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Foreign Direct Investment in the Agricultural Sector in Ethiopia

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About the EcoFair Trade Dialogue:
The EcoFair Trade Dialogue is a project carried out by the Heinrich Boell Foundation and MISEREOR in cooperation with the Wuppertal Institute. It aims at promoting a framework to organize international agricultural trade in a socially and ecologically sustainable way. The main outcome of a two years first phase of the project was the report "Slow Trade – Sound Farming. A Multilateral Framework for Sustainable Markets in Agriculture" (2007), which emerged from an extensive consultation and exchange process that took place across all continents. This discussion paper is one out of several "implementation papers" that are based on the perspectives and proposals contained in the
"Slow Trade – Sound Farming" report. www.ecofair-trade.org

I want to thank you Dr. Alemu Getnet from the Addis Ababa University for his detailed report on regulations, legal conditions and incentives for Foreign Direct Investment in Ethiopia.

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Summary of Main Findings

- Global Foreign Direct Investment (FDI) reached in 2007 the all-time maximum level of US$ 1,833 billion
- Despite the global financial crisis FDI inflows into developing countries (especially Africa) increased to their highest level ever
- Through the global crisis new motives for undertaking FDI have evolved. Next to efficiency-seeking and market-seeking (traditional motives of foreign investors) the objective of food security and secure financial returns have become major drivers for FDI flows
- Ethiopia is one of the developing countries that has arouse the attention of foreign investors as it is highly endowed with fertile land and has developed a very investor-friendly environment over the last 10 years through strong changes in their national policy framework
- Ethiopia's poverty-stricken economy (more than 45% of the total population are food insecure) is based on agriculture – accounting for almost half of the GDP, 60% of exports and 80% of total employment. High investment flows into this sector leads to high impacts on the total Ethiopian economy
- Especially for the agricultural sector, regulations on investments have been relaxed significantly. No minimum capital is required anymore, foreign agricultural activities are exempted from the payment of custom duties and taxes on imports of capital goods, according to the export orientation of the foreign investor he is exempted from income tax for a certain time period and to all these incentives foreign investments are exempted from the payment of sales and excise taxes for export commodities.
- Investments in the agricultural sector of Ethiopia have increased from US$ 135 Mn in 2000 up to US$ 3500 Mn in 2008
- Main investor countries are: EU, India, Israel, Saudi Arabia and the US

  Main agricultural sectors: flori/horticulture, meat production, biofuel and food production

  Main regions of investment: Oromia (excellent climatic conditions for flower production), Amhara, SNNPR and multiregional
- Sectors like the flori/horticultural sector can lead to an increase in the economic and social development as it creates numerous job opportunities. At the same time, ecological development is not taken into account as no strong environmental framework exists
- Sectors like the meat and biofuel sector can cause negatives effects on food security and poverty as competition on fertile production land and water increases. The predicted objective of foreign investors is the food security in their own countries and the secure of financial returns.
- High investments in the agricultural sector are basically necessary for a sustainable development but only if a comprehensive policy framework is in place

1 Introduction

Global Foreign Direct Investment (FDI) inflows rose in 2007, after four consecutive years of growth, by 30% to reach $1,833 billion, well above the previous all-time high set in 2000 (UNCTAD, 2008). Especially in developing countries FDI inflows reached their highest level ever ($500 billion) – a 21% increase over 2006. The least developed countries (LDCs) attracted $13 billion worth of FDI in 2007 – also a record high (UNCTAD, 2008).

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

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

Targeting the first motive "food security", capital strong nations secure land for outsourcing food production titled by newspapers such as the "Sueddeutsche.de" (January 2009) and the "Financial Times Deutschland" (August 2009) as Neocolonialism[1]. According to GRAIN (2008) especially countries that are net-importers such as Saudi Arabia, Japan, China and India see this as an innovative long-term strategy to feed their people at an appropriate price and with far greater security than heretofore. Since they rely on food imports, they are worried about tightening markets resulting from the world food crises. On the other hand they are rich

[1] A summary of latest newspaper article can be found under the land grab notebook released by GRAIN. http://tinyurl.com/landgrab2008

of capital and are therefore seeking to cover the domestic food demand by gaining control of farms in other countries.

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

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

Ethiopia is chosen for this case study since the countries government puts a lot of effort on attracting FDIs in order to push agricultural and rural development. FDI flows in the agribusiness sector have increased highly in Ethiopia in the last 3 years (since 2006). As Ethiopia is among the most populous countries on the African continent, more than 45 % of the population suffer from undernourishment (WFP, 2009) and ca. 40 % of the population live from less than one US$ a day we would like to understand which consequences large amounts of FDIs in the agricultural sector will have for the rural population.

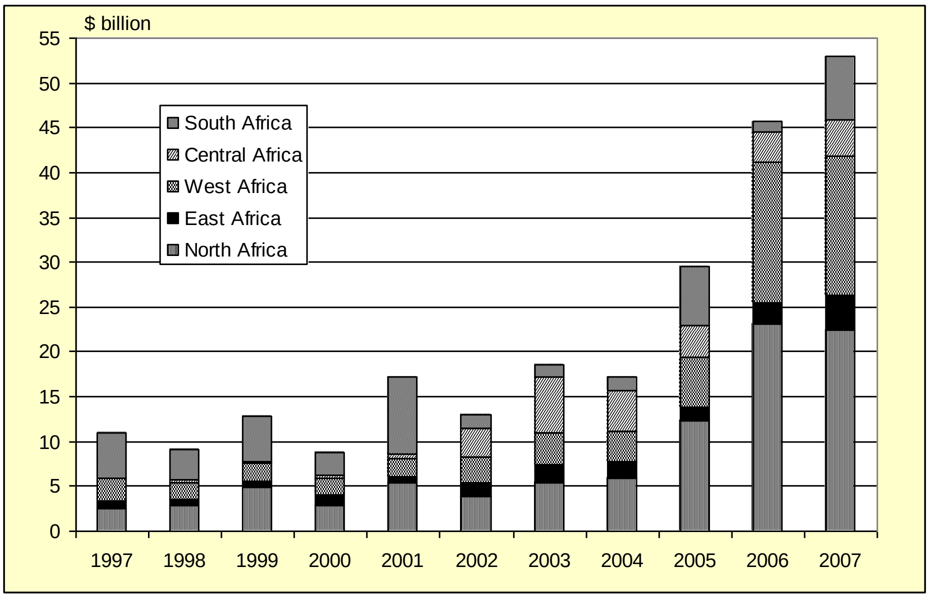
In order to do so this study aims at analysing whether the above mentioned global reasons (food security and security of financial returns) can also be seen for Ethiopia or whether other reasons drive FDI inflows to Ethiopia. Through the use of country specific data bases and complementary expert interview a detailed view of the investment development in Ethiopia for the agricultural sector is provided for the years 2000 - 2008.

This paper will first give an overview on the development of FDI inflows into Africa in the recent years. The overview will show that FDI inflows have increased differently in the various parts of Africa (section 2). Ethiopia is thereby one country that has not received high amounts of FDI inflows over time but where the interest of foreign countries has increased in recent years when regarding the national investment database as well as the latest newspaper articles. To interpret the development of the FDI inflows and hence resultant impacts on the Ethiopian economy, a short overview of the current economic situation of Ethiopia is given in section 3. Against this background information the database generated by the Ethiopian Investment Agency is analysed to draw a picture of the development of FDI inflows over the past years. As the political framework can have a significant influence on how attractive a country can be for foreign investors, the main trade and investment agreements of the main investor countries are summarised in section 5. Section 6 presents the results compiled by the Ethiopian counterpart Dr. Getnet. Conclusions are drawn in section 7 containing a short summary of the main results.

2 FDI evolvement in Africa

Africa is highly endowed with natural-, especially land resources. Over the past few years investing in land has particularly become interesting for foreign investors against the background of the global (food and financial) crises. Between 2005 and 2007 the overall FDI inflows grew by nearly 80% from $29 billion to reach $53 billion, their highest level so far, despite the global financial crises (UNCTAD, 2008). This is the highest percentage increase of FDI inflows within the developing countries[2]. Figure 1 shows the development of total African FDI inflows independent from a specific sector between 1997 and 2007. Further the regional distribution of the FDI inflows among the five main sub-regions of Africa is stated. In the World Investment Report 2008 by UNCTAD, this strong growth is explained as a consequence of the booming global commodities market, rising corporate profitability of investment and an increasingly FDI-friendly environment.

