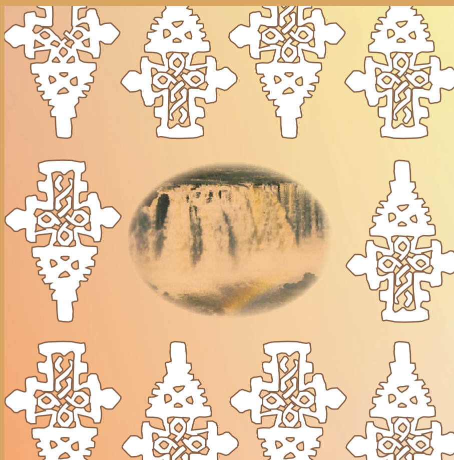
UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT ON THE IMPLEMENTATION OF THE INVESTMENT POLICY REVIEW

ETHIOPIA



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- A blank in a table indicates that the item is not applicable.
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- Details and percentages in tables do not necessarily add to totals because of rounding.
- The material contained in this study may be freely quoted with appropriate acknowledgement.

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Contents

Abbreviations

BOI	Board of Investment
BPR	Business process reengineering
CDE	Centre for the Development of Enterprise
CIED	Centres for Innovation and Enterprise Development
EA	Ethiopia Airlines
EIA	Ethiopian Investment Agency
EIAR	Ethiopian Institute of Agricultural Research
ENA	Ethiopia News Agency
EPA	Environmental Protection Authority
ESTC	Ethiopian Science and Technology Commission
ET	Ethiopia Television
FDI	foreign direct investment
FeMSEDA	Federal Micro and Small Enterprises Development Agency
FIAS	Foreign Investment Advisory Services
GTZ	German Development Agency
GTP	Growth and Transformation Plan
IPR	Investment Policy Review
LLPTI	Leather and Leather Products Training Institute
MDGs	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development
MOU	memorandum of understanding
NARS	National Agricultural Research System
NGO	non-governmental organization
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PRSP	poverty reduction strategy paper
QSAE	Quality and Standardization Agency
RARI	Regional Agricultural Research Institutes
RDA	regional development agency
ReMSEDA	Regional Micro and Small Enterprises Development Agency
RIB	regional investment bureaus
RSDP	Road Sector Development Programme
SME	small and medium-sized enterprise
TNC	transnational corporation
TVET	Technical, Vocational, Education and Training initiative
UNIDO	United Nations Industrial Development Organization

Investment Policy Review Series

1. Egypt
2. Uzbekistan
3. Uganda
4. Peru
5. Mauritius
6. Ecuador
7. Ethiopia
8. United Republic of Tanzania
9. Botswana
10. Ghana
11. Lesotho
12. Nepal
13. Sri Lanka
14. Algeria
15. Benin
16. Kenya
17. Colombia
18. Rwanda
19. Zambia
20. Morocco
21. Viet Nam
22. Dominican Republic
23. Nigeria
24. Mauritania
25. Burkina Faso
26. Belarus
27. Burundi
28. Sierra Leone
29. El Salvador

1. Introduction

An Investment Policy Review (IPR) of Ethiopia was published in 2002. The nature of the review, although focused on investment policy and promotion, gave special consideration to technological development and research. This was highlighted in relation to developing the potential of the agriculture sector and improving productivity. The leather and leather products sector was also emphasized as important where foreign direct investment (FDI) could be increased. Recommendations for this sector concentrated on technological changes that could improve product quality and production systems, developing the value chain in the production of leather goods and policies to support the sector. The development of small and medium-sized enterprises (SMEs), identified as an engine for private sector development and a priority of the Government, was also addressed in the IPR.

In 2009, the Government of Ethiopia requested UNCTAD to conduct a review to assess progress made in implementing the recommendations set out in the IPR. To this end, a mission was conducted in March 2010, the findings of which are detailed in this report.[1]

2. Summary of findings

Investors have expressed satisfaction in general with measures taken by the Government of Ethiopia to improve the regulatory environment for foreign investment over the eight years since the IPR was published. This is reflected in annual FDI inflows, which increased from an average of $214 million over the 1998–2002 period to $409 million in 2003–2007. Moreover, consequently to the IPR, an Industrial Strategy was launched in August 2003 which included a number of incentives to boost the development of

[1] This report was prepared by Paige Griffin under the direction of Chantal Dupasquier and the supervision of James Zhan. Substantive support and contributions were provided by Hans Baumgarten and Alexandre de Crombrugghe. Inputs from Aurelia Calabro (United Nations Industrial Development Organization (UNIDO)) are also acknowledged.

three main sectors where it is believed that Ethiopia has comparative advantages: (a) textile and garments, (b) meat leather and leather products, and (c) agro-industry. In the areas detailed in the IPR, however, results are mixed with respect to progress on implementation, thus suggesting room for further growth in FDI inflows.

- Of the 10 recommendations dealing with the **Ethiopian Investment Agency (EIA)** and investment promotion, three were partially implemented. Prior to the IPR, there was little investment promotion activity from the EIA. Although promotion continues to be insufficient, aftercare activities have increased significantly. Unfortunately, the majority of promotion activities are left to other organizations.

- Recommendations related to **economic development** have been more successful with all recommendations being at least partially implemented. In several cases, the plans are long-term such as construction of industrial zones which, given infrastructure constraints, can be less quickly realized.

- There has been some progress made in addressing all five recommendations in the **agriculture sector**. The Ministry of Science and Technology was created providing a high-level policy coordinator, there has been extensive effort to increase capacity and train farmers, and the Ministry of Agriculture has worked towards creating a more demand-driven approach to agricultural research.

- Implementation has been similarly successful in the **leather sector,**[2] for which the Government prepared a special strategy for its development in line with the Industrial Strategy. All six recommendations have been at least partially, if not fully, implemented. Most notable have been the creation of the Environmental Protection Authority (EPA) to address pollution hazards particularly present in this sector, the increase in productivity and training to address skills shortages in the industry.

[2] The leather Chapter of the IPR was prepared in cooperation with UNIDO.

- Recommendations related to developing **small and medium-sized enterprises (SMEs)** have largely not been implemented. There has been, however, some effort made to set up an information bank of suppliers and to create an award encouraging innovation.

3. Institutional framework for investment policy and promotion

Defining the role of the EIA and strengthening the agency was a central theme of the IPR. To this end, five recommendations were made: (a) develop a long-term national investment strategy and assign the EIA overall responsibility for investment promotion; (b) strengthen the EIA as an institution; (c) become an effective one-stop-shop for investors; (d) establish an international investment advisory council; and (e) restructure regional investment bureaus.

3.1. Develop a long-term national investment strategy and assign the EIA overall responsibility for managing investment promotion

When the IPR was conducted, there were a number of Government agencies involved in FDI promotion in addition to the EIA, such as the Regional Investment Bureaus (RIBs), sector ministries (e.g. mining and tourism), the Ethiopian Privatization Agency, Ministry of Foreign Affairs, Development Bank of Ethiopia and Ministries dealing with taxation. The IPR recommended that the EIA develop a promotion strategy, based upon which the Board of Investment (BOI) convene a working group to integrate promotional efforts of the various bodies in a coherent and consistent national investment strategy. In particular, it recommended that the national strategy address how best to (a) incorporate Ethiopia's promotional strengths; (b) target sectors, products and technologies; and (c) provide incentive packages and investor support into an overall approach to investment promotion. The IPR considered the EIA and national strategies to be an urgent priority and encouraged action as soon as possible. In the last five years, the EIA's activities have been guided by a strategic plan developed in-house. The Government is, however, in the process of studying the possibility to develop a master plan, under the leadership of the EIA, which should help better allocating responsibilities and planning the related activities.

