	6.8	-	100.0	1.0
Uganda	16.2	121.0	121.0	250.0
United Republic of Tanzania	9.1	120.0	150.0	250.0
Zambia	83.7	67.0	58.0	70.0
Zimbabwe	20.7	118.0	98.0	70.0

Source: UNCTAD Investment Report. Trends and Determinants, 1998, Annex Table B.1
* Excluding FDI inflows in kind

Table 5.- Foreign Investment projects (Both wholly foreign Owned and Joint-Ventures) Approved by the EIA (July 1992-January1999)

Sector	No. of Projects	Amount of Investment Capital (Million Birr)
-Agriculture	19	2,226.83
-Manufacturing	72	3,044.79
-Construction	22	952.26
-Education and Health	23	624.88
-Others	27	2,169.53
Total	163	9,018.29

Table 6 - Number of foreign Investment Projects and Value of Machinery/Goods

Exempted from Payments of Import Duties/taxes, 1985-1990 EFY (1992/93-1997/98 G.C.) Sector	1985 (1992/93)			1986(1993/94)			1987 (1994/95)			1988(1995-96)			1989(1996/97)			1990(1996/97)			Cumulatve		
	No of Proj	Value in Birr	Value In USD	No of Proj	Value in Birr	Value In USD	No Of Proj	Value In USD	Value In USD	No of Proj	Value in Birr	Value In USD	No Of Pro	Value In Birr	Value In USD	No Of Pro	Value In Birr	Value In USD	No Of Pro	Value In Birr	Value In USD
Mining and Quarrying	-	-	-	-	-	-	-	-	-	-	-	-	6	9.27	1.43	4	1.50	0.22	10	10.77	1.64
Hotel & Tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	886.21	128.77	1	886.21	128.77
Manufacturing	1	1.94	0.39	-	-	-	4	45.98	7.36	2	64.53	10.21	8	118.52	18.24	11	574.76	83.52	25	85.73	119.71
Construction	1	18.21	3.64	1	106.10	18.37	-	-	-	-	-	-	1	32.88	5.06	2	8.98	1.30	4	166.17	28.37
Trade	-	-	-	-	-	-	1	0.03	0.01	-	-	-	-	-	-	-	-	-	-	0.03	0.01
Health	-	-	-	-	-	-	-	-	-	-	-	-	2	0.26	0.04	1	1.37	0.20	3	1.63	0.24
Agriculture	-	-	-	1	0.69	0.12	4	3.92	0.63	1	1.06	0.17		0.01			0.19	0.03	6	5.88	0.94
Other Business	-	-	-	-	-	-		-	-	-	-	-	1	0.55	0.08	2	0.32	0.05	3	0.87	0.13
Grand Total	2	20.15	4.02	2	106.80	18.49	9	49.94	7.99	3	65.59	10.38	18	161.48	24.85	21	1473.34	214.09	55	1877.30	279.82

Table 7: Number of Investment Capital of Foreign Investment Projects Approved, Under Operation And Under Implementation, by Type of ownership, (1992-1998)

(Investment Capital in Million Birr)

Pattern of ownership	1992		1993		1994		1995		1996		1997		1998		Cumulative	
	No. of Proj.	Invest-ment Capital	No. of Proj.	Investment Capital	No. of Proj	Invest ment Capital	No. of Proj	Invest Ment Capital	No Of Proj	Investment Capital	No of Proj	Investment Capital	No Of Proj	Investment Capital	No. of Proj	Investment Capital
Approved	1	144.90	2	87.66	8	800.79	5	193.16	26	800.03	60	4,524.02	61	2,467.32	163	9,017.88
Wholly Foreign	1	144.90	2	87.66	3	119.70	1	26.00	17	445.72	33	2,313.82	31	1,276.42	88	4414.22
Joint	-	-	-	-	5	681.09	4	167.16	9	354.31	27	2,210.20	30	1,190.90	75	4603.66
Under Operation	-	-	2	87.66	-	-	2	25.70	3	29.57	3	1,174.20	11	1,697.10	21	3,014.23
Wholly Foreign	-	-	2	87.66	-	-	-	-	1	7.7	1	3.5	5	1,301.78	9	1400.69
Joint	-	-	-	-	-	-	2	25.70	2	21.82	2	1,170.70	6	395.32	12	1613.54
Under Implementation	-	-	-	-	-	-	-	-	-	-	-	-	49	4,042.50	49	4,042.50
Wholly Foreign	-	-	-	-	-	-	-	-	-	-	-	-	30	2,576.57	30	2,576.57
Joint	-	-	-	-	-	-	-	-	-	-	-	-	19	1,465.93	19	1,465.93

Note: Number and investment capital of projects that are under implantation areas at January 8, 1998

ATTRACTING FOREIGN INVESTMENT IN ETHIOPIA: WHAT NEEDS TO BE DONE FROM THE CUSTOMS PERSPECTVE?

By Arega Hailu Tefera
National Project Manager, ASYCUDA (Ethiopian Customs Authority)

I. Introduction

It is very well known that there has been much debate on the importance of FDI as an instrument of development. The protagonists of FDI say that the benefits outweigh the costs while others say the cost is greater than the benefits.

In order to address this issue, we need, first, to examine the gains that can accrue to Ethiopia if it invites FDI; and second, identify the costs to be incurred; third, the experiences of other developing countries in this area, fourth the policies needed to maximize the impact of FDI; fifth the policies and other prerequisites for foreign investment in Ethiopia and the trend of investment in Ethiopia and finally Customs role in attracting FDI as well.

Our contribution will be from customs perspective in order to share to the audience that customs is an important element either in policy aspect or in service delivery aspect that can attract or repel foreign direct investment.

II. The Benefits of FDI

As it is mostly agreed, FDI involves the risks of setting up and operation of a business by a foreign individual or private company through its arrangement of foreign exchange, equipment, inputs etc. If the investor is successful, he/she makes profit out of this venture.

According to some literature there are myriads of benefits from FDI to the hosting country. These are:

a) Advantageous character

- Non-debt source – it involves no fixed liability such as interest payments
- Productive nature – physical capital, managerial and marketing expertise, quality products, modern advertising and efficient business practices

b) Gains from efficient production

- increase in incomes – the foreign investment together with various accompanying skills, raises the productivity of factors, hence increases the income of the country.
- better-wage employment – new employment and better wages than the rural region.
- fiscal gain – increase in tax revenue
- consumer gain – in terms of cheap or quality products.

c) Gains from external economies

- efficient investment – the spread effects of productivity.
- stimulus to domestic investment – induces large additional investment in the host country.

d) Other contributions

- large direct growth effects-through backward & forward linkages in the Hirschman's sense.

- favourable indirect growth effects- an environment is created wherein domestic companies are made to respond to advanced and superior qualities of the foreign enterprise.
- efficiency via comparative advantage and efficiency in operations.

III. Costs of FDI

Though the country may get the above benefits from FDI, it is not without costs. So, to arrive at a final judgement, it calls for balancing the costs and benefits.