Figure 1: African FDI inflows, 1997-2007



Source: UNCTAD, 2008.

The African growth of FDI inflows is spread across 35 countries, and includes many natural resource producers that have been attracting flows in the past few years, as well as new host countries. North Africa attractes 42% of the FDI to the region in 2007 compared with 51% in 2006 and Sub-Saharan Africa attractes 58% of the flows, up from 49% in 2006. This slight change in the distribution of the FDI inflows occures because large inflows to Nigeria and

[2] Developing countries incorporate all countries from Africa, Latin America and the Caribbean as well as Asia and Oceania (UNCTAD, 2008).

South Africa, combined with strong investments in Equatorial Guinea, Madagascar and Zambia- each receiving about $1 billion or more inflows in 2007 – boosts overall FDI to Sub-Saharan Africa (UNCTAD, 2008). In table 1 the distribution among African countries is listed by range. The development of the single African regions between 2005 and 2007 can be found in Annex 1.

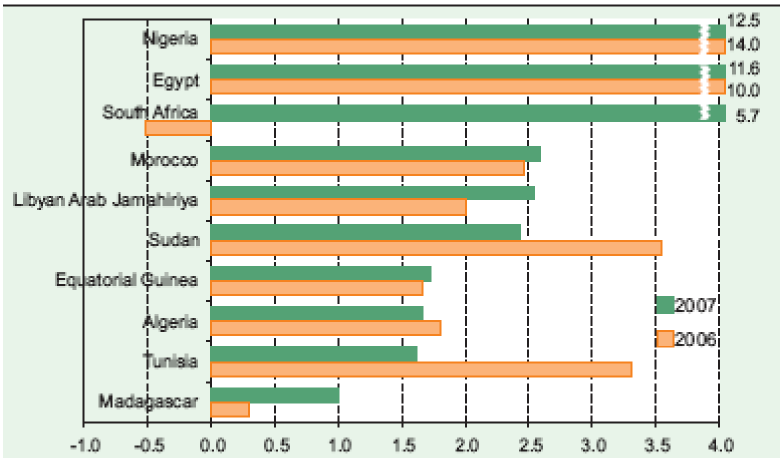
Table 1: Distribution of FDI inflows among African host countries, by range, 2007

Range	Host countries
Over $3.0 bn	Nigeria, Egypt and South Africa
$2.0 bn to $2.9 bn	Morocco, Libyan and Sudan
$1.0 bn to $1.9 bn	Equatorial Guinea, Algeria and Tunisia
$0.5 bn to $0.9 bn	Madagascar, Zambia, Ghana. Kenya, Democratic Republic of Congo, Namibia, United Republic of Tanzania, Chad and Burkina Faso
$0.2 bn to $0.4 bn	Botswana, Mozambique, Côte dÌvoire, Uganda, Mali, Congo, Mauritius, Cameroon, Gabon, Ethiopia and Seychelles
Less than $0.2 bn	Djibouti, Cape Verde, Mauritania, Somalia, Guinea, Lesotho, Sierra Leone, Senegal, Togo, Zimbabwe, Rwanda, Gambia, Malawi, Benin, Liberia, Swaziland, São Tomé and Principe, Central African Republic, Niger, Guinea-Bissau, Comoros, Burundi, Eritrea and Angola

Source: UNCTAD, 2008.

The ten leading FDI host countries in Africa account for over 82% of the African inflows (figure 2).

Figure 2: Top 10 recipients of FDI inflows, 2006-2007 (Billions of dollars)



Source: UNCTAD, 2008.

The top 10 host countries in 2007 share a number of common features: large reserves of natural resources and/or active privatization programmes, liberalised FDI policies and active investment promotion activities (UNCTAD, 2008).[3]

FDI inflows in 2007 to the five sub-regions of Africa differed with respect to their level, growth and geographic distribution. North Africa is the main region into which FDI flows go, accounting for $22 billion in 2007. The major industries that attracted FDI in North Africa were processing industry and the financial sector. West Africa experiences a boom in the primary sector[4] and in the telecommunication sector, leading to another year of large inflows ($15.6 billion in 2007 and $15.8 billion in 2006).

The sub-region that ranks the lowest when looking at FDI inflows in Africa is East Africa (including Ethiopia). Of course there are some countries that state an exception, as Madagascar, Kenya or the Seychelles. The main sector that attracts FDI is the primary sector which drove FDI inflows in 2007 to $4 billion compared to $2.4 billion in 2006. Central Africa receives FDI inflows mainly from Asian investors in the primary and services sector. It's total FDI inflows increase by 26% to $4 billion in 2007. The last sub-region is Southern Africa. It experienced the highest growth among the sub-regions to $7 billion in 2007. Its main investors are from Asia (China) in the finance sector and processing industry. (UNCTAD, 2008)

Regarding the agribusiness sector (agricultural plus food processing sector) the FDI inflows into the developing countries have nearly doubled between 2000 and 2006 increasing from US$ 5 billion in 2000 up to US$ 9.1 billion in 2006. A further disaggregation of the data into the single developing countries and into the sub-sectors of the agricultural sector that receive the foreign investments is not possible. This is one reason why a case study is so sensible. Case studies can give a detailed view of the development in a certain country and a specific sector.

Although East Africa appears to be the region that has experienced the lowest FDI inflows between 2005 and 2007 according to the World Investment Report 2008, its total FDI inflows have doubled in this time period. Further, latest newspaper articles on FDI identify especially East African countries such as Ethiopia, Kenya and Madagascar as potential host countries for FDI inflows in the near future. Due to the good data availability, Ethiopia is chosen in this

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[3] Negative inflows in South Africa in 2006 are instances of reverse investment or disinvestment.
[4] The primary sector includes the agricultural and the mining sector in the World Investment Reports by UNCTAD

case study, for analysing how FDI inflows have developed for a certain sector (in this case the agricultural sector) and what reasons stand behind this development.

3 Overview on Ethiopia's economy

Ethiopia is the oldest independent country in Africa and exists of 11 regions (Afar, Amhara, Benishangul-Gumuz, Gambella, Harar, Oromia, Somali, Southern Peoples, Nations & Nationalities, Tigray, Addis Abeda, Dire Dawa). A summary of key figures describing its social-economic environment can be found in table 2 which also includes figures from Germany as a reference.

Table 2: Main Characteristics of Ethiopia

Population growth rate (2008)	3.208% Germany -0.053%
Median age (2008)	16.9 years Germany 43.8 years
Life expectancy at birth (total population)	55.41 years Germany 79.26 years
GDP per capita (2008)	$ 1 191 Germany $ 34 800
GDP composition by sector (2008)	Agriculture 45.9% Industry 12.1% Services 41.2%
Population below poverty line (2005/2006)	38.7% Rural area 35.1% Urban area 39.3%
Agricultural land (% of land area)	30 – 31% between 2000 and 2008
Irrigated land (% of cropland)	2.4 – 2.7% between 2000 and 2008 395 016 ha
Small scale producers	83% of the rural households cultivate less than 2 ha per household – 52% less than 1 ha
Export partners (2007)	Germany (8.2%), Saudi Arabia (7%), USA (6.9%), Djibouti (6.6%), China (6.5%), Italy (6.5%), Japan (5.9%), Netherlands (4.8%)
Import partners (2007)	Saudi Arabia (17%), China (15.9%), India (7.8%), Italy (5.1%)

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

Ethiopia is endowed with a lot of fertile land and in most regions with a sufficient amount of rainfall. Still, almost 40% of the total population lives below the poverty line and this has not changed significantly since 1995. 4-6 million people depend on international food assistance even in years with good harvest. Due to increased food aid, the proportion of undernourished population has decreased from 69% in 1995 down to 46% in 2004 (World Bank 2007). A major reason for this high dependency on food aid is that even though the average annual rainfall is sufficient with 848mm, most of the rain falls intensively, extremely spatial and with very high temporal variability. This leads to high risks of annual droughts and intra-seasonal dry spells as nearly all food crops in Ethiopia come from rainfed agriculture (FAOSTAT, 2005).