Although the EIA is legally designated as the central agency and is mandated to act in this capacity, at present it is not performing as such in practice. Several reasons for this exist. Most glaring is the continued lack of a strategy. The EIA has made efforts to develop strategies through partnerships with the World Bank Group's Foreign Investment Advisory Service (FIAS) and the National Investment Advisory Council, but no strategy was finalized. In the interim, the EIA has identified priority sectors (textile and garment, leather, agro-processing, construction and tourism) and high-priority countries (China, India and Turkey). For example, during official Government missions the head of the EIA will accompany high-level Government officials and meet with potential investors in these countries. Another factor strongly limiting the EIA's ability to act as the central agency for FDI is the inadequate volume of promotional activities in which the EIA engages. The EIA's promotional activities have been limited to producing some promotional material and attending trade fairs, which has left the door open for other organizations to conduct parallel, sometimes overlapping, activities. Until recently, the EIA lacked a functional website to provide investors with information for several years; however, this gap has been addressed with the launch of a new website that is now fully operational. This constitutes an important step towards enhanced investment promotion.

Privately funded institutions such as the Ethiopian Chamber of Commerce and Sectoral Associations ("the Ethiopian Chamber"), the Addis Ababa Chamber of Commerce and Sectoral Associations ("the Addis Ababa Chamber") and the Ethiopian Leather Industries Association ("the Leather Association") all conduct investment promotion activities in parallel with the EIA. The Ethiopian Chamber organizes seminars and meetings between investors and local suppliers. The Addis Ababa Chamber organizes an international trade fair, manages an arbitration centre, and hosts a library and an electronic database of market information. The Leather Association promotes by highlighting investment opportunities in the sector, which are available on its website. Although the EIA has limited promotional efforts, the agency does collaborate with the Chambers and sector associations by providing investment promotion materials and information sharing. Furthermore, a contact person has been designated in these private sector organizations to increase cooperation.

3.2. The EIA should become an effective one-stop-shop

In today's terminology, a one-stop-shop for investors typically refers to facilitation of investment start-up once the investment announcement has been made. The EIA has made some progress in this area. Since 2002, in addition to delivering investment permits,[3] the EIA is authorized to issue work permits, operating licences and to provide trade registration services. However, investors still must visit some other Government offices to complete business start-up procedures. The EIA, therefore, is not a fully functional one-stop-shop but is slowly making progress towards becoming one.

Under the business process reengineering project (BPR),[4] the EIA was assessed, and recommendations were made on how to strengthen the agency. Delivery of services was highlighted as an area which needed improvement. As a result of the BPR, the EIA created a client charter with standards of how long it should take to receive certain permits. Consequently, the time it takes to set up and register a business has been reduced dramatically. Ethiopia's place in the World Bank Doing Business rankings for starting a business improved from 122 in 2009 to 93 in 2010. At nine days and five procedures, starting a business in Ethiopia takes less time and has fewer procedures than the OECD average.

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[3] Issuance of investment permits is done in accordance with the mandates given to the EIA and RIBs by the investment law since 1992 (see section 3.5).

[4] The Government employed private domestic and foreign consultants to study its effectiveness at all levels. The consultants identified four primary problems with its operations: (a) very hierarchical with many non-value adding positions; (b) nepotism, lack of transparency and accountability and corruption; (c) lack of leadership capacity; (d) input-based and not output-based – i.e. output not measured. In response, the Government launched the Business Process Reengineering project in 2005 which is being methodically applied to all Government agencies (Business Process Reengineering in Ethiopia, Berihu Assefa, May 2009).

The BPR recommendations have been fully implemented. This allows the EIA to issue the following additional permits, which may reduce in the near future the time for business set-up and registration:

- Building permits;
- Work renewal permits;
- Foreign capital registration; and
- Land permits particularly as they relate to industrial zones currently under construction.

Difficulty in coordinating with other Government agencies in moving approved investment projects forward has contributed to a low conversion rate of announced to realized investments.[5] It has established a contact person in Government institutions regulating investment and those involved in permit approvals that the EIA is currently not allowed to issue. Some of the institutions where the EIA has developed these relationships are:

- Customs and Revenue Authority;
- Telecommunications Corporation;
- Ethiopia Electric Power Corporation;
- Development Bank of Ethiopia;
- Federal Water Authority; and
- Immigration Office (in progress).

The drawback to this arrangement is that it is an informal one with no memorandum of understanding (MOU) between the agencies and the EIA. Thus, should there be important action needed for an investor, the intervention of the EIA through this mechanism is not an assured route to problem resolution.

3.3. Strengthen the EIA as an institution

The EIA admits it is not prepared to fulfil many of its mandates citing budget and staffing limitations. Under the BPR, the EIA is undergoing organizational restructuring. The central idea of

[5] The EIA estimates that the current project conversion rate is 18 per cent. The EIA has a specific mandate to assist investors from application to approval and has set a conversion target rate of 50 per cent by 2012.

the restructuring is to better divide functions of the EIA to reduce coordination problems and highlight investment priorities. In addition, the EIA expects to begin recruiting after May elections, growing to 200 staff members. The IPR indicated that increasing staff was not necessarily the answer but that a more efficient use of a well-trained staff and a budget increase – or readjustment towards more activities and less operating costs – would perhaps better serve the agency.

Training is another important aspect of institutional strengthening and was highlighted in the IPR. In this respect the EIA has been more successful. An in-house training programme has been implemented in customer handling, project planning, computer skills, leadership skills, and finance and accounting. There have also been some external training programmes, including training from UNCTAD focusing on aftercare and policy advocacy, the German Development Agency (GTZ) addressing investment promotion techniques and from UNIDO which also focused on aftercare. These interventions assisted the EIA in developing an effective client relationship management capacity and using testimonials from satisfied investors.

3.4. Establish an international investment advisory council

The IPR identified a lack of hands-on business development experience as a serious impediment to the EIA's ability to promote FDI opportunities. Therefore, it recommended that a public–private investment advisory council be formed as a way of allowing the private sector to air its opinions on the investment climate and thereby bring its expertise to bear on the country's investment promotion efforts. With representation from foreign companies, domestic companies, and senior Government officials, the subsequently formed National Investment Advisory Council (NIAC) was a promising start to the implementation of this recommendation. However, the focus of the NIAC was not receiving, processing, and transmitting private-sector expertise throughout a national investment promotion network as envisioned by the IPR. Rather, it became purely an investment promotion vehicle for the participating RIBs and ministries, including Trade and Industry, Agriculture and Rural Development, and Foreign Affairs. Overlap between the NIAC and the Board of Investment combined with a lack of progress on issues led to its eventual disbandment. More recently, a National Coordinating Committee, chaired by the Deputy Prime Minister, has been created. Together with its sub-committees, it will assist the EIA and RIBs with their investment promotion efforts and to analyze FDI inflows to the country.

3.5. Restructure regional investment bureaus.

The structure of RIBs was found not to be best suited for investment promotion in the IPR assessment. These agencies tended to be under-resourced, particularly in relation to skilled human resources and essential investment promotion skills. Their work was dominated by bureaucratic matters and primarily dealt with domestic firms. Furthermore, RIBs in peripheral regions can be at a disadvantage as the majority of foreign investors prefer to locate in or near Addis Ababa. The investment law gives the EIA and the RIBs clear respective mandates. While the mandate of the latter is to promote and facilitate domestic investments in their respective regions, the EIA's mandate is to promote and facilitate foreign investments, joint ventures and investments whose business licences are issued by the Federal Government. Consequently, the RIBs issue investment permits for domestic investors while the EIA does so for foreign investors. While occasionally some RIBs had circumvented the EIA and directly undertook FDI attraction activities, this practice no longer happens.

In an effort to better utilize the resources of RIBs, the IPR recommended that they be restructured as regional development agencies (RDAs). The development agencies would rely on the EIA to act as the dedicated agency for serving both greenfield and existing foreign investors. The RDA, in turn, would provide support to investors attracted by the EIA in areas such as land availability and permitting, infrastructure and labour. There has been some movement toward restructuring the RIBs, and collaboration with the EIA has improved. In fact, they organize a joint forum twice a year to discuss issues related to the approval and implementation of investment projects, exchange experiences and streamline the ways in which they render services to investors.

4. Investment promotion

The IPR recognized the integral role of investment promotion in the ability of Ethiopia to increase FDI flows. To this end, the IPR made many recommendations related to investment promotion tactics the EIA could employ keeping in mind its limited budget and capacity constraints.