The costs that a country may incur could be:

a) Burden of special concessions

- undue attractions may entail diversion of public funds.

b) Likely adverse effects on savings

- unfavorable income distribution-the profits of domestic industries may go down

c) Likely unfavorable impact on terms of trade

d) Costs of foreign exchange remittances

e) Drawback of multinational companies (MNC)
- manipulating markets
- manipulating prices
- manipulating funds
- bad ethics

IV. Experiences of Developing Countries

As the experiences of the developing countries indicate, FDI has been large and fast growing source of capital inflow. Through foreign firms there is diffusion of modern technology, the efficiency of local firms has improved, diffusion of management and marketing skills, expanded employment. FDI has been strongly associated with higher growth of domestic product.

While most countries have benefitted from FDI, some have suffered losses such as inefficient production, negative returns from investment projects, and small earnings of foreign exchange. Some have argued that these consequences have occurred due to highly distorted policies and restrictions on foreign ownership in sectors with high export earnings potential and inadequate infrastructural facilities.

V. Policies

Since FDI can contribute much to development, host countries should design policies consistent with the national interests. The policies should also explicitly indicate various incentives to attract adequate amount of investment and provide safeguards for investment.

The attractions could be monetary attractions (fiscal incentives such as tax concessions, tax holiday or reduced rates of taxes); inducement guarantees (assurance that there will be no discriminatory legislation against the investor, insurance of investment against non business risks, like fire, riots, political upheavals etc...); investment opportunities– i.e. profit making opportunities. To this effect, the host country should give due attention to the development of infrastructure. The development and the supply of infrastructural facilities (road, power, telecommunications, water,) and the supply of cheap skilled labour (by spending on training), expansion of the market through customs union, which can increase the size of the market, would make FDI more productive and increase profitable opportunities than pursuing on tax-concessions policies. While the inducements listed above can pave the way for the entry of FDI, it is also necessary to ensure that these go into areas that create the maximum impact on the development of the economy.

The policies should be market-oriented and the host country should shift to market economy with government intervention restricted to spheres that fall beyond the perceptions and capacities of private entrepreneurs, such as infrastructure, human capital formation etc...This requires to remove distortions (price controls, exchange controls, high tariffs, large subsidies etc...) through liberalization.

VI. Investment Trend In Ethiopia

The Transitional Government of Ethiopia and The Federal Democratic Republic of Ethiopia have issued:

– the Encouragement, Expansion and Coordination of Investment Proclamation No 15/1992 (as amended)
– Investment Proclamation of the FDRE, Proclamation no 37/1996
– Investment Incentives, Council of Ministers Regulations no 36/1998
– Investment Areas Reserved for Domestic Investors, Council of Ministers Regulation no 35/1998,

These were merely meant for clearing out certain definitions, to explicitly indicate areas of investment both for domestic and foreign investors, to issue attractive incentives such as tax reliefs. The investment proclamation has been amended upon consultation with professionals, policy makers and investors.

According to Ethiopian Investment Authority, since July 1992, a total of about 4667 projects, with a total planned investment capital of Birr 37.85 billion, have been approved and issued investment permits. These projects are expected to create 235, 776 permanent and 449, 467 temporary job opportunities when they become operational. The ownership structure of the number of projects approved indicate that 96% (4509 projects) are domestic while only 3.4 %(158 projects) are foreign. Capital-wise, however, foreign investments constitute about 22.5% of the total approved, indicating a relatively higher capital per project. It should be noted that the above figures include only those projects with investment capital of Birr 250,000 and above which have been issued investment permits by the Ethiopian Investment Authority and the Regional Investment Bureaus.

The sectoral distribution of approved projects in the country indicates that the secondary sector (manufacturing and processing) has the highest share in terms of number of projects (44.5% of the total), followed by the tertiary sector (services) which is 29.36%. The primary sector that is dominated by agriculture accounts for 26.14% of the total number of projects approved. In terms of volume of capital to be invested, however, the largest share of 44.7% goes to the tertiary sector because of the capital-intensive nature of the investments committed by construction companies and the inclusion of some big real estate development and hotel projects in the sector. Likewise, the secondary and primary sectors' shares are 38.27% and 17%, respectively.

Regional distribution of investment activities is also worth mentioning since one of the objectives of promoting investments is to bring about a balanced regional development.

Accordingly, 39.1% of the projects approved are planned to be set up in Addis Ababa followed by Oromia, SNNPR, Tigray, and Amhara regions with shares of 22.48%, 12.29% and 8.04% respectively. The rest i.e., 8.64% of the projects approved are planned to be set up in the other regions that include Afar, Somalia, Benishangul-Gumuz, Gambela Harrari and Dire Dawa. In terms of volume of investment capital, Addis Ababa's share from the total investment capital approved in the country is approximately 52.1% while the shares of Oromia, Tigray, Amhara and SNNPR are 14.9%, 10.4%, 7.3% and 5.2%, respectively. The remaining six regions' share from the total volume of investment capital approved in the country is 10.1%.

Even though the approval figures show the interest and planned investment of potential investors (both foreign and domestic) in the country, the actual investment activities are better indicated in projects that have started implementation and/or begun operation. Up to October 10, 1998, the number of projects which are under implementation/started operation in the country constitute about 43% of the total while the volume of capital invested is about 43% of the total planned investment. More specifically, about 26.1% of the total approved projects have begun operation while about 16.8% are in the implementation phase and over 56% of the approved projects are yet to be implemented.

Furthermore, regional distribution of projects that have started physical investment activities indicate that 78.6% of projects are located in Tigray, 71.9% in SNNPR, 50.9% in Amhara, 45.8% in Oromia and 27.5% in Addis Ababa are either under implementation or have started operation. These rates for Benishangul-Gumz, Gamella, Somali Harari, Dire Dawa and Afar regions are respectively 88.8%, 80%, 72.2%, 18.1%, 17.05% and 3.7%. One can observe from the above figures that though there is high concentration of approved investments in Addis Ababa, the rate of actual investment implementation is one of the lowest.

In the case of foreign investments in Ethiopia, a total of 149 new and 9 expansion projects with a total investment capital of Birr 8.5 billion have been approved and issued investment permit. As to the level of actual investment activities, 13.3% of the project sapproved are in operation while 30.3% are in the implementation phase. With regard to the sectoral distribution, 43.04% of the approved foreign investment projects are categorized in the secondary sector while 44.9% are in tertiary and 12.06% in the primary sector. In addition, the sectoral distribution of investment capital of approved foreign investment projects indicates that the tertiary sector has the largest share of 40.6% followed by secondary and primary sectors which constitute 32.3% and 26.1%, respectively.

On the other hand, the regional distribution of projects indicates that 65.2% of total foreign investment projects (103 projects) are located in Addis Ababa while 19.0% (30 projects) are located in Oromia. The remaining 15.8% (25 projects) are located in all other regions excluding Somali and Benishangul-Gumuz which have no approved foreign investment in their respective region.