Ethiopia's poverty-stricken economy is based on agriculture, accounting for almost half of GDP, 60% of exports and 80% of total employment. Under Ethiopia's constitution, the state owns all land and provides long-term leases to the tenants. On average, 83% of the rural households cultivate less than 2 ha per household and 52% less than 1 ha (FAOSTAT, 2005). In 2007 the main important products especially regarding small scale productions are cattle meat, roots and tubers, cow milk, maize, chillies and peppers, cereals, wheat, coffee, sorghum and sheep meat (FAO statistics, 2009)[5]. Coffee is the major agricultural product with respect to export flows. It accounts for 3% of the GDP and a quarter of the total population make a living from this sector. Further main export products in 2006 after coffee are oilseeds, chat, leather, gold, pulses, live animals, flowers, meat and fruit/vegetables (IMF, 2007)[6].

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

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

Soil erosion is intensified in Ethiopia through different channels. Due to water erosion, which is severe in the Ethiopian highlands, about 30,000 hectares of productive land are lost every year, while two million hectares are irreversibly damaged. The rate of deforestation in

[5] The production values of the single commodities in 2007 are: cattle meat (US$ 810 Mn), roots and tubers (US$ 575 Mn), cow milk (US$ 447 Mn), maize (US$ 379 Mn), chillies and peppers (US$ 342 Mn), cereals (US$ 335 Mn), wheat (US$ 331 Mn), coffee (US$ 266 Mn), sorghum (US$ 261 Mn), sheep meat (US$ 156 Mn)

[6] The export values of the single commodities in 2006 are: coffee (US$ 354 Mn), oilseeds (US$ 211 Mn), chat (US$ 89 Mn), leather (US$ 75 Mn), gold (US$ 65 Mn), pulses (US$ 37 Mn), live animals (US$ 28 Mn), flowers (US$ 22 Mn), meat (US$ 19 Mn), fruit and vegetables (US$ 13 Mn)

Ethiopia is estimated at 80,000 to 200,000 hectares of land per year. Through the increased deforestation, wind erosion is becoming increasingly severe in the semi-arid and Rift Valley areas of the country (Taddese and Peden, 2006).

4 Development of FDIs in Ethiopia

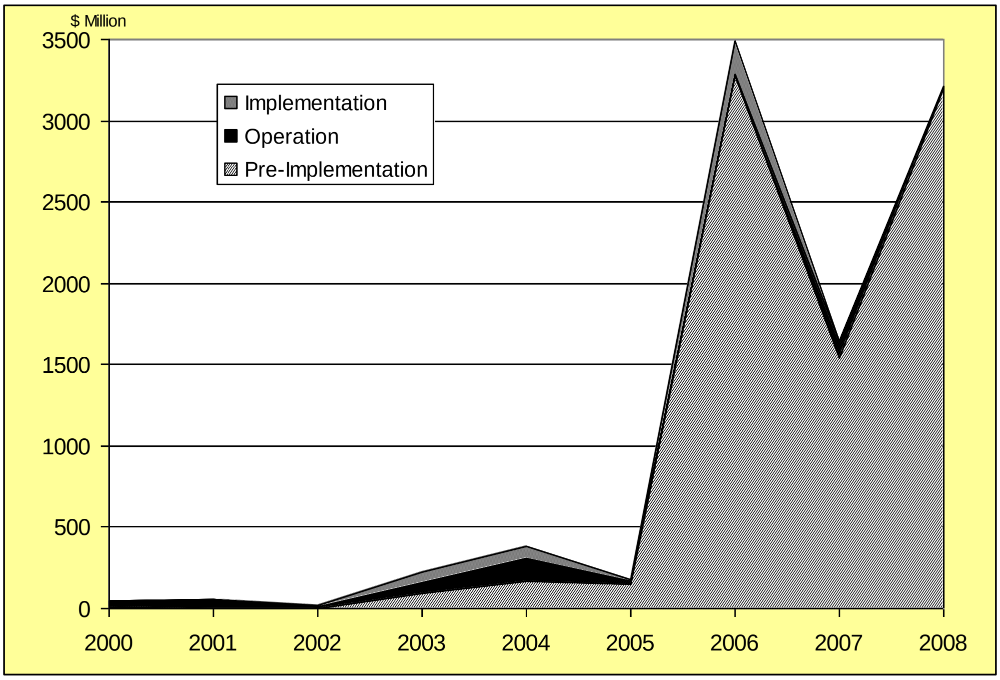
The database used in this study is generated by the Federal Investment Bureau of Ethiopia, where all investments need to be registered before they get licensed to operate in Ethiopia. Based on these registrations, the bureau prepares data spreadsheets including information on the name of the company investing, it's home country, the Ethiopian region in which it invests, the agricultural sub-sector, the investment year (2000 -2008) and what form the investment is of (implementation, operation, per-implementation). Thereby, Ethiopia is divided into the 11 regions mentioned already before. Among the investor countries the EU is not included as aggregate, as single countries are stated. For simplification, in this case study the EU is treated as an aggregate consisting of the following EU-countries: Germany, Netherlands, Italy, Britain, Greece, Cyprus, Ireland, Norway, Finland, Sweden, Austria, Ukraine, Denmark, Czech Republic, France and Belgium[7]. In the database single companies and their origin are listed. In this study this disaggregation will be unattended. To receive an overview on the development of FDI inflows into Ethiopia the FDI inflows will be aggregated at country level. Therefore, the countries as such are called investors in the following.

The total FDI inflows into Ethiopia have increased continuously from US$ 135 Mn in 2000 up to US$ 545 Mn in 2004. Since then up to 2007 the yearly FDI inflows have varied between US$ 545 Mn and US$ 265 Mn (UNCTAD, 2008). FDI inflows into the agricultural sector account for 32% of the total Ethiopian FDI inflows. According to the UNCTAD (2008) total FDI inflows remain quite constant after 2005. When regarding the FDI inflows into the agricultural sector according to the Federal Investment Bureau of Ethiopia they have increased heavily after 2005 (figure 3). This is not consistent with the UNCTAD database anymore. A reason for this inconsistency between the two databases is that obviously the UNCTAD database does not take the Pre-Implementation investments into account which account for 90% of the agricultural FDI inflows after 2005.

[7] Only investing EU countries are considered under the EU aggregate.

According to figure 3, up to 2005 the level of FDI inflows ranged under $ 500 million each year. When regarding the spreading between the three different possible forms of investment[8] it is quite equal. After 2005 the investment flows increase heavily. Total FDI inflows now reach about $ 3500 million each year. This increase appears mainly through Pre-Implementation investments. This sort of investment has increased by 600% comparing before and after 2005. The rate of investments type "Implementation" and "Operation" has decreased slightly. A Pre-Implementation investment indicates that for some specific reason investors want to secure the possibility of producing in a certain agricultural sector in Ethiopia. Possible motives for this recent development will be discussed further on.