4.1. Planned enquiry and promotion visits to appropriate and targeted international investors by staff (Commercial Attaches) in Ethiopian Embassies abroad

Acknowledging that the EIA may be limited by funds or availability of skilled personnel needed to open representative offices in targeted FDI home countries, the IPR recommended leveraging Ethiopian embassies by having commercial attachés visit targeted investors. The EIA has indicated that, although an interesting proposition, this is a relatively low priority. However, some training has been occasionally provided for diplomats by the EIA management. The latest training occurred in 2004. Although it is not part of the EIA's promotion effort, each embassy has a Department of Business, Trade, Investment and Tourism. In addition to working with embassies, the EIA relies on high-level government officials and delegations to promote Ethiopia as an investment destination.

4.2. Use Ethiopian Airlines staff and resources to help promote investment opportunities

Ethiopian Airlines (EA) does more in overseas promotion than any other public or private Ethiopian organization. As such, the IPR recommended that the airline would be a good outlet for promoting investment opportunities. Specifically, the IPR suggested making EA’s overseas offices available for investment promotion activities and providing information about investment opportunities within its in-flight magazines and entertainment services. The EIA felt that partnering with EA was a good recommendation, but cited funding as an impediment.

4.3. Effective marketing of business opportunities through Government media organizations including the expansion of the existing Government Website

The IPR observed that the Ethiopian News Agency (ENA) and Ethiopia Television (ET) are making efforts to cover business issues. The Entrepreneur, a specialist publication, is being published in Addis Ababa. ET often covers new FDI projects, especially when located in rural areas. It then copies these to Ethiopian Embassies abroad. The IPR recommended that the EIA pursue a partnership with these media agencies in promoting investment opportunities, perhaps by proactively providing information to the media and exploring other means of promotion. The EIA is increasingly using public and private media to inform the general public and investors about ongoing investment activities and to promote the country's investment opportunities. It should however still consider effective partnership with ENA and ET.

4.4. The EIA should actively encourage Ethiopian businessmen and executives in other countries to contribute to the nation's investment promotion activities and programmes

A viable resource, Ethiopian executives abroad, is highlighted in the IPR as a useful tool, not only as a source of investment but also for their wider experience and corporate contacts. It was felt that these attributes could help the EIA identify appropriate companies and executives as realistic promotion targets for the EIA.

Thus far, there has been no substantial effort underway to attract diaspora investment to Ethiopia or to leverage them as resources for investment targeting initiatives. However, there have been some changes in regulations to make it easier and thus more appealing for investment from the diaspora. A change to investment regulations in 2003 provided the diaspora with the option to invest either as a foreign or domestic investor. Additionally, a change to immigration rules in 2005 made it easier for the diaspora to obtain green cards.

Although until recently the EIA had not been active in this area, there are now several programmes to engage the diaspora. There is a Diaspora Coordinating Office within the Ministry of Capacity-Building, which also works with the Ministry of Foreign Affairs to promote skills and technology transfer. There is also the German Engineering Capacity Building Programme, which is working to engage the diaspora in the leather and textile sectors. The EIA actively encourages Ethiopians in the Diaspora to engage in investment activities, and has created a post of Diaspora Affairs Officer to serve this purpose. In addition, a Diaspora policy has been prepared by the Government, and the Ethiopian Electric Power Bond and the Foreign Currency Account have been launched in to encourage Ethiopians abroad to engage in the country's development activities.

4.5. Ensure that FDI operating in Ethiopia plays an active role in the international investment promotion process

Converting potential investment into implemented investment is only the first step in investment promotion. Recognizing this fact, the IPR pointed out that aftercare is equally important. Aftercare helps in-country FDI managers successfully and profitably realize the venture and, further, gain corporate approval for expansion and re-investment of profits. From the development aspect, a promotion agency should also focus on helping the firms form strong linkages with local suppliers and service providers.

The EIA has made some strides in implementing an aftercare programme. It has received technical assistance from UNCTAD and UNIDO and has undertaken some aftercare activities as early as 2004. It has implemented an outreach programme to investors in priority sectors. Each month, the project manager assigned to a specific investor will call to inquire how the investor is managing and whether there are any problems that the project manager can help resolve. The EIA does not provide technical assistance to the investor but instead ensures the investor is put in contact with the appropriate agency. It is in these instances that the designated EIA contacts in the various regulating and licensing agencies are useful to the EIA. At this time, there is no evaluation of the aftercare services, but there is a plan in place to implement an investor evaluation of EIA services as well as a complaints system. Although aftercare has played a small role in the EIA activities, organizational restructuring undertaken in 2010 divided the agency into two divisions: (a) manufacturing projects facilitation and aftercare; and (b) agriculture and service sector projects facilitation and aftercare, giving more prominence to aftercare activities.

5. Economic development related to investment promotion

As is common in many developing countries, infrastructure can be an impediment to attracting FDI. Accordingly, the IPR made several recommendations to address the development of Ethiopia's infrastructure. Further, it encouraged increasing linkages between domestic and foreign businesses to help foster a stronger domestic private sector and increase the skills and managerial experience of domestic firms. The Government has recently approved the Growth and Transformation Plan 2010/11 – 2014/15 (GTP) to address these issues.

5.1. Develop a long-term, prioritized national investment programme to improve the efficiency, quality and coverage of essential infrastructure

The primary document guiding infrastructure development in Ethiopia until 2010 was Ethiopia's second generation Poverty Reduction Strategy Paper (PRSP) *A Plan for Accelerated and Sustained Development to End Poverty 2005/06 – 2009/10 (PASDEP)*. While the PRSP focused on long-term plans to move countries forward in reaching Millennium Development Goals (MDGs), the PASDEP was conceived as the shorter-term plan toward the same end. The Ethiopia PASDEP includes measurable goals addressing infrastructure.

The objectives of the PASDEP include:[6]

- Increase the supply of clean water;

6 Ethiopia: Building on Progress, A Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (2005/06-2009/10) Volume I: Main Text. Ministry of Finance and Economic Development (MoFED).

- Move forward with Phase III of the Road Sector Development Programme (RSDP) which was launched in 1997 to increase road density;
- Increase electricity generation capacity. In order to meet this objective, the Government has allowed private sector participation in generation of power for sale to the grid as well as off-grid operations, including transmission and sale of electricity;
- Increase tele-density for fixed lines and for mobile, and increase the number of internet customers.

Further to the completion of the PASDEP and review of its achievements, the Government has approved the GTP that guarantees the continuity of the efforts undertaken under the previous plan. On the basis of the lessons drawn from the implementation of the PASDEP, the main agenda of the GTP is to sustain broad-based, rapid and equitable economic growth. The Government projects to build its economy based on a modern and productive agriculture sector making use of enhanced applied technology and an industry that plays a leading role. To contribute to these objectives, the Government has established key strategic pillars, including the enhancement and expansion of quality infrastructure as it was envisaged in the PASDEP.

Prioritization of the various projects is occurring through the National Budget Framework. The majority of road development will be funded through public funds. Electricity and telecommunication development is expected to be funded from the utility companies' revenues and domestic loans. All projects are expected to receive some funding from private sector and non-governmental organizations (NGOs).

5.2. Develop fully serviced industrial and commercial sites that are ready for immediate occupation

The GTP foresees the expansion of the industrial zones with the required infrastructure and services to create the conditions for a sustainable industrial development and to reduce the costs of investment. The Government has already undertaken actions to allocate land and to develop infrastructure. There are two zones currently under development. One is being built by the China Africa Development Fund with plans for hosting 80 Chinese textile, leather and metal companies. The other zone is being constructed by a Turkish group, Akgün Construction and Machinery. Land has been set aside in the Oromia region but construction is not yet underway. The Government has signed contracts with the two developers, agreeing to provide up to 30 per cent of the cost of facilities. Current investment law and regulation does not address industrial zones leaving incentives, such as the one above, to be negotiated on a case by case basis. The BPR has recommended creating a new law and related regulations to address industrial zones. The BPR also recommended that land permits for investment in industrial zones be issued by the EIA rather than continuing the current practice where only RIBs are allowed to issue land permits.