VII. Customs' Role in Attracting FDI

Customs plays a key role in international trade. Having recognized the role it plays on importation and exportation of goods, both the Transitional Government of Ethiopia and the FDRE have been remodeling the Ethiopian Customs Authority since 1994.

Despite some resistance, the reorganization of customs service has been successful. The reorganization of the authority encompassed not only the organizational structure but also changed the way we do our work. In essence, we, supported by international consultants, identified the need to fundamentally change the culture of our custom service in order to provide more efficient and improved service to our customers.

- Greater attention to our PEOPLE, by working to build a work force to meet the mission challenges;
- Managing essential core PROCESSES, by instituting changes that require integrating the many disciplines within our customs service into more coordinated efforts to achieve our overall mission goals, and
- Forming PARTENERSHIPS with our customers in the public and private sector, as a means of improving our mission performance.

The Ethiopian Customs Authority, in different names and structure, has existed for over 100 years. During this period, it has developed a complicated culture. Changing an institution that has developed over more than a century is no easy task. We are well aware that changing the culture will require a long-term commitment. But, while still responding to the threats of smuggling different types of commercial fraud and performing our enforcement mission, we believe there will be an important cultural change in the Authority.

The need for our reorganization was prompted by several factors:

- the market-oriented economic policy.
- the increase in commercial transaction of imports and exports.
- to encourage domestic investment and to attract FDI.
- the demand of the government and the trade community to improve the service delivery of customs.
- the upcoming of modern customs procedures by World Customs Organization, World Trade Organization and UNCTAD due to changes in the international trade environment.

Following the declaration of the market-oriented economic policy and the efforts to develop the private sector through attractive investment policy and privatization, our private sector trade groups are facing competitive pressures as global interdependence of trade increases and they must reduce costs and delivery time as much as possible. Customs is not the only bottleneck they face, but it is often the easiest to identify, or on whom to place the blame. Facilitating legitimate trade has obvious economic benefits for both customs and the trade community, and represents one of the core conceptual features of our customs services reorganization and modernization efforts.

The private sector has the right to have understandable and predictable treatment from the customs and to have the movement of their legitimate merchandise facilitated.

Hence,
- to collect revenue effectively
- to provide efficient customs service, and
- to enforce a wide range of law, both customs and other government departments
- to protect society from illicit drugs, arms, pornography etc...,we have put the Automated Systems for Customs Data Management (ASYCUDA) at the heart of our customs service and tried to strengthen our customs enforcement. In this regard:

We have the ASYCUDA at 6 sites
- HQ Computer Center
- The Statistics and other departments
- Addis Ababa Railway Station
- Addis Ababa Airport Cargo station
- Nazareth Customs Station
- Dire Dawa Railway Customs Station

- We have introduced rationalized and simplified customs procedures.
- We are using one single Bill of entry (for exports, imports and transits) i.e. the COMESA-CD
- We are doing business with clearing agents trained by customs and licensed by Ministry of Trade and Industry
- Trade has been facilitated than ever before
- We are trying to improve the quality of our workforce through our organizational entry procedure and training
- Most procedures are modern procedures in line with what the WCO, WTO, UNCTAD recommended. This includes
  - Valuation System
  - Harmonized Commodity Classification and coding system
  - Kyoto Convention etc...

A speedier release of goods and smoother processing of passengers will save time and money for the government and businesses alike. Hence, goods, which used to be cleared in a period of more than a months are now being cleared between 1-5 days if the necessary and appropriate documents are lodged to customs. To speed up the passenger processing at our international airport, we are planning to introduce the green and red channels in conjunction with the civil aviation and immigration authorities. These and other measures could attract FDI.

We really do not say this is enough. We should reappraise customs roles and activities because of:

- the dramatic increases in the volume of trade, in the numbers of international travelers and in the movement of illicit goods, most particularly drugs;
- the development of new technologies, most specifically in the field of computerization and data exchange and collection,
- greater demands from trade and transport for improved consultation and simplified and harmonized customs procedures.
- the need to obtain cost effectiveness by streamlining customs activities, improving outputs, focusing on real areas of risk.

VII. What Needs to be Done?

Still, much has to be done
<u>At macro-level:</u>

- Develop the infrastructural facilities and improve the supply of infrastructure facilities

<u>In relation to customs</u>:

- Raising the profile of customs
- Introducing effective customs management
- Simplification of customs procedures and automation
- Preclearance procedures based on advance shipment information;
- Minimum data requirements, entry requirements and documentation's requirements
- Elimination of wasteful red tape and achieve high levels of voluntary compliance
- Optimum use of human resources (trained & skilled workforce).
- Adherence to more international agreement
- Reliance on post-import audits to verify compliance rather than on verifications conducted while goods are still being held will obviously save time and money for government and the trade community.
- Customs Ombudsman or a specific contact to serve as a source of information and access on customs matters.
- Strengthen our enforcement to protect revenue and to enforce national laws.
- Cooperation of customs and trade has to be strengthened.