Figure 3: FDI inflows into the agricultural sector



Source: Federal Investment Bureau of Ethiopia (2009)

Generally, next to others, three main reasons can account for this significant change in the development of the FDI inflows. The first one is a significant change in the exchange rate of the main investors, leading to a depreciation of the Ethiopian Birr compared with the currencies of the investors. The second reason, especially against the background of the world food crises, is the grabbing of natural resources to secure the food demand in the investor's country. The investment climate of Ethiopia can be seen as the third reason which will be

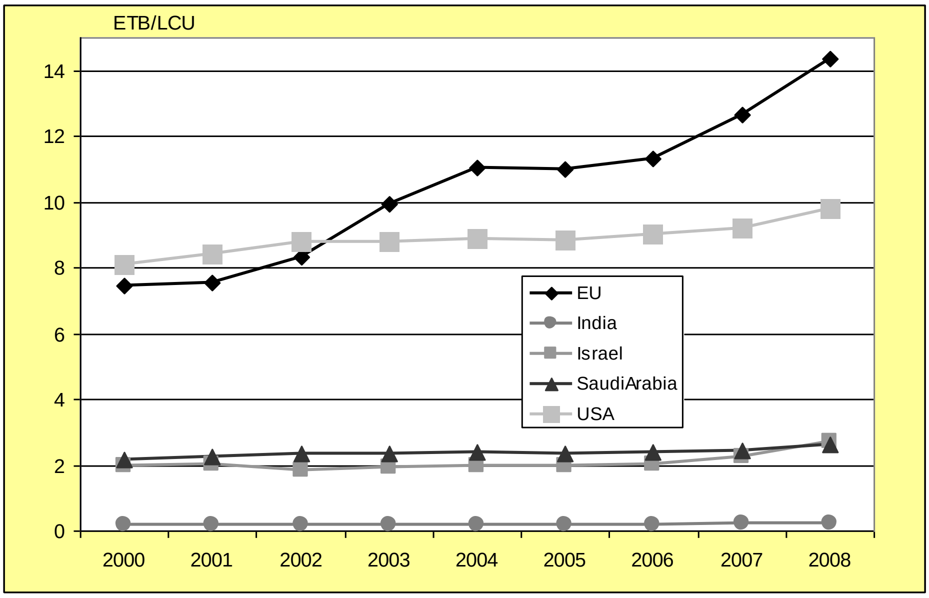
[8] The three different forms are 1) Implementation = the production plant is being built, 2) Operation = the production plant is already in use, 3) Pre-Implementation = Up to now land, machines, building materials etc. have been bought (Federal Investment Bureau of Ethiopia, 2009)

discussed in more detail further on as it is more complex and indicates how FDI-friendly Ethiopia is.

Exchange rate

In figure 4 the development of the exchange rate of the 5 main investors is shown over the time period 2000 to 2008. Except for the EU, the exchange rate of the other four investors remains stable over time. This shows that the assumed reason of depreciation cannot explain the high increase of the total investment flows into the agricultural sector and the shift from operational or implemental investments towards pre-implemented investments.

Figure 4: Development of the Exchange rate of the main investors, 2000 - 2008



Source: OANDA (2009) and World Bank (2007)

Land Grabbing

As already mentioned, Pre-Implementation investment means that the company has already acquired all the necessary requisites to start operation but has not started yet. This also includes land which can only be leased in Ethiopia[9]. As investments have increased highly between 2006 and 2008 it can be assumed that also the securing of land through long-time

[9] In the interviews undertaken by Dr. Getnet it became clear that land can only be leased for a time period between 20 and 45 years.

leasing contracts for food production has increased. In the further steps of the analysis this aspect has to be kept in mind and when regarding the main specific sectors where the investment flows go to it may become clearer if this reason really appears for Ethiopia.

After viewing the development of the investment flows over time, a next step is to identify the main investors in Ethiopia. As the FDI inflows increase highly after 2005 it appears interesting to identify whether the main investors up to 2005 are equal to those after 2005 or whether the distribution of the investment flows among the investors has changed.

In table 3 the main investor countries over the last years are listed. The percentage of the total investment sum in each year is shown. In the last column the average percentage of investment of the single investor over the total time period (2000 – 2008) is given. This gives an impression on which investor has invested most over the total time period.

Table 3: Percentage of total investment sum fort he main investors between 2000 and 2008

Main Investors	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
EU	26.63%	7.41%	5.34%	11.72%	18.47%	20.87%	12.11%	52.61%	16.37%	21.22%
India	--	--	31.60%	1.94%	13.20%	8.75%	70.62%	2.80%	12.81%	32.43%
Israel	2.75%	15.76%	--	5.56%	23.65%	29.21%	4.30%	10.63%	5.42%	7.18%
SaudiArabia	47.40%	76.84%	58.77%	4.87%	3.07%	4.13%	0.23%	3.53%	3.60%	3.10%
USA	--	--	4.30%	44.55%	28.96%	20.06%	10.93%	17.17%	4.89%	11.54%
Rest	23.21%	--	--	31.36%	12.66%	16.98%	1.82%	13.26%	56.91%	24.53%
Total Investment Sum ($ Million)	43.51	56.12	19.52	223.77	380.96	180.59	3490.89	1640.47	3214.17	9250

Note: Main Investors in the different years are highlighted

Source: Federal Investment Bureau of Ethiopia (2009)

The picture drawn by table 3 is that five investor countries can be identified over time. These countries have invested highly between 2000 and 2005. After 2005 the structure as changed slightly. It appears that the investments are only divided between four main investors (EU, India, Israel and USA). Saudi Arabia had high percentage investments between 2000 and 2002. After that its investment flows into Ethiopia increased further in absolute terms but compared to the increase of the investments of the other investors the percentage amount has decreased significantly and stayed at that low level (Table 3, Annex 2). In 2008 the percentage of the ‘rest’ increases highly compared to the other years. Two countries stand behind these investment flow increase (Sudan 40% and Malaysia 14.5%). Up to 2008 both countries have not played a major role as investors in Ethiopia.

After identifying EU, India, Israel, Saudi Arabia and the USA as the main investors between 2000 and 2008 the distribution of the investors’ FDI inflows into the different agricultural sectors is of interest. Cereals, coffee, oilseeds, chat, meat and recently increasing cut flowers are the main agricultural sub-sectors of the Ethiopian economy when regarding the export value. But are these the main sectors where foreign investors invest in or do they chose other sectors more important for the foreign economy?

For answering this question, the main investors with their percentage value of their total investments into the main agricultural sectors are stated under table 4. The total period under consideration is divided into two parts (2000-2005 and 2006-2008) according to the reckoned differences in the development of the FDI inflows seen in figure 3.

Table 4: Main Investors and the main agricultural sectors [10]

	2000 - 2005	2006 - 2008
EU	Flori/Horticulture $ 99 Mn (67.72%)	Meat production $ 607 Mn (38.75%) Biofuel $ 492 Mn (31.39%) Flori/Horticulture $ 242 Mn (15.47%)
India	Flori/Horticulture $ 66 Mn (91.21%)	Sugar $ 2037 Mn (80.45%)
Israel	Flori/Horticulture $ 192 Mn (82.44%)	Flori/Horticulture $ 178 Mn (44.98%) Biofuel $ 98 Mn (24.77%) Vegetable production $ 60 Mn (15.06%)
SaudiArabia	Meat production $ 45 Mn (45.19%) Flori/Horticulture $ 31 Mn (31.65%)	Meat production $ 66 Mn (41.75%) Biofuel $ 30 Mn (19.16%)
USA	Food production $ 66 Mn (28.35%) Biofuel $ 65 Mn (28.05%) Flori/Horticulture $ 35 Mn (14.93%)	Flori/Horticulture $ 217 Mn (30.48%) Meat production $ 159 Mn (22.41%)

Source: Federal Investment Bureau of Ethiopia (2009)

It appears that between 2000 and 2005 the main investment flows occur in the flori/horticulture sector. The EU, India and Israel invest more than 60% of their total FDI inflows in this sector. For Saudi Arabia and USA this sector is also important but they also have high investment flows in further agricultural sectors (table 4).