5.3. Establish a programme to encourage linkages between new international investors and local suppliers

Some limited linkages activities between investors and local businesses are conducted by the EIA. When requests come from investors, the EIA will link them to the appropriate suppliers with the collaboration of the chambers of commerce. The Federal Micro and Small Enterprises Development Agency (FeMSEDA) has an active programme to develop linkages. It focuses on networking and subcontracting activities particularly as they relate to export related businesses. FeMSEDA also works to connect suppliers and producers with exporters. The Addis Ababa Chamber also creates linkages by introducing visiting, potential foreign investors to local businesses. The effectiveness of the Chambers' efforts is not known as there is no monitoring or evaluation of outcomes. While these programmes are helping increase linkages between foreign investors and local businesses it is not quite the dedicated programme envisioned in the IPR.

6. Agriculture sector

In order to promote Ethiopia's agriculture sector as a viable opportunity for foreign investors, the sector requires improvements to move from small farming with little or no modern applied technology to more productive and modern farming. To bring about this transformation, the IPR recognized the need for strong research and development institutions and capable and skilled researchers. In addition, the IPR recognized that this would not be sufficient, that the new technologies needed to be disseminated among farmers and accompanied with capacity-building and training programmes. For this purpose, the IPR made several recommendations regarding Ethiopia's agricultural research institutes, training and capacity building programmes.

6.1. Refocus agricultural R&D in order to make it demand-driven and client-oriented, while at the same time changing funding patterns to give more control to individual researchers and putting in place measurable levels of performance in return for greater discretion with funding

While the IPR was being written in 2001/02, a reorganization of agricultural research was underway. The new organization would shift from using a peer review procedure that did not take into account farmers' needs and had little concern for measurable outputs to agro-ecological zones and priority commodities. The findings of the IPR suggested that the new structure has potential for success. However, there was a concern that the location of the majority of federal and regional research centres in the Oromia and Amhara regions could result in a strong regional bias and continue to overlook the needs of the farmers.

Agriculture research has remained centralized under the Ministry of Agriculture and Rural Development; however, in 2008, the Ministry of Science and Technology replaced the Ethiopian Science and Technology Commission (ESTC), giving the new Ministry a role in research funding. The Ministry of Agriculture and Rural Development continues to coordinate and fund agricultural research though there are some projects which are coordinated and for which funding is shared with the Ministry of Science and Technology.

The Ministry of Agriculture and Rural Development develops a five-year strategic plan based on designated priority sectors, the budget for which is subsequently approved by Parliament. After approval, research funds are dispersed to the appropriate federal research centres via the Ethiopian Institute of Agricultural Research (EIAR). The EIAR coordinates 500 researchers across 15 federal centres. It claims that its research projects are demand-driven and are finalized by individual researchers. This is a relatively recent innovation which came about in 2009 as a result of BPR recommendations.

The shift to demand-driven projects removed some of the control from the scientists and researchers, however researchers can present project proposals which will then be evaluated based on EIAR criteria. In exchange for more control on the part of researchers, the IPR recommended putting in place a performance-based system related to funding allocation. There are plans to implement a performance-based system to be incorporated at institution, process and programme levels. Indicators have been decided but targets and timelines are under development.

All of the evidence suggests that there has been progress made in implementing this recommendation. There are some characteristics of the current system which may mean that the changes will not encompass the entire research system. In addition to EIAR, there are nine Regional Agricultural Research Institutes (RARIs) managed under regional budgets. EIAR has a mandate to coordinate all research in the country; however, given the different source of funding, it is not clear whether these institutes will be required to follow the new EIAR project planning methods. Another consideration affecting the degree to which projects and project planning can be influenced by end-user needs is the dependency on grants by donor agencies to close any funding gaps. This type of funding is frequently accompanied by stipulations on allocation based on research type or subject.

6.2. Ethiopian Science and Technology Commission's (ESTC) role should shift from direct research funding to research and development (R&D) facilitator, focus more on advising, become less of a traditional "science council" and more of an institutional means of encouraging innovation. It should ensure that its work is as much guided by development as by scientific norms.

The recommendations of the IPR related to the ESTC focused on shifting its role from a research and development guide and direct funding source to a high-level coordinator of research policy, one that would be able to stay focused on formulating a national research strategy closely aligned with development goals. As described above, the ESTC has evolved into the Ministry of Science and Technology. The Ministry's role includes overseeing national science and technology policies, setting and coordinating research activities including providing funding, and supporting and strengthening research institutions. Further, the Ministry has in its mandate that its overarching objective is socio-economic development. This transformation is closely aligned with the IPR recommendation with the exception of eliminating funding from the Ministry (the coordinating body's) activities.

6.3. Greater effort should be made on the part of central bodies such as the EIAR, the EIA and the Ministry of Science and Technology to encourage greater integration across the Ethiopian National Agricultural Research System (NARS)

At the ministerial level, there is some coordination. The Ministry of Science and Technology and the Ministry of Agriculture and Rural Development occasionally work together on intersecting projects, for example in priority areas of research, such as agriculture. In an effort to coordinate policy and development efforts, cross-institutional teams are created. The agriculture priority programme is headed by the Prime Minister with the Ministry of Science and Technology and the Ministry of Agriculture and Rural Development among the participants. The EIA however is not involved in any coordination efforts although there is room for collaboration as the EIA, for example, has the mandate to register technology transfer agreements.

At lower hierarchical levels, coordination is very limited. The EIAR has a mandate to provide the overall coordination of agricultural research countrywide, but there does not seem to be an integration plan per se. However, under the BPR there is an effort to increase integration and reduce duplication across all Government agencies and there have been some changes in these research agencies as indicated above.

6.4. Within the funding of higher education, change patterns of funding to give more control to individual scientists and departmental heads. Budgets should be managed at a lower-level hierarchy subject to generic rules for each institution

Apart from EIAR-administered funds, there is no evidence that control of funding for higher education has been decentralized from the Ministries.

6.5. Human resource measures should focus more on "capacity-building" rather than "training" in the traditional sense and when using expatriate staff care should be taken that a narrow, discipline-driven approach to education is not taken

There has been significant progress related to this recommendation. Several programmes related to capacity-building and training have been implemented since the IPR. Through the agricultural Technical, Vocational, Education and Training (TVET) initiative, over 23,000 development agents were trained. The initiative was designed to train development agents and farmers in leadership skills. Over 5,000 Farmer Training Centres are completed and in service. There is early evidence that several farmers have shifted to small-scale modern farming practices as a result of the development agents' assistance and training programme. In order to increase productivity, the Government has implemented an agricultural extension programme to train famers on the use of modern instruments and technologies and to share best practices with high-performing farmers. As a result, agricultural productivity has increased by 11 per cent per year on average from 2005 to 2010. Another programme launched in 2009/10 with the help of funding from the World Bank is the Rural Capacity Building Project which has the explicit objectives of modernizing agricultural, technical and vocational training colleges, building capacity in agricultural extension system, and strengthening of agricultural research system with improved institutional and human capacity.

Additionally, it should be noted that there are 25 colleges that provide agricultural training under the Ministry of Agriculture and Rural Development with some of the colleges under the direct supervision of the Regional Agricultural Research Institutes (RARIs). Skills analyses are performed which determine the prioritization for training made available. The Ministry also holds workshops for “training the trainers” and develops training manuals. The EIAR also provides training for farmers which it occasionally supplements with carefully chosen external trainers on an as needed basis. The IPR, concerned with inflexible training methods on the part of expatriates, recommended careful monitoring to avoid this problem. The process of selecting trainers seems to have eliminated this as a concern.

7. Developing the leather sector

The primary tenants of the recommendations for the leather sector fall into two categories: developing the sector and improving sector operations. Although there is the aim to increase investment in the sector through policies and incentives as the IPR suggested, the IPR also addressed areas which affect investment but are not directly related to promotion such as environmental standards compliance, technology transfer and quality improvement in domestic tanneries and leather manufacturers.

7.1. Implement policies and incentive measures to promote investment and innovative activities in the leather sector, making sure they take into account the value chain and support services

The Government has chosen to maintain the incentives that are included in the general investment framework, with one addition. It recently implemented a programme where investors can obtain up to 70 per cent of equity through loans provided by the Development Bank of Ethiopia. This incentive is available only to investors in certain priority sectors, which includes the leather sector. There are no restrictions on FDI in the sector, although the Government is discouraging investment in lower value chain activities.