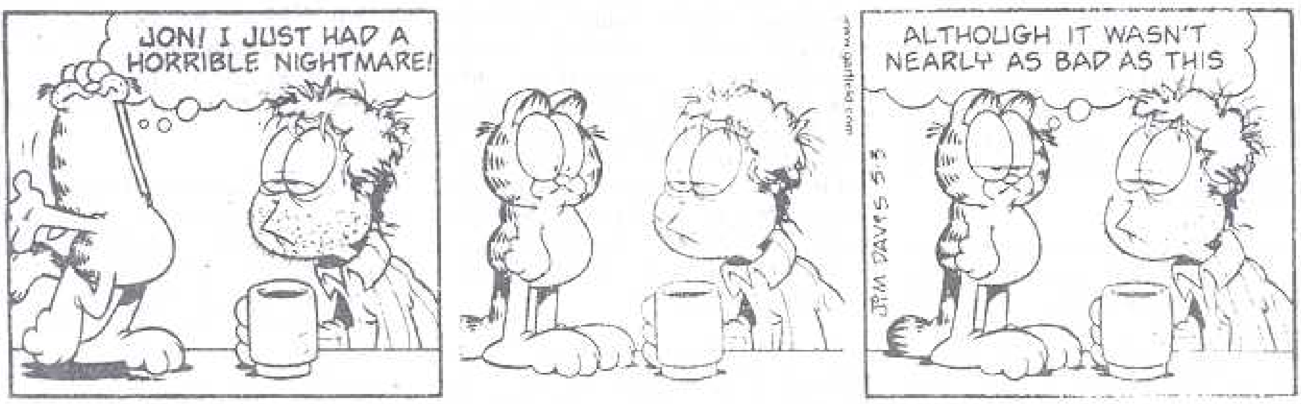
IX. Conclusion

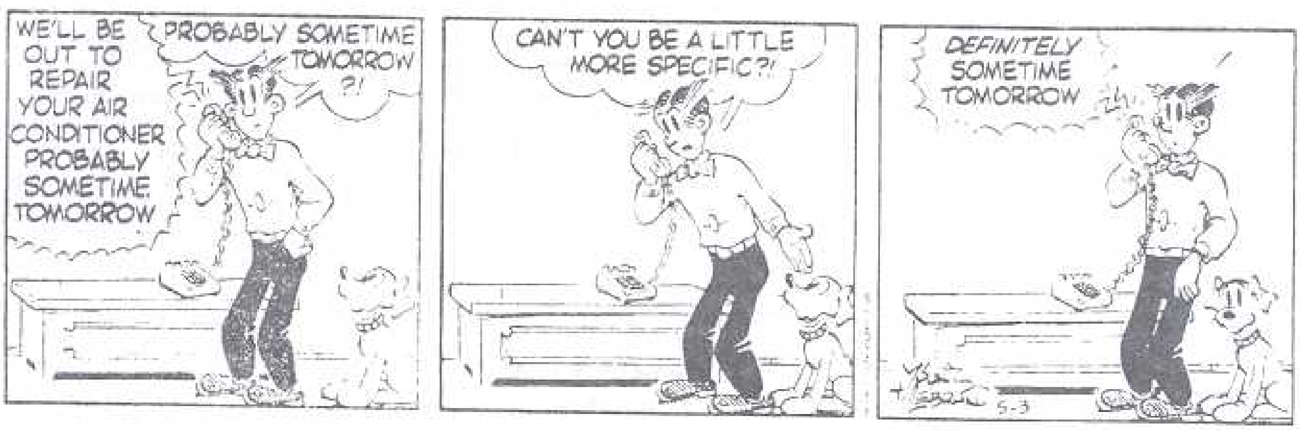
Customs plays a key role in the international trade. As an institutional infrastructure it can help promote exports and attract foreign direct investment. Since 1994, the remodeling of Ethiopian Customs has recorded tangible achievements; be it, in facilitating trade, in protecting society and in collecting revenue. From customs perspective, the remodeling of customs has to be continued taking into account the changes in the international trade environment. The profile of customs should be raised by giving due attention to it. Trained and skilled workforce should join customs so that it can improve its service delivery and take on board the advice of its clients, i.e. the trading community.

Of course, one of the requirements to attract FDI is the policy environment. We have the investment policy which was frequently amended to meet the demands of domestic and foreign investors. But, according to the background paper from Ethiopian Economic Association quoting the World Investment Report 1998, Ethiopia has scored 3.5 and 4.4 out of 7.0 for governments not imposing burden on business competitiveness and minimal state interference, respectively. But on the same report, Ethiopia's inward FDI in 1996 was 2.3% of its GDP which is much lower than 6.6% for total Africa. This looks a contradiction. But, we think, there is no contradiction. The scores are for policy aspects not for the infrastructure. According to Agrawal & Kundanlan (1994),"the most important encouragement to the private investor involves positive attractions in the from of opportunities of profit making...the most import consideration is not tax-concessions (and policies)...(but) the supply of infrastructural facilities, so as to make the investment more productive."

Of course, within a very short period of time, we have put in place an attractive investment policy but do we have the necessary institutional, physical (road, power, telecommunications, water etc...) personnel (skilled and cheap labour) infrastructure? Have we allowed the domestic market to expand and integrate with the regional market (say, COMESA) so that it can also be a powerful instrument for increasing profitable opportunities for investment, hence attract FDI? These questions have to be answered. We think that the low volume of inward FDI is due to the poor supply of infrastructural facilities not the policy environment.

So Customs, as an important institutional infrastructure, should be assisted to raise its profile and be made to adhere to standard international trade agreements and be fully automated to improve its service delivery, and hence, contribute its share to attract FDI. ■





International Herald Tribune May 3, 1999

THE POTENTIALS OF ELECTRONIC COMMERCE

By Teshome Kebede
Genuine Leather Craft Pvt. Ltd. Co.

1. New Frontiers in Trade

The emergence of electronic commerce as an effect of the multifaceted use of information superhighway which is, itself, the result of advancement in information technology has opened up unprecedented frontiers for trade and commerce. It has now been possible to reach theoretically the entire planet 24 hours a day by the touch of a button at the cost that hitherto hardly covered any area of marketing importance. The limitation is merely one's ability to posses the necessary technology that enables accessing this astonishing pool of information.

As a result the whole world has become a single market place to offer products and services to. Similarly on the buying front, it is now a single market place to look in for goods and services one may want to buy. This possibility has created marketing potentials that were never dreamed of before. Once a seller puts his products and/or services on the internet, interested counterparts respond from corners of the world from where the two may have never heard of each other before. Transactions worth billions of dollars are being executed daily between such parties and the volume is increasing dramatically. By some estimates, trade carried out in this novel channel may exceed the conventional one in as near a future as 2010.

One of the most important factors to the success of export trade to developed countries is the number of intermediaries between the exporter and the consumer and the latter's importance in deciding where the products that their markets consume come from. The selling agent, the importer-whole-seller and the retailer, to mention the most important ones, usually decide if an exporter can enter their market whether or not his products meet the requirements. Their prejudice and personal biases often play significant role. Their right or wrong information about the supplier and/or his country are factors that may cast shadow in determining the results of an exporter's marketing efforts. In the conventional buying/selling network so far, they could not be bypassed in any way. The cost implication of their involvement in the scene to both the exporter and the end user is quite significant. Usually, this more than doubles the CIF price of the transaction offered.

Electronic commerce is now shattering this shackle by allowing the producer and the consumer to meet in the information superhighway and transact at their will without any intermediary whatsoever. It is cutting the cost of products and services to consumers substantially by avoiding profit margins that the intermediaries hitherto reaped. It is increasing the market size to producers since, through the electronic commerce, they can offer their products to buyers all over the world.

2. Who Can Benefit From This?

Effectively exploited, the benefits of electronic commerce are immense to many that had untold problems of extending their marketing horizons beyond certain barriers be those marketing, financial or technical. The following are some of the evident ones.

2.1. Developing Countries

Export promotion was and still is the most expensive exercise of developing countries. Participation in trade fairs, printing and distributing color catalogues, placing advertisement in the newspaper, radio and/or television, etc. have been forbidding centers of costs in their export endeavors. Selecting the right target market and the optimum medium of advertisement were also issues to be tackled by expertise that developing countries do not have.

Now all this is bound to be overcome by the use of electronic commerce. With a single placement of information in the internet, the entire global market can be accessed in every second of the day. Interested buyers can download the information and make reference to it for further negotiation. There is no comparison in the cost of such a placement of information in the internet and, say, printing a catalogue for distribution to potential clients. In the writer's experience, printing 1000 copies of an eleven-page color catalogue costs about DM13, 000 in Germany. Distributing same to randomly selected 1000 potential buyers by mail costs about DM4,000. This adds up the cost per copy to about DM17.00. Placing the same information in the internet costs about DM 60 per month. Considering a one-year presence of the information in the internet, the total annual cost will be DM 1,520.00. Therefore, the cost of printing 1000 catalogues for distribution to 1000 potential buyers can cover placing the same information in the internet for more than eleven years. What value can be attached to the size of the potential market reached as compared to some 1000 in the conventional way?