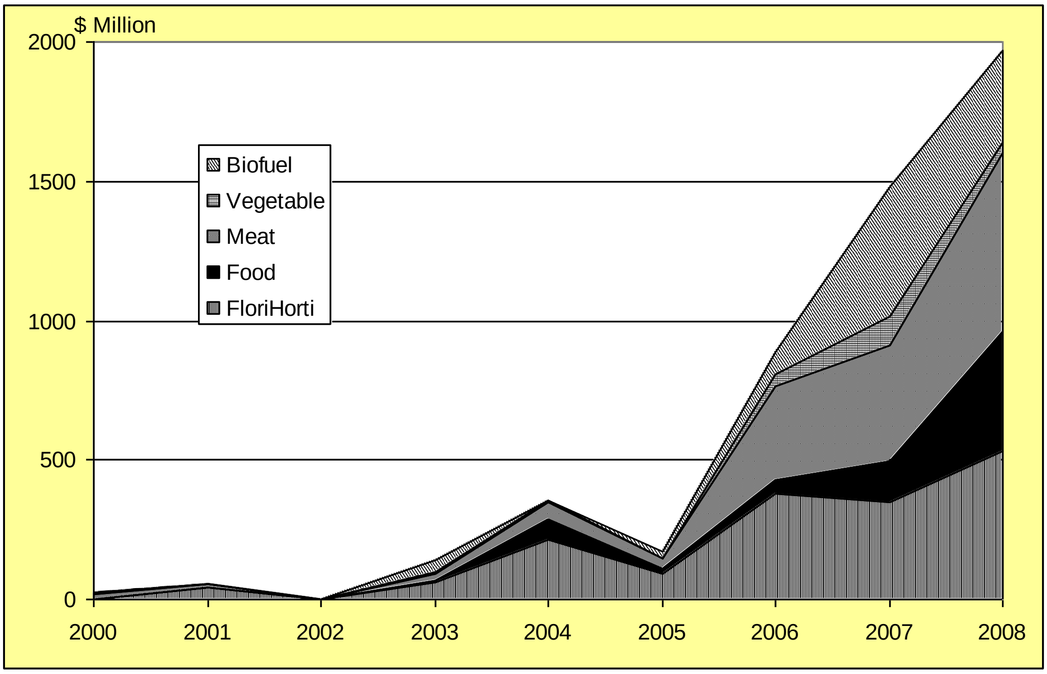
After 2005, the major sub-sectors receiving FDI inflows changed slightly. FDI's into the flori/horticulture still appear and in absolute value remain stable over time (figure 5) but

[10] The food production sector is defined as the processing industry in the agricultural sector. Compared to this the meat production sector only includes the raising and slaughtering of animals such as bulls, pigs etc.

investments in meat production and Biofuel have increased highly between 2006 and 2008 regarding all main investors (table 4).

This change in priority becomes even more apparent in figure 5, where total FDI inflows for the single major sub-sectors in $ Million – independent of the investor and the region are shown.

Figure 5: FDI inflows into the single main sub-sectors, 2000 - 2008



Source: Federal Investment Bureau of Ethiopia (2009)

Since 2006 new agricultural sub-sectors for the foreign investors can be identified. Investments in food and meat production as well as in Biofuel production increase highly. The chosen agricultural sub-sectors are very export orientated leading to the assumption that investors in Ethiopia invest for other reasons that market-seeking. Through analysing the development of the export flows of these sectors between 2000 and 2007[11] it may be possible to identify specific reasons why FDI flows into these sectors have increased (increase of number of investing firms and their average investment sum).

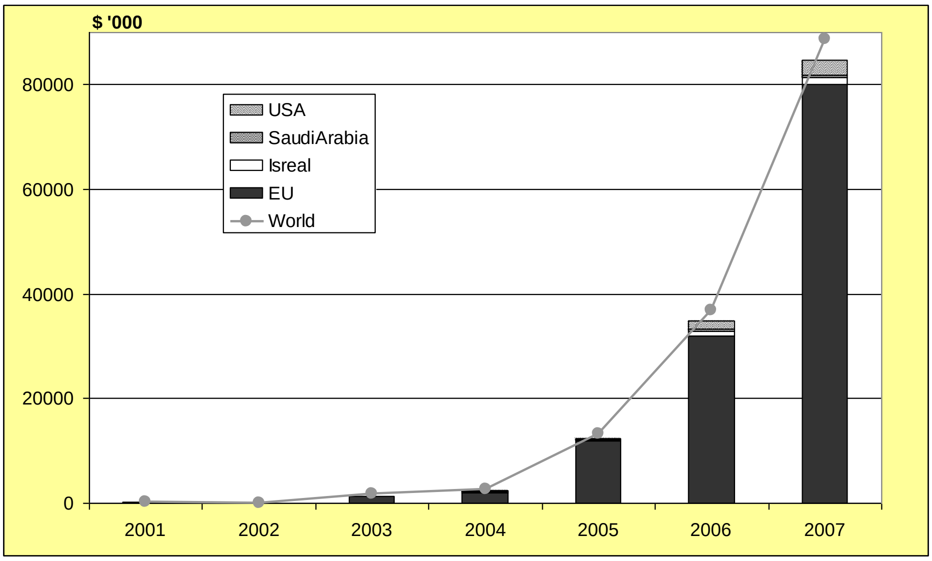
Export flows of the flori/horticultural sector (as the traditional investment sector) and export flows of the meat sector (attracting only recently high FDI inflows) are shown in figure 6 and

[11] Export flows are only available up to 2007 in UNComtrade (2009)

7.[12] Both figures show the total export flows (world) as well as the value of export flows into the main investor countries if existent.

Regarding the export flows of the flori/horticultural sector it appears that most of the exports go to the EU (80%) and parts to the USA. As Israel and the EU are the main investors in this sector (both hold 20% of the total investment sum) with Israel receiving no high export flows it can be concluded that the EU and also Israel have invested in the flori/horticultural sector of Ethiopia to expand their cultivation in a country where production costs are low so that they can provide the EU and the USA with low price products. Hence, they stay competitive against other producers.

Figure 6: Total Export flows of Flori/Horticulture and divided into the main investor countries

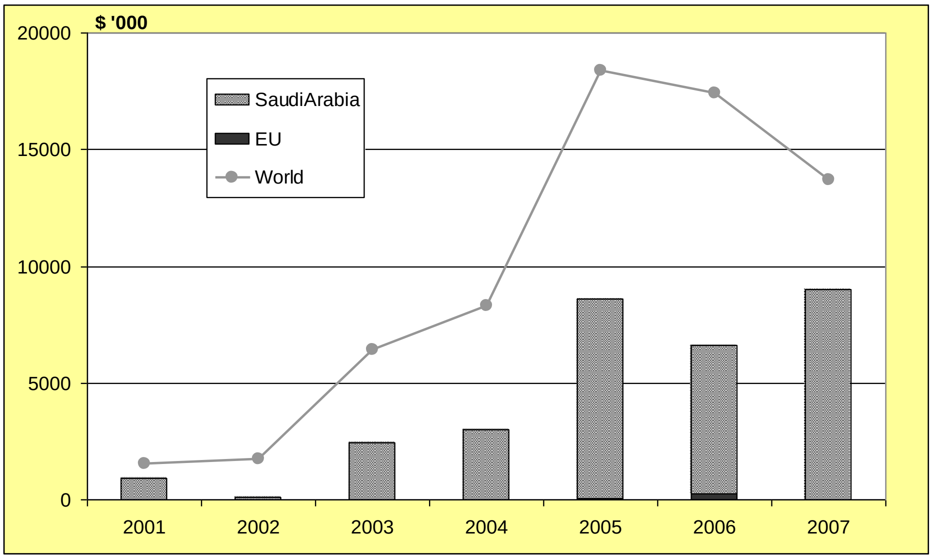


Source: UNComtrade (2009).

In comparison with the flori/horticultural sector shown in figure 6, figure 7 pictures the development over time of the meat export flows. Here a different picture can be drawn. It appears that Saudi Arabia receives 50 percent of the total export flows. As Saudi Arabia is the main investor over the whole period (table 4) one can concluded that Saudi Arabia meet their domestic demand partly through the meat production in Ethiopia undertaken by Saudi Arabian companies. From this it can be assumed that Saudi Arabia tries to secure their domestic food demand by investing in foreign economies.

[12] Developments of Biofuel and food production export flows can not be pictured as data on a bilateral level do not exist in UNComtrade. For Biofuel trade data is not easy to obtain, but generally one can say that increased investments in this sector can be found in many countries in the world. The sector has received grown attention in recent years because some countries like the EU or the USA support this sector highly on the one hand and on the other hand, Biofuel production becomes more competitive in times of high oil prices.

Figure 7: Total Export flows of meat and divided into the main investor countries



Source: UNComtrade (2009).

After viewing the main investors and their main agricultural sectors of interest the question arises whether these investments are spread across Ethiopia or whether certain regions are preferred compared to others.

Table 5 shows into which regions the investors invest mainly for the main sectors. The percentage behind the region shows how much of the total investment sum in a specific sector are invested in the main region(s). For example: The EU has invested US$ 352 Mn into the flori/horticulture sector between 2000 and 2008. Of this sum, the EU invests 89.70% into the region of Oromia, which is located in the middle-east of Ethiopia.