In the same vein, the Government has implemented a "Top-Down (Pull) Approach" to encourage raw hides to be processed by local manufacturers rather than exported for processing abroad.[7] According to this approach, the leather products, mainly footwear (selected as the priority sector, followed by leather garments and leather goods), should be developed in a way that would "pull" the tanning sector to produce better quality and increased quantity of finished leather. As part of this initiative, the Government has also instituted a 150 per cent export tax on raw hides in November 2008. In 2009, it extended it to sheep pickle and wet-blue for both hides and skins to encourage further value addition.

One of the main drivers of the implementation of the "Top-down (Pull) Approach" is the Leather and Leather Products Technology Institute (LLPTI). It was established in 2004 with the main objective of creating technical capabilities in the sector and enhancing the competitiveness of leather and leather products industries. LLPTI's activities are to serve as an engine for the development of the sector by (a) providing training in technical, managerial and marketing areas; (b) offering direct services to industries; and (c) promoting networking between the formal and the informal sectors.

Among the results of the "Top-down (Pull) Approach", the increase in the number of tanneries from 8 in 2002 to 23 in 2010 is remarkable.

7.2. Implementing policy instruments and incentive measures should be used to stimulate investment in effluent treatment plants and to induce tanneries to meet the required standards

The primary policy instrument to encourage investment in effluent treatment plants is the Environmental Protection Authority (EPA). Created in 2005, it has put in place stringent standards and considers the leather industry one of the main targets for its enforcement efforts. As a result, most tanneries have chosen to

[7] The strategy proposed is included in a document entitled: *"A Strategic Action Plan for the Development of the Ethiopian Leather and Leather Products Industry"*. This strategy takes as a model the policy mix, experimented in China and Italy, for the footwear industry.

build effluent treatment plants into their facilities. Tanneries have become more receptive to the ideals of environment-friendly products and social responsibility. This attitude is driven by tougher EPA standards and the increasing number of potential buyers visiting processing sites before making the decision to import from a supplier.

7.3. Consultation and collaboration between the Government and private sector operators in the leather and leather products sector is needed to address skills shortage

The extent of collaboration between the Government and private sector operators is unclear, but there has been significant progress from both in addressing skills shortage in the sector. In 2007, a study was conducted in cooperation with UNIDO and other development partners to identify limiting factors of productivity. In response to the study's findings, an upgrading programme for tanneries and footwear manufacturers has been prepared by the Ministry of Trade and Industry, using foreign experts. Demonstrating commitment to this programme, the Government has allocated $1 million in funding.

As mentioned previously, one of the major advancement in terms of skills improvement is the setting up of the LLPTI. It has four manufacturing model plants including a chemical/physical laboratory accredited by the South African Standards Agency. LLPTI also prepared an Upgrading Programme based on internationally-recognized benchmarks for the tanneries and footwear companies. It has the aim of becoming a hub for the sector and, in line with this objective, it has begun to provide marketing services in addition to training.

7.4. Introduce specific regulations, incentive measures to reduce disease incidences

In Ethiopia, over 50 per cent of processed skins are rejected because of the ekek disease spread by lice and keds.[8] Because the damage occurs while the animal is still alive, it is not until the skin has been processed that the damage is identified; thus the tanneries lose by purchasing undetected inferior skins, the expense of processing the skins and the inability to export as a result of downgrading. In a 2002/03 study conducted in two Ethiopian tanneries, it was estimated that losses due to ekek were $2.2 million.[9]

In order to try and address the prevalence of ekek disease, several programmes have been launched with the help of donors. One programme was launched in 2005 in the Amhara region with the support of the EU's Centre for the Development of Enterprise (CDE). This project has been expanded to four other regions. With the partnership of the Ethiopian Veterinarian Association, USAID launched a project in 2009 with three tanneries and the Debre Birhan Research Institute. The projects are showing positive results but the ekek disease is widespread and more work is needed to fully address the disease. Furthermore, no regulations or incentive measures related to disease reduction have been introduced although a case could be made that any regulation or incentive measures should be guided by the outcome of the projects underway and must await the results.

7.5. Introduce a procurement system based on premium prices for better quality materials and improve animal husbandry to raise the quality

Closely related to the recommendation above, a procurement system would have a cascade effect on the sector. First, the higher price would induce farmers to invest in methods to

8 Agribusiness and Trade Expansion Program Monthly Update. September 2009. USAID.

9 A study on ectoparasites of sheep and goats in eastern part of Amhara region, northeast Ethiopia. Sertse, T and Wossene, A. Small Ruminant Research May 2007 (Vol. 69, Issue 1: 62–67).

reduce the ekek disease outlined above, as well as, work to reduce other problems affecting quality. In 2002, losses to the Ethiopian economy due to the poor quality of skins were estimated at over $14 million each year.[10] Many of the skins that reach the tanneries are not of sufficient quality for further processing which has led to underutilized capacity in tanneries of around 40 per cent. Better quality from suppliers would boost capacity utilization, increasing the output and exports of Ethiopian leather goods. Ultimately, the overall quality of leather production in Ethiopia would improve and increase competitiveness in international markets.

The inability to detect the ekek disease until after some processing has been performed on the skin has made implementation of a procurement system difficult. Suppliers, typically pastoralists, supply animals to private slaughter houses which, in turn resell to small traders who then resell to larger traders. Eighty-five per cent of hides arrive at tanneries through from the large traders.[11] Through all of the stages prior to the tannery there is no point at which the ekek disease can be identified. The pastoralists and other intermediaries do not have the capacity to perform first-stage processing and because of the number of intermediaries, relying on a tanner pay after rating the quality of each individual hide requires a significant amount of trust on the part of the supplier.

Despite the difficulties in introducing a procurement system, the Government is cognizant of the role such a system could make to the sector and between 2000 and 2002 a grading system was implemented. In 2006, using the grading system work began on implementing a procurement system. In addition, the Quality and Standardization Agency (QSAE) is responsible for certifying product quality. Although the procurement system is not fully in place, the grading and QSAE has had the effect of raising awareness of the parameters for better priced exports and the competitiveness in the marketplace for quality goods. An estimated 90 per cent of tanneries have improved their facilities to process crust and finished leather. Several have received ISO certification and more are in the process

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10 RLDS Policy Brief No. 1. The Importance of the Leather Footwear Sector for Development in Ethiopia. Theo van der Loop. Addis Ababa, June 2003.

11 Case Study on Leather Shoe Promotion for Export, Ethiopia. 2008. Springer-Heinze, Andreas. GTZ.

certification. Still other tanneries have received certification from the South African inspection authority.

A memorandum of understanding has been signed between QSAE and LLPTI to take care of tests and certification in the leather sector, as the laboratories of LLPTI are better equipped than those of QSAE and partly accredited.

7.6. Re-examine the quality control and certification implementation process. The Ethiopian standards on raw hides and skins and finished leather products should be revised

As detailed above, quality control and certification are handled by LLPTI and QSAE. The Ethiopian Leather Association is working with the QSAE to improve the system of grading hides and providing a pricing strategy to accompany the assessment. The groups are in the process of finalizing the grading system and moving toward agreeing on a policy for scaling the pricing system for suppliers of quality raw material.

8. Small and medium-sized enterprises

Developing SMEs has proved challenging for Ethiopia. At present, the Federal Micro and Small Enterprises Development Agency (FeMSEDA) and its regional offices (ReMSEDA) are charged with developing micro enterprises and SMEs. Over the last several years, attention given to medium-sized enterprises has waned. In an effort to address this need, the Ministry of Works and Urban Development took the initiative to develop and promote SMEs with the particular aim of creating employment. FeMSEDA, under the Ministry of Trade and Industry, has lately shown an interest in regaining the initiative in developing SME programmes. Moreover, the recently approved GTP incorporates the development of SMEs as a strategic target to ensure accelerated industrial development and job creation. In this regard, the Government has launched an Industrial Extension Service package, targeting urban SMEs, to address their major challenges.