2.2. New Suppliers

Market research for new entrants had demanded an exorbitant outlay of funds so far. A survey of even local demand and supply calls for tested strength in time, money and manpower. As a result, many new companies aspiring to explore new markets for their products are forced to take the rule of the thumb approach in their market development exercises.

This is a hit or miss approach in which success is unforeseable. If the result is a miss, as it is more often than not, efforts are repeated absorbing resources and eventually frustrating the very existence of the firm.

Thanks to electronic commerce now, desk research can establish the most viable market segment that a new entrant should focus on. In the same medium, the company can offer its products to the wide world of potential buyers without really having to invest in expensive trips abroad and catalogues to mail.

2.3. Small Suppliers

The difficulty of small suppliers in entering foreign markets was innumerable. The sizes they can make available for shipment within the normal lead time is usually too small for both carriers to offer reduced freight rates of carriage and to importer-whole-sellers as an economic order level. Delaying shipment periods until some meaningful quantity is produced results in either the passing of pick season or lapsing of good market situation. This had always been a vicious circle that most small exporters faced. As a result they had to rely on the services of trading houses who collect such small lots of production and ship in bulk. Hence the profit that must have accrued to the producer is shared by the intermediary and the business becomes less beneficial to the one who actually deserves the benefit.

Electronic commerce solves this problem. It links the producer and consumer direct. It also links the producer to small importer-retailers who offer even better unit prices than big importer-whole-sellers.

The consumer is usually interested in a few items for personal use. That is quite agreeable to the producer. Indeed the cost of sending a single item overseas or smaller lots to smaller importers is much more than effecting shipments in bulk. However, specially the consumer gets the single item order at about 80% more than the FOB price but delivered to his personal address. This is far less than what it costs him to get it from the alternative source, i.e. retail stores imported through intermediaries which is often more than double this amount. Therefore, the opportunity is good for the buyer and good for the small exporter. In fact, the writer's experience reveals increasing the exporter's FOB price by up to 20% still remains attractive to the consumer who still gets the product less than 70% cheaper than what it is at the nearest store. Equally the small importer-retailer benefits by cutting out the margin otherwise payable to the middle man, importer-whole-seller.

3. Preconditions to Electronic Commerce

No butter and bread are obtained without much ado. The merits of electronic commerce cannot be harvested either without adequate preparation of compatibility with its characteristics. These preconditions pertain to national issues and matters concerning the trade operator. The following are the most important ones:

3.1. National Preconditions

The national environment is the first thing that must be compatible to the demands of electronic commerce. Without an enabling policy framework and a deregulated foreign trade sector, it is hardly possible to carry on business with counterparts that have no prohibition whatsoever in their international business dealings.

In a situation where export and import prices have to be controlled by a central monitoring office, in circumstances where a business is not left alone to decide on what is worth for its own profitability, in an environment where getting permission to export and processing customs clearance takes days and where the bureaucratic formalities do not allow decision making at counter level, efficiency cannot be dreamed of in the first place.

This type of serial red tape in business has become a matter of bygone days in the current globalized economic order. Sticking to the old regime means backtracking in development. Those that have adjusted themselves and their administrative machinery to the needs of the time will take over and the back-trackers can hardly stand the competition. The rule of experience proves that no amount of control can ever minimize pilferage and misuse of resources be those national or private. Only skillfully designed system of operations can control any undesirable acts by participants of a national economic order while at the same time encouraging the rightful to produce more and prosper more. This is tantamount to assigning business for the private ownership and government for administration.

Therefore, the first and foremost issue that electronic commerce demands is hands off decision making and let the person assigned with the responsibility shoulder the burden of deciding and bear the consequences if any.

This is the way and the only way that all those countries that have succeeded in their foreign trade and are considered pace-setters in the front pursued.

3.2. Business Preconditions

In the same way, a lot is required of the business sector if success in foreign trade in general, and electronic commerce in particular, is desired. The following are the most important ones.

3.2.1. Reliability

International trade is carried out on the strength of reliability of the counterparts involved more than any thing else. It is carried on between partners who might have never heard of each other before but trust each other to be fulfilling the commitment made during the negotiations.

Without unbending commitment to execute what has been agreed upon on the part of both parties and most so that of the exporter, trade between parties far apart is impossible.

This is more severe in electronic commerce. The choice of products might have been made with reference to color catalogues placed in the Internet which might have been technically refined to attract the visitor. If the actual product does not correspond with the picture, this might be a point of departure that can never be reclaimed.

In such instances, it is always worth additional explanations that may suggest the final look of the product. Reliability with regard to quality and delivery are equally important. It must be emphasized that in this medium of trade, the deal is carried out between the exporter and the individual consumer who may have taken the risk of investing his saving for several years and thus failure may be more painful than in the case of an institutional buyer. Since the exporter benefits better in the development of this medium of trade much more than the conventional one as explained earlier, it must be to his interest to nurture it and serve his counterpart in absolute trust and reliability.

3.2.2. Efficiency

Efficient handling of the transaction is the other precondition to success in electronic commerce. Once again it must be appreciated that we are dealing with an individual buyer who has the option of going to the nearest store and getting it off the shelf the product he otherwise orders. He might have been attracted by the price offered by the exporter and the time promised to deliver possible orders. Therefore, it is of vital importance that the exporter can efficiently handle his commitment and meet all the conditions that satisfy the buyer. Efficiency is required in interpreting orders, producing the product, preparing the documentation, forwarding same to the address specified and following up that delivery has taken place in time.

3.2.3. Competitiveness

Surely direct deal with the end user pays more than dealing through intermediaries since many costs are cut down in the former case. However, one must be knowledgeable as to what these costs are and calculate the price range that satisfies the client. While electronic commerce avails the entire world as a market place to offer goods and services to, it also converges the entire competing world to the same market place. Hence competition is stiff and thus the new advent does not promise bonanza. In other words, there is a limit to what we can save for ourselves from what is cut out of the lot that intermediaries reaped before. The best formula may be to share the benefit between the exporter and the consumer fairly and make this very clearly felt by the consumer.

3.2.4. Flexibility

This may be the toughest precondition of electronic commerce. Responding to a market size that is as wide as the glob itself requires immense ability to adjust specifications to requirements coming from all over. That is really the biggest challenge that electronic commerce pauses. Success in this marketing medium then essentially demands one's ability to handle this challenge.

Producers and exporters via the electronic commerce do require maximum ability to handle their jobs flexibly to comply to the needs of varied customers. Flexibility in design and sizing, flexibility in color, flexibility in labeling and packing, flexibility in accommodating payment conditions through the international banking system, etc. must be performed without taking time and adding costs. Only then can one claim to be ready to handle business via the electronic commerce.