Table 5: Main Regions of Investment

Country of Origin	Sector		Region	Percentage of sectoral investment
EU	Flori/Horticulture	$ 352 Mn	Oromia	89.70%
	Meat production	$ 651 Mn	Amhara	52.10%
			Oromia	46.00%
	Biofuel	$ 520 Mn	Amhara	34.10%
			Multiregional	30.50%
			Oromia	19.30%
			SNNPR	15.80%
India	Flori/Horticulture	$ 222 Mn	Oromia	59.47%
			SNNPR	36.78%
	Sugar	$ 2153 Mn	Multiregional	99.76%
Israel	Flori/Horticulture	$ 313 Mn	Oromia	59.40%
			Amhara	21.69%
			Multiregional	16.86%
	Biofuel	$ 108 Mn	Multiregional	38.24%
			Oromia	37.99%
			SNNPR	23.32%
	Vegetable production	$ 65 Mn	Oromia	96.26%
SaudiArabia	Flori/Horticulture	$ 44 Mn	Oromia	92.33%
	Meat production	$ 113 Mn	Multiregional	69.18%
			Oromia	11.32%
			Tigray	10.96%
	Biofuel	$ 32 Mn	Multiregional	67.59%
			Oromia	25.30%
USA	Flori/Horticulture	$ 262 Mn	Oromia	94.54%
	Food production	$ 127 Mn	Multiregional	55.37%
			AddisAbaba	39.01%
	Biofuel	$ 99 Mn	Multiregional	81.44%
	Meat production	$ 175 Mn	Oromia	94.08%

Source: Federal Investment Bureau of Ethiopia (2009)

Depending on the transportability and especially on the dependency of the climate the regions of production (destination of FDI) are chosen independent from the foreign investor.

Obviously flori/horticulture can be found mainly in Oromia. From its climatic conditions, Oromia appears to be excellent for flori/horticulture production. The climatic conditions in Oromia are warm-temperate with an average temperature of 16 °C. Oromia lies at a height between 1600 m and 2400 m. All investors engaged in flori/horticulture have placed production plants in Oromia. The same appears for vegetable production which is also mainly seated in Oromia.

Israel as an exception has seated also plants in Amhara and multiregional. An explanation for this behaviour could be further technological development as Israel is specialised in flori/horticulture. Through this know-how it is possible for them to produce flori/horticulture also in regions that are not that favourable for this sector.

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

Summarising this section one can say that through the analysis of the database generated by the Federal Investment Bureau of Ethiopia it becomes apparent that trends in FDI inflows have changed after 2005. Different sectors then before 2005 have become more important for the foreign investors with all of the chosen sectors being very export-orientated. Also the regional distribution of FDI inflows as changed slightly derived from the shift in sub-sectors. Depending on the regarded sub-sector different reasons seem to appear for the increase in FDI inflows. Investors in the flori/horticultural sector seek for more efficiency. In contrast, investors in the meat sector seem to try to secure their own domestic food supply such as Saudi Arabia.

These identified changes need further investigation especially against the background of the impact of FDIs on rural development, poverty and food security in Ethiopia. The present case study cannot answer these questions as further surveys would be necessary for these continuative questions.

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

5 Ethiopia's Political Framework

After analysing the changes in the FDI inflows in Ethiopia over the last years, it is important to take a look at the existing trade and (if established) investment agreements between the main investor countries and Ethiopia. The range of the investment and trade agreements show how FDI-friendly the environment is or whether high regulations are in place. As one assumed reason for the increase in FDI inflows is food security, favourable trade agreements between Ethiopia and the investor countries would have a positive affect on investment decisions.

Ethiopian trade agreements

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

Ethiopia- EU

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

Ethiopia- Africa

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

Ethiopia- USA

The most important agreement between USA and Ethiopia is the African growth and opportunity act (AGOA) which was signed into law in May 2000. The first Title of this agreement comprises the extension of certain trade benefits towards the Sub-Saharan Africa (where Ethiopia is included). The negotiations are on reciprocal and mutually beneficial trade agreements and in the long run are to include the posibility of establishing a free trade area. (AGOA, 2000)

A second major agreement between the USA and Ethiopia occurs through the trade and investment framework agreements (TIFAs) between the USA and COMESA. It entered into force in October 2001. Its target it the creation and expansion of trade and investments between the two parties (USTR, 2001).

Ethiopia- India

A first trade agreement between India and Ethiopia was signed in 1982. It only included very specific products and was not a general agreement on all agricultural products. At the 5th meeting of the India-Ethiopia Joint Trade Commission, several further bilateral trade agreements are expected in 2008. Some in leather, other in apparel fashion (Thaindian News, 2008).

Ethiopian investment agreements

Over the past few years, African countries have increased their efforts to develop or enhance their national policies and laws with a view to improving the investment climate. Only recently, in May 2007, COMESA adopted an agreement for a Common Investment Area, which envisages a free investment area by 2010. The Agreement aims at attracting and promoting sustainable FDI by gradually eliminating restrictions and conditions relating to investment and operation of projects. (COMESA, 2009)

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

The USA has bilateral investment protection agreements with Ethiopia. The investment incentive agreement with the United States provides investment support through its Overseas Private Investment Corporation (OPIC) in the form of investment insurance and reinsurance, debt or equity investment and investment guarantees. On the other hand the government of Ethiopia provides exemption of taxes for all operations and activities undertaken by OPIC in connection with any investment support, and all payments, whether of interest, principal, fees, dividends, premiums or proceeds from liquidation of assets or any other nature. In addition, OPIC will not be subject to any taxes in connection with any transfer which occurs as a result of OPIC role as a creditor in support of investment in Ethiopia. This investment incentive agreement was signed on 24th October 2000 (Getnet, 2009).

[13] Double taxation treaties exist between many countries on a bilateral basis to prevent double taxation (taxes levied twice on the same income, profit, capital gain, inheritance or other item). They are Double Taxation Avoidance Treaties i.e. treaties to avoid tax is levied twice. For details see EIA (2008a:10).

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

Regarding the development of the main political agreements it becomes apparent that Ethiopia tries to ease trade between itself and the investor countries as well as making FDI inflows easier. Ethiopia appears to be an FDI-frienly environment with the target of increasing the relaxation of regulations.

Next to political agreements there are regulations firms face when trying to invest in Ethiopia. These regulations will be viewed below.

6 Company regulations for investing - Results of the interviews[14]

In 1991/92 an incisive reform process on regulations of foreign investments started. The regulatory regime governing FDI and privileges provided to FDI in Ethiopia underwent significant changes[15]. Government relaxed the minimum capital required for foreign investors in its series of investment amendments e.g. the Ethiopian FDI policy does not require foreign investor to meet specific performance goals or guidelines in terms of export, foreign exchange restrictions for imports, minimum local content levels in manufactured goods, or employment limits on expatriate staff anymore. In the following, the regulatory regime for FDI and privileges provided to foreign investors are discussed.

6.1 Regulations and privileges

FDI across all sectors can be undertaken either in sole proprietor or jointly with domestic investor or with the Government of Ethiopia. In general there is a minimum investment capital requirement based on the type of the investors[16]. This minimum capital requirement is not applicable for FDI that exports ≥75% of its output and/or reinvests its profit. It should be

[14] Section 6 is generated from a report written by Dr. Getnet, my counterpart in Ethiopia. Annex 3 describes the background of his report.

[15] The key proclamations and regulations of these changes are 7/1996, 37/1996, 35/1998, 36/1998, 116/1998, 168/1999, 280/2002, 84/2003, 373/2003, and 146/2008.

[16] For details see Article 11 of the Investment Proclamation No. 280/2002.

noted, that there are areas where foreign investment is not permitted and therefore are reserved for domestic investors[17][18]. These general restrictions are not applicable for foreign investors in the agricultural sector.

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

Foreign investors are allowed to hire qualified foreign nationals necessary for the implementation of their projects. A foreign investor can hire foreign nationals on top management position without any restriction upon obtaining the prior consent of the Ethiopian Investment Agency[19].

FDI projects producing for export, particularly investments in the horticultural sector have priority to get loan from the Development Bank of Ethiopia but they are also allowed to obtain loan from foreign countries and are permitted to repay the principal and interest in convertible foreign currency[20].