8.1. The EIA should develop a special FDI targeting programme aimed at foreign SMEs

The IPR noted that there has been an emergence of SMEs as transnational corporations (TNCs). Rising labour costs and intense competition in domestic markets are pushing SMEs to seek investment locations in their regions and beyond. These internationally expanding SMEs have characteristics that should make them attractive targets for investment promotion strategies. First, these firms tend to be relatively labour-intensive and rely more on indigenous personnel than expatriate workers. As a result, they are deemed appropriate for meeting the Government's objective of employment creation and technology transfer. Greenfield investment is generally the preferred method thus contributing to technology transfer and local technological capacity building. These SMEs also find joint-venture activities appealing which is ideal for fostering learning in local partner enterprises. Lastly, negotiations are generally less complex than with large TNCs. Although these are compelling reasons to target SMEs, the EIA has no specific programme to attract foreign SMEs at present, as it targets all types of investors regardless of their size.

8.2. The mandate of FeMSEDA should be refocused with emphasis on enterprise networking and brokering

FeMSEDA's mandate to coordinate and support all institutions dealing with micro, small and medium-sized enterprise development has not changed since 2002 although, as described above, the agency does not include medium-sized firms in many of its programmes. The agency provides support to the regional MSEDAs, concentrating on providing training for trainers, technology, marketing, and technical and managerial skills development. Over the last five years, the agency has trained 1,000 people each year. The training component of FeMSEDA's work, however, would normally be provided through educational training centres under the Ministry of Education and Vocational Training according to the industrial strategy. The majority of training centres have not been put in place and, as a result, FeMSEDA has stepped in to fill the gap.

In addition to training, FeMSEDA also has a limited programme to develop linkages. The programme connects suppliers and producers with exporters. Ultimately, the focus on training and the exclusion of medium-sized firms has caused FeMSEDA to falter in creating programmes related to enterprise networking and has limited the results of SMEs development efforts.

The IPR's recommendation that FeMSEDA shift to brokering would have entailed FeMSEDA (a) focusing on raising awareness in targeted groups of enterprises of the available support services; (b) identifying gaps in services; (c) assessing firms' needs and matching them with the appropriate service providers; (d) monitoring the impact of services; (e) providing business support services; and (f) working with private self-help organizations such as sector- and activity-related industrial associations. In place of the training FeMSEDA provides, the IPR recommended implementing Centres for Innovation and Enterprise Development (see section 8.3) which would fill training and other SME promotion needs. As it stands, with the exception of fairs to promote SME products, FeMSEDA focuses almost solely on training with resources spread thinly in an effort to provide training across the regional MSEDAs resulting in little other micro, small or medium-sized enterprise promotion efforts.

8.3. Centres for Innovation and Enterprise Development (CIEDs) should be established

Of significant concern in the IPR was the heavy emphasis on training in the FeMSEDA organization. Such a strong focus on training leaves little room for diagnostic problem analysis and capacity building at the firm level. Furthermore, at the time of the IPR, FeMSEDA was neglecting to include medium-sized enterprises in its initiatives in the belief that these firms face less problems and do not need promoting. The establishment of CIEDs were expected to alleviate many of the causes for these concerns.

The concept of the CIED is to provide regional agencies which would assist firms in (a) building and sustaining awareness of the need for innovation; (b) strengthening the ability of firms to identify weaknesses in strategy and operations as well as bottlenecks in production; and (c) serving as the link between firms and a network of support structures and suppliers who can help firms overcome their problems. The CIEDs have not been created, leaving a gap under the current FeMSEDA system in which diagnostic analysis and problem solving of firms' needs is not occurring. Furthermore, the FeMSEDA is constrained by having to focus all of its resources on training rather than acting as a developer and coordinator of SME promotion activities which would be the ideal structure as outlined above.

8.4. The Government should provide incentives through relevant policy tools (for example, tax incentives and direct subsidies) to encourage enterprises to train their workforce with advanced skills

The Government has taken on the burden of training micro and small-sized enterprises, but the IPR pointed out that training within the enterprise is an important factor in developing a capable and competitive workforce and thereby increasing FDI. Cost of training and high workforce turnover has deterred many enterprises from providing training. If the Government should act on this recommendation of the IPR, the workforce would receive hands-on training while sharing the cost burden of training with the private sector. At present, however, there are no incentives and there are no evident plans to introduce training incentives to the private sector.

8.5. An "information bank" should be set up to help provide SMEs with information

The IPR noted that SMEs are constrained in their ability to attract investment and introduce innovation as a result of the limited availability of information about markets, supply networks and types and sources of technology. In Ethiopia, the IPR found that firms consider this a more urgent issue than access to credit and management training. To address this constraint, the IPR recommended that an information bank be put in place.

Effort has been made by the Ethiopian Chamber of Commerce to make information available through its Trade Information Centre. Unfortunately, it is not considered to be very functional and is insufficiently populated with information. The Addis

Ababa Chamber of Commerce has developed a separate Market Information Resource Centre which contains a library and electronic database of market information on various sectors in the European Union. Unfortunately, it is not available online and as a result regional chamber members do not have access unless they physically visit the Resource Centre in Addis Ababa.

8.6. Establish an “investment, technology and marketing partnership” programme

In an effort to help domestic firms improve technological learning, market access and development of innovative capabilities, the IPR recommended promoting partnerships and joint ventures between foreign and domestic firms using incentives and direct Government support. The IPR highlighted leather manufacturing as an area of the economy which could particularly benefit from collaboration with foreign firms. Unfortunately, Ethiopian businesses, in general, are not well-versed in the various aspects of arranging such joint-venture or partnership agreements. Further hampering the likelihood of forming partnerships between domestic and foreign firms is the lack of a support system to help guide domestic companies through the process.

The IPR recommended establishing the partnership programme through a collaboration between the EIA and the Ministry of Science and Technology as a means of putting a support system in place. The programme would deal with the various stages of arranging partnership agreements. In particular, it would increase awareness among SMEs of the advantages of such partnerships, assist firms in the type of preparatory work to be performed before approaching a potential partner and assist in partner searches. Although there is a strong willingness of Ethiopian SMEs to engage in such partnerships, and in fact several have independently pursued such arrangements, Government support continues to be lacking. As mentioned previously, there is effort from the EIA to initiate linkages, both at the request of foreign investors and domestic firms.

8.7. An annual award for innovative enterprises should be introduced under the responsibility of the Prime Minister's Office

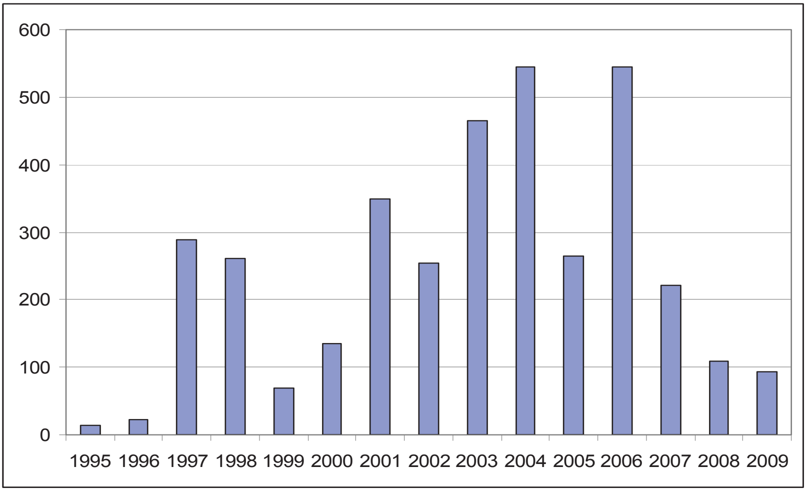
To further propel Ethiopian businesses toward innovation, the IPR proposed introducing an award. Managed under the Prime Minister's Office, the IPR envisioned the award would be managed by a board of representatives from the Ministry of Science and Technology, the Ethiopian Chamber of Commerce, the Ministry of Trade and Industry and selected representatives from the private sector and learning centres. An award for invention and innovation has been instituted through the Ministry of Science and Technology in cooperation with FeMSEDA however there is no involvement from other Government agencies or private sector representatives.