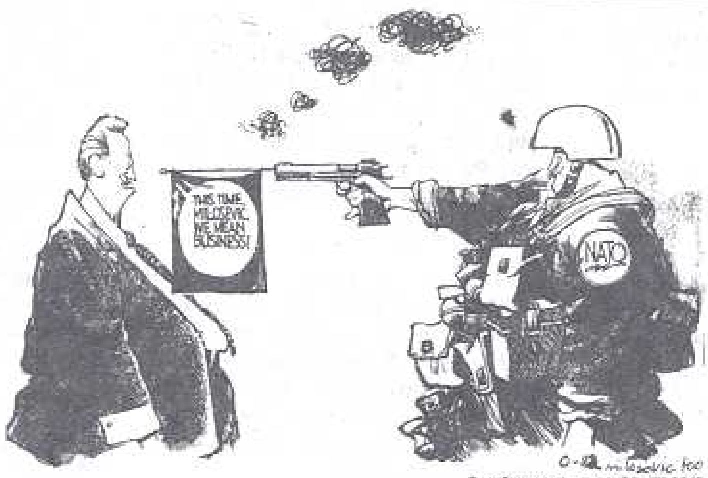
3.2.5. Up-to-date Information

It is absolutely important that a foreign trade operator is well informed about international trade and current developments affecting business in the world. Having a working knowledge of the situation around the world of the industry in general and full knowledge of the target market in particular is indispensable. It is equally important to keep this information up-to-date. Thus a successful exporter has to have a continuous flow of information. It is only then that he/she can make balanced and relevant decisions on matters affecting his/her responsibilities as a foreign trade operator. It is only then that his existing and potential buyers rely on the offers and quotations they get from him as a matter of considering current situation in the international market

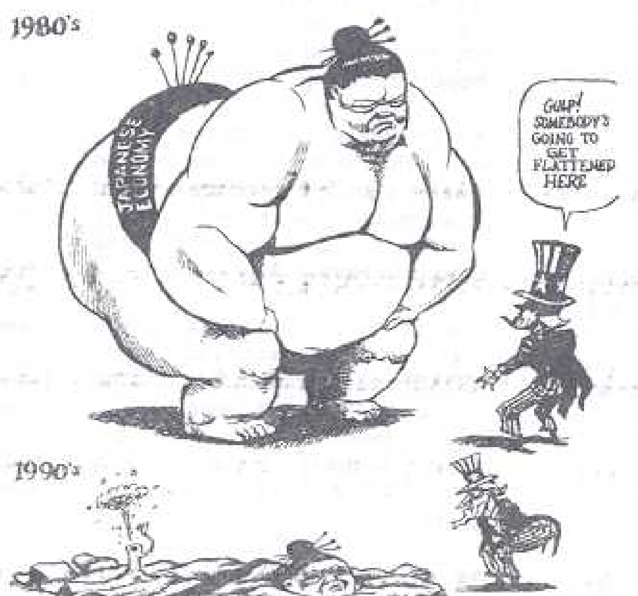
4. The Ethiopian Situation

Ethiopia can be a living example of beneficiaries from the development of electronic commerce. She has been known worldwide for her pictures that never promoted equal status in trade partnership. At best she is associated with supplying crude agricultural raw materials, mainly coffee, raw hides and skins. Her emergence as a supplier of finished industrial consumer goods like high fashion leather garments is definitely a bewilderment to many in the market and only a few can comprehend the possibility. In the writer's experience, buyers who even came here to see our establishments and witness the situation themselves could not decide to commit long lasting relationship with us for fear that such a sophistication is hardly possible for a country they have known for several years as a center of natural and man-made calamities. Behind any thing good made in Ethiopia, or any other third world country for that matter, they see the pictures of human ghosts that the media has painted in their minds. As a result, buying what we can produce and offer is either nightmarish or sinful. It may be remembered here that once discharge of a shipment of haricot beans from Ethiopia to the Netherlands was delayed at the port since the stevedore went on strike claiming it was sabotage of the trade to take such nourishing food items from a country whose malnourished and starving children are daily shown on the television.

Electronic commerce bypasses all these hurdles and places a supplier from any part of the world at the forefront of the market. Therefore, it can unveil all her potentials and untouched wonders to the world that is tired of man-made duplications and unfolds marketing benefits never dreamed of before. ■



© 1998 WRIGHT – PALM BEACH POST



© 1998 KAL – BALTIMORE SUN·CARTOONISTS & WRITERS SYNDIC.

Newsweek June 23, 1998

MAJOR ECONOMIC NEWS IN THE LAST TWO MONTHS

I. General

The General Manager of the Ethiopian Telecommunications corporation (ETC) says that the expansion work and installation of new telephone lines underway in 68 towns within the corporation's 7th Five-Year Development Programme would be completed by the end of this Ethiopian year(The Ethiopian Herald, April 15, 1999).

***

The Minister of Water Resources disclosed on April 29 that avoiding the monopolistic use of the Nile water by the countries bordering it. Ethiopia is determined to use the bounty for irrigation development and hydropower generation (The Ethiopian Herald, April 30, 1999).

***

The number of privatized firms in the first half of 1991 (Ethiopian calendar) is reportedly very low as compared to the same period last year. As announced by the Privatization Agency on May 12, 11 firms worth a total of 537,562,446.02 birr were privatized in 1990 (E.C.) during the first six months. On the other hand, out of the 21 firms auctioned in 1991, four were sold for a total of 351, 124, 402.00 birr (The Reporter, May 12, 1999).

***

The seventh ordinary meeting of the Nile Council of Ministers (Nile Com.) for Water Affairs held on May 13 was concluded by passing resolutions deemed to facilitate "the transition from the era of confrontation to cooperation among the Nile Basin Countries (The Ethiopian Herald, May 15, 1999).

***

The Ethiopian Electric Power Corporation says it is undertaking 27 electric power projects with an outlay of over 1.2 billion birr (The Ethiopian Herald, May 2, 1999).

***

The Commercial Bank of Ethiopia (CBE) says it is preparing to open branch offices overseas (The Ethiopian Herald, May 4, 1999).

***

The Development Bank of Ethiopia (DBE) says it has given in loan more than 97 million birr through its five branches in Southern Nations, Nationalities and Peoples' State over the last nine months (The Ethiopian Herald, May 6, 1999).

***

***

A UN report said that about one million people in parts of Wollo, Tigray and Shao would now require urgent relief support following crop failure in the "belg" (small rains) season (Addis Tribune, May 21, 1999).

***

The Disaster Prevention and Preparedness Commission (DPPC) reported last week that more than 3.2 million Ethiopians needed emergency food aid this year (The Reporter, may 26, 1999).

***

As the Master Plan Revision Project Office said, the metropolitan master plan will soon be revised in accordance with the country's current economic system (The Ethiopian Herald, May 7, 1999).