Investment guarantees for FDI include full repatriation of capital and profits. This encompasses profits, dividends, interest payments on foreign loans, asset sale proceeds and technology transfer payments. There is also a guarantee against expropriation[21]. Furthermore, the Ethiopian government has tried to provide investment guarantee and protection by being a member of various agencies and organization such as MIGA, ICSID, and WIPO[22].

Foreign investors are allowed to remit profit and dividends accruing from investment, principal and interest payment on foreign loans, payments related to technology transfer or

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[17] Domestic investor means an Ethiopian or a foreign national permanently residing in Ethiopia or a foreign national but Ethiopian by birth and desiring to be considered as a domestic investor.
[18] For details see Article 5, 6, 7, and 8 of the Investment Proclamation No. 280/2002 and the EIA (2008a:23-24).
[19] For details see Article 36 of the Investment Proclamation No 280/2002
[20] For details see Article 19 of the Investment Proclamation No. 280/2002
[21] Exceptions appear in major cases of public interest when full market value compensation will be paid promptly which can also be remitted at any convertible currency at the prevailing exchange rate on the date of remittance. See Article 21 of the investment Proclamation No. 280/2002.
[22] MIGA stands for Multilateral Investment Guarantee Agency (MIGA) which issues guarantees against non-commercial risks to enterprise that invests in signatory countries. ICSID for International Centre for Settlement of Investment Disputes between States and National of other States, and WIPO for World Intellectual Property Organisations.

management agreement registered in accordance with the proclamation, proceeds from the sale/liquidation of an enterprise, and proceeds from the transfer of shares or of partial ownership of an enterprise to a domestic investor at any convertible currency at the prevailing exchange rate on the date of remittance[23]. Expatriates employed in an enterprise may also remit salaries and other payments accruing from their employment.

6.2 Exemptions

FDI in the agricultural sector is eligible for all exemptions[24] which will be discussed below.

Investors in all sectors of the Ethiopian economy including foreign investors who will be engaged in agricultural activity are exempted from the payment of custom duties and other taxes levied on imports of all capital goods (machinery, equipment and accessories) and construction materials necessary for the establishment of new projects or expansion/upgrading of the existing one. However, these capital goods and construction materials shall be superior in quality, quantity and price compared to locally produced ones[25]. Import of ambulances for employees is exempted from custom duty.

The exemption of income tax begins from the day of production. The different conditions for income tax exemption[26] and according to those the different length of income tax exemption are summarised in table 6.

Table 6: Conditions and periods of income tax exemption

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

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

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[23] For details see Article 20 of the Investment Proclamation 280/2002.
[24] Investment incentives provided by the Ethiopian government are declared by the Council of Ministers Regulation No. 84/2003 and Regulation No. 146/2008.
[25] The Revenue and Custom Authority which is the principal body to review and grant the incentives has specified the magnitude and types of machineries to be imported duty free. Interview with Mr. Misrak Seyoum, Team Leader, Agriculture and Construction Sector Team, Revenue and Customs Authority on detailed definition.
[26] See Article 2 of Regulation No. 146/2008 and Article 4 and 5 of Regulation No. 84/2003.

Foreign investors engaged in agro-processing activities or in the production of agricultural products are exempted from paying income tax for the period ranging between 2 to 8 years. In general it can be stated that the higher the proportion of produced goods for export, the longer the period of income tax exemption. Foreign-owned firms that export at least 50% of their production or supply an exporter with at least 75% of their output are eligible for income tax exemption for 5 years. In the case lower than this, FDI projects receive only 2 years of income tax exemption. The Board of Investment (BOI) as well as the Council of Ministries may, under special circumstances, grant exemption from income tax under special circumstances stated under Article 4 sub-article 4 of Regulation No. 84/2003.

Further, investments necessary for expanding or upgrading the existing agro-processing activities or the production of agricultural products are eligible for income tax exemption for 2 years provided that at least 50% of the output is exported and the firm's production value increases by over 25%. As producing for the domestic market is also necessary the BOI can decide an income tax exemption for 2- 3 years for those firms.

In addition to all these incentives, FDI in all sectors are exempted from the payment of sales and excise taxes for export commodities.

It can be concluded that firm regulations on FDI have become extensively FDI- and export-supportive since1991/92.

7 Conclusions

Over the last few years new motives next to the traditional ones have evolved for undertaking FDI – food security and security of financial returns. This has lead to a high increase of the global FDI flows in the last four years. Major recipients of these increased inflows are Asia, South America and Africa. An increasing interest of foreign investors in Africa is mirrrowed in the increase of FDI between 2005 and 2007 by nearly 80% according to the WIR 2008. In the last years when regarding single African states the distribution of the FDI inflows is changing. Especially Ethiopia, Kenya and Madagascar appear to attract the interest of investors.

This study has given a first regional overview of the development of FDI inflows over the last decade in Ethiopia. The general political trade and investment agreements with the main investor countries show that Ethiopia has an FDI-friendly environment but this cannot explain the heavy increase of FDI inflows over the last three years alone. But when regarding the investment proceeding at firm level it becomes obvious how open the Ethiopian agricultural sector is towards FDI and here especially towards export orientated investments.

The investor has as an investment guarantee the possibility of full repatriation of capital and profits. Further, tax regulations seem to be very favorable. All investors who are engaged in agricultural activities are exempted from the payment of custom duties and other taxes levied on imports of all goods and construction materials necessary for the establishment of new projects or the expansion of existing ones. Depending on the proportion of the export orientation, foreign-owned agricultural firms are exempted from paying income tax for a period ranging between 2 to 8 years. FDI in all sectors are exempted from the payment of sales and excise taxes for export commodities. All these aspects have helped to attract FDI inflows especially in the last few years.

The FDI inflows have to be divided into two stages. The first one is between 2000 and 2005 and the second one is from 2006 onwards. Up to 2005 mainly investments were undertaken of the type “implementation” and “operation”, meaning that the production plants were rapidly in use. The main sector was the flori/horticulture sector seated mainly in Oromia. Oromia was thereby chosen because of the climatic conditions necessary for the flori/horitculture production. Even though investment in the sector creates several job opportunities in rural areas leading to a positive social development it might confront the local infrastructure with serious challenges - without sustainable water, waste and pesticide management the flori/horticulture sector the production leads to long time negative ecological effects.

After 2005 “pre-implementation” investments are mainly undertaken with an increase of the total agricultural FDI inflows by 600%. Further a change in the main sectors of investment can be seen. From 2006 on the main sectors are next to the flori/horticultural sector the meat and biofuel sector. Because of this, the regions of investment have also changed slightly as they are not so dependent on the climatic conditions anymore and these investments require much more land than the horticultural sector does. These land intensive investments might cause extreme negative effects on food security and poverty – especially because of possible competition on fertile production land and water with domestic farmers. For a country like Ethiopia were more than 45% of the total population are food insecure and one of the main reasons is the low availability of fertile land (in combination with the high overuse of arable land) this development seems to drive rural development in the complete wrong direction.

How FDI inflows will in the short and long-term influence the development of Ethiopia’s economy as well as the ecological and social rural development and how sustainable this development will be, depends on the international policy framework, on the Ethiopian government and on the single investors.

At the moment the regulations are very investor-friendly. Measures that would encourage sustainable development seem to have to arise from the investor himself. Without doubt great investments in the agricultural sector are necessary for a sustainable development of the agricultural sector and to fight rural poverty and hunger. But a comprehensive policy framework is needed to harness foreign direct investment for a sustainable development especially for a positive social and ecological development.