9. FDI attraction and performance

FDI inflows into Ethiopia have been generally trending upward, though with some volatility, since the mid-1990s. The uneven distribution is partly a result of several large projects. The recent world economic conditions have had a negative impact on figures for 2009 and 2010. From 2003-2007, annual average inflows were $409 million compared to just $214 million over the 1998-2002 period (figure I).

Foreign investments notably took place in the manufacturing and agriculture sectors. The Turkish company AYKA, which is the largest textile investor in sub-Saharan Africa, was approached by Ethiopian representatives and convinced to include the country in a comparative study of China and India when making its location decision. The initial investment was in 2007/08 for $140 million. At present, it employs 1,200 people with plans to increase to 10,000. In agriculture and floriculture, the Indian firm Karuturi Global Ltd. began operations in Ethiopia as a flower producer. Recently, it has expanded to cultivation and processing of sugarcane, cereals, vegetables and palm oil. The Government has allotted 300,000 hectares, 11,700 of which are already under cultivation. In the leather sector, two of the better known investors are Pittards Tannery, a United Kingdom firm, and German footwear manufacturer Ara AG. Besides these large investments, FDI inflows have also been characterized, during the 2000s, by an increase in small-size investment projects, which tended to be more diversified.

Figure 1: Annual FDI inflows, 1995-2009
(Millions of dollars)



Source: UNCTAD *World Investment Report 2010*.

Although FDI inflows have been trending upward throughout the 2000s, growth has levelled off even when discounting 2008 and 2009. It is likely that stronger promotional and targeting efforts, particularly related to privatization, would have increased FDI flows further. Opening the banking and telecommunications sectors to foreign investors would also have helped produce stronger FDI inflows. An open banking sector in particular would have propelled more growth in FDI as there is a limited capacity within the state bank to address the needs of foreign investors.

10. Conclusions and recommendations

Efforts have been made to address the majority of recommendations presented in the IPR. Tables I–V summarize the progress completed with respect to each, revealing the agriculture and leather sectors to be the areas of greatest progress. The shortfalls chiefly occurred in recommendations related to the EIA and SME development.

The Ethiopian Government has promoted both domestic and foreign direct investment with the objective of accelerating economic growth. The Investment Code has been revised to make it more transparent, attractive and competitive. This has had a positive impact on investment in terms of volume and diversification.

As a basis for development, the GTP 2010/11 – 2014/15 contains key policies and strategies to sustain a broad-based, rapid and equitable economic growth. This new plan relies on a vibrant agriculture sector and the country's industrialization. To contribute to these objectives, the Government banks on the enhancement and expansion of infrastructure, the creation of industrial zones, the promotion of business linkages, the development of domestic SMEs and good governance.

There has been significant progress achieved in implementing recommendations in the agriculture and leather sectors, which will increase the attractiveness and viability of investment in those sectors. Investment in the agriculture sector is currently more attractive and profitable in diverse sub-sectors ranging from food products, industrial raw materials to biofuel. The Government is encouraging both farmers and private investors to focus on the production of high value added and demanded products. In this regard, infrastructure is expanding in areas where land is easily available for commercial agriculture. Other improvements have also been made, including easing regulations on investment from diaspora and lowering minimum investment requirements for greenfield investment from $500,000 to $100,000 and joint ventures from $300,000 to $60,000. On the other hand, the lack of coordination in investment promotion and the limited promotion activities of the EIA have impeded growth in FDI inflows in the past. Although some actions are being taken to address this problem, more efforts are needed to further increase FDI inflows. The slowness of implementation in several areas is also of concern. While the majority of recommendations have been at least partially implemented, concrete progress has been slow. In the eight years since the IPR was published, 7 of the 30 recommendations can be considered to have been fully implemented. Going forward, it will be important for the Government to more quickly and completely implement remaining recommendations with the support of international donors and organizations. Of the recommendations which have not been fully addressed, the following issues are of particular importance:

Ethiopian Investment Agency and investment promotion:

- The lack of investment strategy has hindered the EIA's ability to increase FDI inflows. Furthermore, the lack of a nationally integrated strategy has led to inefficient and sometimes ineffective promotion. In this regard, a comprehensive five-year investment strategy has recently been developed and approved by the Federal Government to address this problem;
- The EIA should be recognized by all actors in investment promotion as the primary coordinator in not only legal terms, as is the present case, but in practice. It is hoped that the ongoing measures, such as the development of a national master plan for investment promotion, will soon materialized;
- The implementation of the recommendations related to the EIA's investment promotion activities should be a priority. There are hopes for increased staff and budget, but the current resources are not being effectively utilized. More staff and budget should only follow development of a strategy and better coordinating mechanisms. In the interim, more effort should be put into implementing the investment promotion recommendations and demonstrating the importance of the agency as a generator of FDI inflows;
- The lack of FDI to regions outside of the capital area is affected not only by infrastructure constraints but also by an ineffective arrangement between RIBs and the EIA. This should be resolved by defining the relationship in a way which establishes a clear division of labour and the workflow process between the agencies;
- Changing the law to facilitate investment by the diaspora was a good start. However, as advised in the IPR, active involvement of the EIA is needed to encourage Ethiopian business people abroad to invest in Ethiopia and to use

their experience to target appropriate and realistic TNCs in its promotion efforts.

Leather sector:

- This sector needs to move more quickly to implement regulations and incentive measures related to the reduction of diseases and improve animal husbandry. Pilot programmes have been introduced as early as 1995. The projects currently underway are using the same vaccines as were tested in 1995; yet 15 years later, there have been neither regulation nor incentives to induce farmers to adopt practices which reduce the incidences of a disease which is costing the economy an estimated $14 million each year. Even assuming different project methodology, 15 years is long especially in light of the positive impact that could be made in the sector and the wider economy;
- Faster progress made towards the introduction of a procurement system based on quality is also needed. Although there are difficulties to overcome in implementing a system, the project to introduce a procurement system has been ongoing for eight years. This is too slow considering the impact such a system can have on quality. A relative improvement would positively affect the entire industry and increase the reputation of Ethiopian leather products on international markets.

SMEs:

- If one of the objectives of the Government is to attract foreign investment by developing a healthy private sector, medium-sized businesses should not be ignored. These businesses should be added back into the FeMSEDA programmes as they are firms which will be most able to form partnerships with foreign firms but may still be lacking in the capacity to do so;
- The singular focus on training has distracted the FeMSEDA from performing as the overall coordinator of SME development programmes and ensuring that existing programmes are effective. The Government should ensure the vocational training centres under the Ministry of Education are operational which would allow FeMSEDA to

refocus its mandate on addressing non-training related needs of SMEs;

- As the top concern of SME managers, the lack of information is an issue that should be addressed. The FeMSEDA and the EIA should assist the Ethiopian and Addis Chambers in further developing the scope and outreach of the libraries they have in place, with the support of the international community;
- Although the EIA does some work to create linkages between foreign affiliates and local businesses, the reactive nature (responding only to requests from foreign investors) could be improved. A more systematic approach, taking into account the SMEs perspective, should be envisaged.

Lastly, there were several issues raised in the IPR and again by interviewees during the implementation review for which there were no explicit recommendations. First, the banking and telecommunication sectors remain closed to FDI. The Government should consider opening the financial sector to FDI in order to realize the many benefits foreign banks can bring to an economy, the least of which are more capital, better risk management and transfers of technology and innovations in products and processes. Consideration should also be given to the telecommunications sector. The country is being left behind in terms of digital access and telecommunication costs for end-users are very high. Recently, there has been news of a profit-sharing, management arrangement between France Telecom and Ethiopian Telecommunication Corporation which might be the early signs that the Government is moving to liberalize and allow FDI in the sector. However, the pace should be increased if Ethiopia is not to fall further behind other African countries and to meet prerequisites for entering the World Trade Organization. Privatization is another area in which FDI could have been expected to play a greater role. Many of the State enterprises have undergone privatization with little foreign participation; however, progress has been slow in the textile sector presenting an opportunity to entice foreign investors to Ethiopia. Furthermore, the lack of quality infrastructure remains a major constraint to FDI. Being a landlocked country, Ethiopia should improve its transport infrastructures in order to cut the costs of cargos. The shortage of electricity is also one of the major issues for economic activity, adding high costs to the private sector. Some efforts to address this issue have been taken since the adoption of the Power System Expansion Plan which should allow new initiatives, such as the construction of new dams, in order to tap the country's hydropower estimated at 45,000 MW.