***

The Ethiopian Social Rehabilitation and Development Fund (ESRDF) said it has completed the construction of 914 various projects it launched throughout the country in the last six months at a cost of 400 Million birr (The Ethiopian Herald, May 9, 1999).

***

As reported by IFOYTA, an Amharic newspaper, Bole International Airport is currently under construction. The project has three stages of which the first has already been completed. Once it is completed entirely, Bole International Airport will have the capacity to receive and serve 5 million passengers per year (Addis Tribune, May 14, 1999).

***

The Ministry of Agriculture announced its plan to launch in July this year a national livestock development capacity building project at a cost of 308,123.000 birr (The Ethiopian Herald, May 26, 1999).

***

The Ethiopian Science and Technology Commission says the implementation of the national year 2000 (yzk) problem remedial process would be completed on June 30 this year (The Ethiopian Herald, may 26, 1999).

***

Ato Joseph Woldeyohanes, marketing executive officer said that the EAL intended to open direct routes to North European cities such as Oslo, Copenhagen and Amsterdam (Addis Tribune, May 21, 1999).

***

The Ministry of Agriculture announced, on May 26, it plans to launch a five year capacity building protect, aimed at fortifying the country's food security program (Addis Tribune, May 28, 1999).

***

The Ethiopian Electric Power Corporation announced, 146 towns in the country have become beneficiaries of power supply over the last eight years following the construction of various projects at a cost of 2.3 billion birr (The Ethiopian Herald, May 30, 1999).

***

A US State Department official said, The US Treasury Department was planning to forgive the Ethiopian debt of 90 million USD along those of other African nation, although the issue is being reconsidered (Addis Tribune, May 28, 1999).

***

Britain has proposed a 2 billion dollar Millennium Trust Fund to open up the debt relief process and cut the debt of the world's poorest countries by 50 billion by the end of the year 2000 (Addis Tribune, May 28, 1999).

II. Investment

4,817 projects with an aggregate investment capital of about 40.3 billion birr have been licensed in Ethiopia over the past seven years, the Ethiopian Investment Authority (EIA) announced (The Ethiopian Herald, May 29, 1999).

***

United Tebarek and Family P.L.C. of Ethiopia, and Ethio-Turkish business representatives celebrated the opening ceremony of Vestel color TV assembly plant, located in Kaliti, on Saturday, 8th of May. The assembly plant assembles television sets, with components imported from Turkey (Addis Tribune, May 7, 1999). The plant, the first of its kind in Ethiopia, manufactures hundred 14-inch and 21-inch televisions during the first phase. The figure grows to 300 per day when the factory enters its second phase. According to the owner, the mechanical work was completed at a cost of 4.5 million birr (The Ethiopian Herald, May 11, 1999).

***

The National Insurance Company of Ethiopia (NICE) announced it made a net profit of 1,533,401.72 Birr in 1998, as opposed to 1,044,414.00 in 1997, on its Financial Statements publication on December 31st 1998 (Addis Tribune, May 7, 1999).

***

The Ministry of Mines and Energy and the Western Welega Gold Exploration and Development plc. signed an agreement on April 29 for the prospecting of gold, base metals and other precious metals in Mendi locality, Western Welega, as reported by the Amharich Daily "Addis Zemen" (Addis Tribune, May 7, 1999).

***

The Ethiopian Investment Authority has said amendments made to the Ethiopian Investment Code over the last seven years have created an enabling environment for local and foreign investors. The head said the government has cut back from 500,000 dollars to 300,000 dollars the minimum capital foreign investors are required to have in order to team up with local entrepreneurs (The Ethiopian Herald, May 27, 1999).

***

A new bottling company, licensed to produce and distribute the brands of the Coca-Cola Company in Ethiopia, has been formed under a virtue agreement signed between East Africa Bottling Company (which has been bottling Coca-Cola products in Ethiopia for three years) and Coca-Cola Sabco (the major international bottler of Coca-Cola in Africa). As part of the joint venture agreement, Coca-Cola Sabco will immediately inject US$9.1 million that will be used to refurbish existing bottling plants in Addis Ababa and Dire Dawa and in market development activities (Addis Tribune, May 21, 1999).

***

Twenty-four investors with a total capital of 383 million birr have launched different investment ventures in East Shoa zone during the past nine months, the zonal administration announced. According to information obtained from zonal council, the investors are engaged in the agricultural, industrial & trade sectors (Ethiopian Herald, May 16, 1999).

***

A new privately owned social science college called Awassa Beza College (ABC) was established jointly by ten shareholders with an overall capital of birr 25 million (The Ethiopian Herald, April 23, 1999).

***

The Ethiopian Privatization Agency says it has formulated new strategies to augment the capacity of domestic entrepreneurs to purchase public development enterprises. Agency General Manager, Ato Beshah Azmite, pointed out one strategy devised to promote the buying capacity of the entrepreneurs is "the installment plan whereby the payment would be spread over a period of time. Converting the enterprises into share companies and inviting numerous entrepreneurs to buy shares is the other strategy" (The Ethiopian Herald, May 12, 1999).

III. Agriculture

The problem of locust plague continues to be a threat to agriculture despite the huge sum of money and labour invested in locust eradication initiatives, agriculture vice-minister said (The Ethiopian Herald, May 7, 1999).

***

The Ministry of Agriculture declared that Ethiopia is temporarily free from rinderpest, a major cattle killer contagious disease (The Ethiopian Herald, May 23, 1999).

***

Market research expert with the agricultural extension department of the Ministry of Agrculture, Ato Abdurahim Ali, said economists and experts drawn from the Addis Ababa and Alemaya universities as well as various relevant institutions participated in a one-day workshop to review the draft cost benefit guideline hoped to help farmers engaged in crop extension package boost their profitability on May 24 (The Ethiopian Herald, May 25, 1999).

***

IV. External Assistance

The Zonal Disaster Prevention and Preparedness department announced that eight donor organizations are undertaking various development projects worth over 70.8 million birr in 13 woredas of East Hararge and Oromia states. The projects that are going to be completed into two to five years time include rural integrated development activities, the construction of social amenities and emergency food assistance (The Ethiopian Herald, April 21, 1999).

***

The Government of Canada donated 1.5 million birr to facilitate public discussions to be held across the country on the legislation to create the human rights commission and the office of the Ombudsman on April 21(The Ethiopian Herald, April 22, 1999).

***

The United Nations Children's Fund (UNICEF) has allocated a sum of 50 million dollars for Ethiopia for the next three years (The Ethiopian Herald, May 2, 1999).

***

An aid agreement was signed between the Relief Society of Tigray (REST), the World Food Programme (WFP) and Disaster Prevention and Preparedness Commission (DPPC) to provide a nine-month ration to 272,000 war displaced compatriots (The Ethiopian Herald, April 21, 1999).

***

The press release issued by the European Union announced that the organization has released a total of 30,000 Mt of food for distribution to the drought affected and displaced peoples in Ethiopia (The Ethiopian Herald, May 4, 1999).