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Annex

Annex 1: FDI inflows, by region and economy, 2005-2007

Millions of dollars	FDI inflows		
Region	**2005**	**2006**	**2007**
Africa	29459	45754	52982
North Africa	12235	23155	22415
Algeria	1081	1795	1665
Egypt	5376	10043	11578
Libyan	1038	2013	2541
Morocco	1653	2450	2577
Sudan	2305	3541	2436
Tunisia	782	3312	1618
West Africa	5652	15766	15553
Benin	53	53	48
Burkina Faso	34	34	600
Cape Verde	82	131	177
Côte d'Ivoire	312	319	427
Gambia	45	71	64
Ghana	145	636	855
Guinea	105	108	111
Guinea-Bissau	9	18	7
Liberia	-1384	-205	42
Mali	224	83	360
Mauritania	814	155	153
Niger	30	51	27
Nigeria	4978	13956	12454
Senegal	45	220	78
Sierra Leone	83	59	81
Togo	77	77	69
Central Africa	3466	3232	4084
Burundi	1	-	-
Cameroon	225	309	284
Central African Republic	17	18	27
Chad	613	700	603
Congo	724	344	352
Congo, Dem. Rep. Of	-76	-116	720
Equatorial Guinea	1873	1656	1726
Gabon	60	268	269
Rwanda	14	16	67
São Tomé and Principe	16	38	35
East Africa	1535	2324	3867
Comoros	1	1	1
Djibouti	59	164	195
Eritrea	-1	-	-3
Ethiopia	265	545	254
Kenya	21	51	728
Madagascar	86	294	997
Mauritius	45	105	339
Seychelles	86	146	248
Somalia	24	96	141
Uganda	380	400	368
United Rep. Of Tanzania	568	522	600
Southern Africa	6571	1278	7063
Angola	-1304	-38	-1500
Botswana	281	489	495
Lesotho	57	92	106
Malawi	27	30	55
Mozambique	108	154	427
Namibia	348	387	697
South Africa	6644	-527	5692
Swaziland	-50	36	37
Zambia	357	616	984
Zimbabwe	103	40	69

Source: UNCTAD (2008)

Annex 2: Amount of FDI inflows by the single investor, 2000-2008 (US$ 1000)

FDI in $	2000	2001	2002	2003	2004	2005	2006	2007	2008
EU	11587	3989	958	24108	63944	34477	378580	756618	434805
	26.63%	7.41%	5.34%	11.72%	18.47%	20.87%	12.11%	52.61%	16.37%
Switzerland				523	191		554	325	1841
				0.25%	0.06%		0.02%	0.02%	0.07%
Canada	10100				2419	2378	5845	5209	12620
	23.21%				0.70%	1.44%	0.19%	0.36%	0.48%
USA			771	91668	100270	33146	341634	246892	129799
			4.30%	44.55%	28.96%	20.06%	10.93%	17.17%	4.89%
Australia							3658	163	3338
							0.12%	0.01%	0.13%
Israel	1198	8488		11443	81907	48270	134567	152844	110107
	2.75%	15.76%		5.56%	23.65%	29.21%	4.30%	10.63%	4.15%
Egypt				1239166	19140	114814	63157	164411	97778
				602.25%	5.53%	69.49%	2.02%	11.43%	3.68%
Sudan				1601	32591	6196	11119	22981	1065241
				0.78%	9.41%	3.75%	0.36%	1.60%	40.10%
Nigeria				294				4448	3068
				0.14%				0.31%	0.12%
Chad							1663	325	102
							0.05%	0.02%	0.004%
Djibouti							4101	12314	614
							0.13%	0.86%	0.02%
Kenya				22135			178	8825	
				10.76%			0.01%	0.61%	
SouthAfrica					2250	9398		6222	
					0.65%	5.69%		0.43%	
Brazil								2170	307
								0.15%	0.01%
Jamaica					1195		693	1633	491
					0.35%		0.02%	0.11%	0.02%
Iraq							1441	2710	818
							0.05%	0.19%	0.03%
Jordan					326	113	333	1302	5114
					0.09%	0.07%	0.01%	0.09%	0.19%
Lebanon					956	1762	3549	9275	6750
					0.28%	1.07%	0.11%	0.64%	0.25%
Oman							111	108	2045
							0.004%	0.01%	0.08%
SaudiArabia	20625	41386	10547	10028	10620	6820	7104	50731	95647
	47.40%	76.84%	58.77%	4.87%	3.07%	4.13%	0.23%	3.53%	3.60%
Turkey								2061	7977
								0.14%	0.30%
United Arab Emirates				21769		566	1818	8760	11204
				10.58%		0.34%	0.06%	0.61%	0.42%
Yemen					394	4272	9339	9703	9228
					0.11%	2.59%	0.30%	0.67%	0.35%
China					1271	493	8935	9447	6439
					0.37%	0.30%	0.29%	0.66%	0.24%
SouthKorea								542	977
								0.04%	0.04%
India			5671	3983	45707	14455	2207885	40336	340196
			31.60%	1.94%	13.20%	8.75%	70.62%	2.80%	12.81%
Iran						1302	831		931
						0.79%	0.03%		0.04%
Pakistan							986	76753	7233
							0.03%	5.34%	0.27%
Malaysia									384671
									14.48%
Russa				532	1417				4807
				0.26%	0.41%				0.18%
Rest				1631	581	113	875	3469	8944
				0.79%	0.17%	0.07%	0.03%	0.24%	0.34%
Sum of FDI	43511	53862	17946	205757	346282	165232	3126574	1438103	2656337

Note: The position "rest" contains all countries that have only invested once in the observation period

Source: Federal Investment Bureau of Ethiopia (2009)

Annex 3: Background to the report of Dr. Getnet

The objective of the report written by Dr. Getnet is to determine major regulations and privileges, subsidies/incentives, range and applicability of penalties, market destination, institutional status, and licensing process of FDI in agriculture in Ethiopia. This was done in addition to the final report to receive an even more detailed overview on FDI in Ethiopia. Specific questions could be proposed and answered through the use of a combination of methodologies (desk review, interview, and data analysis).

The study undertook a desk review of available government policy documents, proclamations, and regulations. Interviews were also conducted to generate qualitative information. Knowledgeable key informants from relevant federal and regional government offices were identified through the assistance of experts working in Ethiopian Investment Agency (EIA). In addition to EIA itself, National Bank of Ethiopia (NBE), Revenue and Customs Authority (RCA), Environment Protection Authority (EPA), and Oromia Investment Commission (OIC) were identified for interviews[29].

[29] List of interviewees are: Mr. Mohamed Seid, Director, Planning and Policy Department, EIA; W/o Lidia Gizachew, Expert, Licensing and Registration Department, EIA; Mr. Nigussie Gurmu, Director, Facilitation and After Care Department, EIA; Mr. Misrak Seyoum, Team Leader, Agriculture and Construction Sector Team, RCA; Mr. Moges Belayneh, Expert, Foreign Exchange Statistics and Monitoring Department, NBE; Mr. Solomon, Head, Environmental Impact Assessment Department, EPA; and Mr. Kalide Ahmed, Case Manager for Land Issuance and Documentation, OIC (OIC is delegated to handle the land issue).

Annex 4: Investment licensing process[30]

Any foreign investor is required to submit their investment application to the Ethiopian Investment Agency (EIA).Together with the application, a foreign investor is required to submit a copy of a valid passport if the investment is to be made by an individual person or copies of the memorandum and association articles of the company if the investment is to be made by an existing or new company as stipulated in Article 14 of the amended Investment Proclamation No. 373/2003. Apart from these documents, foreign investors are not required to deposit the investment capital they are claiming to invest. After reviewing the application, the EIA has time to provide investment license within 15 days of the application. From experience the EIA takes only four hours for individual investors and a day for investments to be made in the form of new private limited company. Foreign investors who would like to invest in joint venture with the government should submit their application to the Supervising Authority of Public Enterprises. The Authority submits the application to the Ministry of Trade and Industry for approval and after approval it assigns the appropriate public enterprise for the joint venture.[31]

Land is identified either by the investor himself or by the respective regional administration. The allocation of land is determined by respective regional governments. Together with the application for land, the investor is required to submit summary of the project (project profile), description of the project's environmental impact mitigation measures, land use plan, project implementation schedule, and a letter of promise to pay ten percent of the total land lease cost in advance. The Investment Board gives the final decision on the application for land. The decision of the Board includes, among others, the lease price and the period of lease. Therefore, the only authority for granting of land in the region for both foreign and domestic investors is the Investment Board.

[30] Much of the information is obtained from the interview made with W/o Lidia Gizachew, Expert, Licensing and Registration Department of EIA, Mr. Nigussie Gurmu, Director, Facilitation and After Care Department of EIA, and Mr. Misrak Seyoum, Team Leader, Agriculture and Construction Sector Team, Revenue and Customs Authority.

[31] Interview with experts from EIA.