Finally, additional measures should be taken to attract investment from Ethiopians abroad and catalyse them into building productive capacities. In the past 10 years, remittances from the Ethiopian diaspora have dramatically increased and could further contribute to concrete investments if appropriate policies are implemented. For example, Government agencies in some countries encourage nationals living abroad to partly finance development projects back home by offering to match the amount invested by them.[12] In other cases, State-owned banks have created alliances with international financial institutions to reduce the cost of transferring remittances and to provide emigrants with financial opportunities that foster investment in their country of origin.[13]

[12] Best practice examples of policies to attract remittances in investment include the "Unidos por la Solidaridad" programme in El Salvador administered by the *Social Investment and Local Development Fund*, and the "Iniciativa Ciudadana 3x1" in Mexico.

[13] The State-owned *Groupe Banques Populaires* of Morocco provides emigrant clients subsidized credit for real estate and entrepreneurial investments in Morocco. Similarly, the *State Bank of India* offers non-resident Indian accounts higher interest rates than normal bank accounts and tax exemptions on portions of interest earned.

Table I. Summary of implementation achievements Institutional Framework for Investment Policy and Promotion

Sector/area	IPR recommendation	Result	Comment
Institutional Framework	Develop long-term international investment strategy and make the EIA agency with overall responsibility for FDI promotion	★★	The EIA five-year investment promotion strategy has been developed. Enhanced management of the EIA investment promotion and coordination with RIBs.
Institutional Framework	The EIA must be managed as an effective one-stop-shop	★★	Of the required licences and permits, the EIA is allowed to issue three.
Institutional Framework	The EIA must be strengthened	★★	In-house training and some external training sessions have been conducted.
Institutional Framework	Establish a small International Investment Advisory Council	+	A council was established, but with the aim of conducting focused foreign investment promotion rather than receiving advice from FDI executives. This council was abandoned. A National Coordinating Committee has been created recently.
Institutional Framework	Regional Investment Bureaus (RIBs) restructured to create Regional Development Agencies	★★	Some steps towards restructuring the RIBs have been taken. The EIA and RIBs have clearer mandates and do collaborate.

Key to table:
★★★★ surpassed expectations
★★★ fully or largely accomplished
★★ partially accomplished
★ no change or reversal
\+ different policy direction taken

Table II. Summary of implementation achievements Investment Promotion and Economic Development

Sector/area	IPR recommendation	Result	Comment
Investment Promotion	Planned enquiry and promotional visits to appropriate and targeted international investors by embassy staff	★★	Investment promotion is part of the diplomats' role and sporadic training has been provided to staff. A promotion programme for embassies has been developed.
Investment Promotion	Use Ethiopian Airlines staff and resources to help promote investment opportunities	★	There is no collaboration between The EIA and the EA.
Investment Promotion	Effective marketing of business opportunities through Government media including the website	★★	There has been some effort to move this initiative forward. In this sense, the creation of a new EIA website is significant.
Investment Promotion	The EIA should encourage the Diaspora to invest in Ethiopia and contribute to investment promotion activities	★★	The Government has prepared a Diaspora policy to encourage its members to engage in investment activities. The EIA has created a post of Diaspora Affairs Officer.
Investment Promotion	Regular contact between the EIA and existing foreign investors (aftercare)	★★★	Monthly calls are made to investors in priority sectors. Problem solving is a priority of staff.
Economic Development	Establish fully-serviced industrial sites	★	Investors have indicated interest in developing zones but none have been built. There is also no clear action from the Government to develop zones.

Economic Development	Develop a long-term, prioritized national investment programme for infrastructure	★★★	The PASDEP and PRSP both include infrastructure development initiatives. The GTP guarantees the continuity to PASDEP
Economic Development	Implement a programme to help establish linkages between new international investors and local suppliers	★★★	The Ethiopia Chamber, the Addis Ababa Chamber and the FeMSEDA have programmes to develop linkages.

Table III. Summary of implementation achievements Agriculture Sector

Sector/area	IPR recommendation	Result	Comment
Agriculture	Refocus agriculture R&D in order to make it more demand-driven and client-oriented	★★	Budget allocation for projects is driven by priority sectors and determined at the ministerial level. However, the EIAR is actively moving towards demand-driven projects which take into account farmers' needs.
Agriculture	ESTC's role should shift from the role of traditional "science counsellor" and direct research funding to an institutional means of encouraging innovation and providing policy advice to higher levels of Government	★★★★	ESTC became the Ministry of Science and Technology, coordinating and guiding Government technology and research policy.
Agriculture	Greater integration across the Ethiopian National Agriculture Research System	★★	It is the mandate of the EIAR to do so for national projects but not regional projects.
Agriculture	Within higher education change patterns of funding to give more control to scientists and department heads with budgets managed at a lower hierarchical level	+	Funding for higher education R&D is not handled separately from other research. The EIAR determines and distributes funding based on the priority sectors which received funding and client needs.
Agriculture	Human resource measures should focus more on "capacity-building" rather than "training" in the traditional sense.	★★★	There are many projects which focus on non-traditional training such as leadership skills.

Table IV. Summary of implementation achievements Leather and Leather Products Sector

Sector/area	IPR recommendation	Result	Comment
Leather	Implement incentive measures to promote investment taking into account the value chain	★★★★	The Government instituted the option of funding 70% of equity in loans through the development bank across priority sectors. Particular emphasis has been put on the support of the footwear industry.
Leather	Implement policy instruments and incentives to stimulate investment in effluent treatment plants and induce tanneries to meet required standards	★★★★	Emphasis has been put on the environment through the enforcement of standards by the EPA. It has encouraged many tanneries to invest in effluent treatment plants.
Leather	Collaboration between the Government and private sector operators is needed to deal with skills shortage	★★★	The Government prepared an upgrading system for tanneries and footwear industries; LLTPI provides extensive training.
Leather	Implement specific regulations, incentive measures to reduce the disease incidences and improve animal husbandry	★★	Pilot programmes are underway to attempt to control the ekek disease. Quality standards have been introduced and a procurement systems is being developed to create monetary incentive for producing better quality but there has been no specific regulation or incentive introduced related to disease reduction and animal husbandry.

Leather	Introduce a procurement system based on premium prices for better quality materials	★★	A grading system has been introduced and there is work being done to pair it with a pricing strategy.
Leather	Re-examine implementation process of quality control and certification mechanisms; define roles and responsibilities of key actors and revise standards on raw hides and skins	★★	The implementation process continues to be slow but progress has been made since LLPTI handles tests and certification.

Table V. Summary of implementation achievements Small and Medium-sized Enterprise Development

Sector/area	IPR recommendation	Result	Comment
SMEs	Implement a special FDI targeting programme aimed at foreign SMEs	★	There are no specific programmes at the EIA to targeting foreign SMEs. The GTP envisages SMEs development as a target to achieve industrial development.
SMEs	Refocus the mandate of the Federal and Regional Micro and Small Enterprises Development Agency (FeMSEDA)	★	The mandate remains the same.
SMEs	Establish Centres for Innovation and Enterprise Development (CIEDs)	★	No CIEDs have been established.
SMEs	The Government should provide incentives to SMEs to train their workforce in advanced skills	+	There are no incentives to SMEs to train their workers. The Government provides training through the federal and regional MSEDA.
SMEs	An information bank should be set up	★★	The Ethiopian Chamber and the Addis Ababa Chamber have started an information bank, but it is not well-populated with data or easily accessible to SMEs outside of the capital.
SMEs	Establish an investment, technology and marketing partnership programme to assist SMEs in finding and arranging partnership agreements	★	No programme has been established and there is no other apparent source of assistance in this area for SMEs.

SMEs	Introduce an annual award for innovative enterprises managed by a board with representatives from the Ethiopian Chamber, Ministry of Science and Technology, the private sector, etc.	★★	The Ministry of Science and Technology organizes an invention award and an innovation award with some coordination with FeMSEDA. There is, however, no representation from other areas.

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