***

The Relief Society of Tigray (REST) has obtained various relief items worth over 1.1. Million birr from OXFAM UK (The Ethiopian Herald, May 5, 1999).

V. Public Revenue

One hundred and fourteen of the 163 state-owned development enterprises are operating profitably, according to the head of the office in charge of these enterprises. The minister-in-charge of the office, Ato Assefa Abraha, disclosed that the 114 enterprises made pre-tax profits totaling 1.8 billion birr last year alone (The Ethiopian Herald, April 21, 1999).

***

The Finance Bureau of Oromia State announced it has collected close to 251 million birr in state revenue during the past eight months (The Ethiopian Herald, April 29, 1999).

***

As disclosed by Ato Tilahun Abay, President of the Commercial Bank of Ethiopia (CBE), the bank made more than half a billion birr in gross profit during the last nine months (Addis Tribune, May 21, 1999).

***

Sample audit conducted in the Inland Revenue and Customs authorities revealed that 411,621,067 birr tax arrears have not been collected (The Ethiopian Herald, April 21, 1999).

***

The Jimma Zone Finance Department, Oromia State, said it has collected over 25 million birr in revenue over the past nine months (The Ethiopian Herald May 5, 1999).

***

The Dire Dawa branch of the Federal Inland Revenue Authority announced it has collected 64 million Birr in revenue over the past nine months (The Ethiopian Herlad, May 8, 1999).

***

The Finance departments of two zones in the Oromiya state have indicated collecting above target revenue amounts during the past nine months. According to Ato Ashebir Gutema, Acting Head of the Arsi Zone Finance department, the department collected 2.2 million birr above the planned target of 12 million. Similarly the Bale Zone Finance department has announced it collected over one million birr revenue above the set target of 34.5 million birr (The Ethiopian Herald, May 11, 1999).

VI. Trade

The Ministry of Foreign Affairs quoted the Saudi Embassy in Addis that Saudi Arabia has lifted the ban it temporarily imposed on the import of live cattle, sheep and camels to its country from Ethiopia following the outbreak of a rift valley fever (RVF) in neighboring Somalia and Kenya. The ban was imposed on February 10, 1998 and lifted as of may 16, 1999 (The Ethiopian Herald, May 27, 1999).

***

The Governments of Ethiopia and Yemen have agreed to consolidate their bilateral ties in the various sector of the economy. According to the Ministry of Foreign Affairs, the two countries signed cooperation agreements in the areas of trade and investment promotion, tourism and agriculture at the conclusion of their joint commission meet on April 15, 1999(The Ethiopian Herald, April 20, 1999)

***

The Ministry of Trade and Industry recommended to coffee farmers, suppliers and exporters that the hoarding of coffee could result significant loss, despite of the efforts made by farmers, suppliers and exporters, in the hope that they will profit when the global price of coffee elevates (Addis Tribune, April 30, 1999).

***

Ethiopia Shipping Lines (ESL) announced it has purchased a new cargo ship at a cost of 7.8 million dollars to upgrade its foreign trade efficiency. According to the general manager ESL made a net profit of over 3 million birr transporting 161, 000 tones of dry cargo and 228,000 tones liquid cargo in the past six months alone. ESL has also won an international award for efficient service following the competitions with shipping organizations from 144 countries (The Ethiopian Herald, April 24, 1999).

VII. From Parliament/Council

The Council of Ministers discussed on the bill amending the proclamation concerning investment in the engineering and metallurgy industries, pharmaceutical plants, basic chemical and petrochemical industries and fertilizer factories. The council also stressed the need to open the field of electric power generation to local and foreign investors (The Ethiopian Herald, April 18, 1999).

***

The Council of Ministers ratified the telecommunications regulation and referred to the House of Peoples' Representatives the bill to amend the Trade Registration and Licensing Proclamation (The Ethiopian Herald, April 28, 1999). ■

ANOTHER 'NATION' GONE BUT NOT FORGOTTEN!!!

To Mekonnen Tadesse

How bad was that day,
Yes, 28th January of 1999
A sad day of wretched feelings,
Yes again a day of misery,
A day of another big defeat
Signifies the worst of times,
Symbolizes a premature doomsday
And a journey into darkness,

That calendar day left us with many broken hearts,
Turned big plans and expectations into ashes,
Yes crushed and bruised our inner souls

My fellow citizens it is hard to repair,
Indeed, we are shattered and we are in despair,

That day marked another season of hopelessness,
Yes, an unwelcome epoch of defeat and bitteress,
A winter of missing familiar and well-loved faces,
A season against humanity and successes,

A season of turmoil and anguish,
Death is in constant ambush,

Beware our enemy is in our doorsteps
That brings a season of successive loss of virtues and tears,

Speechless we became and lost the power we assume to have,
Attacked by another shock wave which sliced our heart into uncountable halves,
How shocking and devastating was that news
Which heralded Mekonnen's eternal absence,
That huge loss exposed our weakness
Yes, more so our powerlessness

Here we are, we the helpless
We let you and other dear ones go,
To fade and fly away to the unknown,
No, no, it is not for Widu Mekonnen,
How do we dare to cover loved ones with earth,
Are we used to the bitter fact of death?

Mekonnen, please come back and show us that kind face,
Do not leave us behind on this cold cruel earth's surface,

Teach and instruct us again how to work hard,
Encourage us to press forward,

We want you for generations,
To hook your thoughts with our imaginations
To explore the bounds of your tips,
To share your aspirations,
Give us more to our starving souls,

Please conceive the wisdom and let us deliver it,
And convince us and let us believe in it,
We want to adhere to it,
Let us pay attention to it
And also a deep commitment to it,

Do not say 'Good-bye a thousand times my dear ones!'
Please live again and just to say 'I'm here, bye for now my loved ones!',

Please emerge again to tell the tale,
Of wise words and law of life and of the land,
Of the light and legends of the best of times
Of the season of hope and success
A tale of enthusiasm and fraternity
Not of melancholy but of tranquillity
Not of weariness but agility,

Extend that unfailing protection
Live a bit more and form another nation
We plead to that nation to, 'Cry and Cry and Cry!'
We tell to that nation, 'That man was really a man!'
Serious and amicable in one
Hardworking and fruitful with tact
Had less time to talk and attack
But more time to think and thank
Kind and strong words that impress and inform
Which put oneself in best form

Widu Mekonnen, please live again and cry over our loss
Please come again and make us fatherless and be our boss
Hold us again and cry that cry
Let us hear that tender voice,
Let us know your choice,
Let us feel your coming,
Be again that charming,

We are left with pretence,
We dream that we feel your presence,
Give us one more chance of being with you
To feel that honour and glory that comes only from you,

Be around and let us see you again
Please, please stay do not go away
We cannot sustain another loss of a generation
Yes, another loss of a big nation
A big big nation!!!

From his colleague Abbi Mamo Kedir [Nottingham, United Kingdom, written on February 3, 1999]. ■

LESAN Printing Press