



Federal Democratic Republic of Ethiopia

Federal Ethics and Anti- Corruption Commission
in Collaboration with
JGAM Donors

Report No: 89534-ET



*“Survey on Perception of the level of Corruption
By
Foreign Investors in Ethiopia”*

Final Report

Addis Ababa

May, 2014

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Acronyms

| | |
|--------|---|
| CRC | Citizen Report Card |
| CSA | Central Statistical Authority |
| EEPCo | Ethiopian Electric Power Corporation |
| FDRE | Federal Democratic Republic of Ethiopia |
| FEACC | Federal Ethics and Anti Corruption Commission |
| FGD | Focus Group Discussion |
| FTA | Financial Transparency and Accountability |
| GTP | Growth and Transformation Plan |
| IGR | Institutional and Governance Review |
| JGAM | Joint Governance Assessment Measurement Programme |
| KI | Key Informants |
| MoFED | Ministry of Finance and Economic Development |
| PLC | Private Limited Company |
| PSCAP | Public Sector Capacity Building Programme |
| REACC | Regional Ethics and Anti- Corruption Commission |
| RFP | Request for Proposals |
| SNNPR | Southern Nations, Nationalities and Peoples' Region |
| TOR | Terms of Reference |
| UNCTAD | United Nations Conference on Trade and Development |

Project Data Sheet (synopsis)

| | |
|-----------------------------------|---|
| Project Title: | Survey of Perception on the level of Corruption by Foreign Investors in Ethiopia |
| Coverage of Project Areas: | Selected Sectors of the Economy in all Regional States of the country |
| Survey Target Sectors | <ol style="list-style-type: none">1. Agriculture, hunting and forestry2. Construction3. Education4. Health and social work5. Hotel and Restaurant6. Manufacturing7. Mining and quarrying8. Real estate, renting and business activities9. Transport, storage and communication10. Wholesale, retail trade & repair service |
| Country: | Ethiopia |
| Selam's Project No.: | WB/14/01 |
| Contract Date: | 05/11/2013 |
| Commencement Date: | 06/11/2013 |
| Completion Date: | 31/01/2014 |
| Funding: | The World Bank |
| Client: | The Federal Ethics and Anti Corruption Commission |
| Consultant: | Selam Development Consultants, Tel. 251911250582, Email: sconsult@ethionet.et |
| Date of Report: | 06/01/2014 |
| Reporting Period: | Final Report |
| Author of Report: | Selam Development Consultants |

Executive Summary

Corruption is the misuse of public authority for private benefit. It is generally viewed as an additional cost of doing business or a tax on profits. As a result, corruption can be expected to decrease the expected profitability of investment projects. Investors will therefore take the level of corruption in a host country into account in making decisions to invest abroad.

The World Bank (WB) Group has identified “corruption as the single greatest obstacle to economic and social development.”¹ According to the WB Group it undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends.

Cognizant of this fact, the Federal Ethics and Anti-Corruption Commission (FEACC) is undertaking numerous activities to combat corruption in the country. As part of this effort, FEACC in collaboration with donors has commissioned this study to assess the perception of corruption risk held by foreign direct investors in Ethiopia, in view of identifying remedial action and training to those high risk sectors and institutions.

The study was based on interviewing 350 random sample executives of foreign companies² which were active in all regional states of the country and all economic sectors. The respondents owning the foreign direct investments were citizens of 42 countries coming from all continents except Latin America.

The major issues that were targets of opinion assessment during the survey were:

1. The conduciveness of the legal environment of Ethiopia for foreign investors;
2. The difficulties associated with registering, opening and running foreign owned businesses;
3. The current perceived level of corruption faced by foreign investors in their day-to-day running of their businesses as well as the perceived changes in the level of corruption during the last three years;

¹ The World Bank. 2003. A guide to the World Bank. P.112

² The Federal Investment Agency provided us with the address of all the foreign companies operating in Ethiopia that were registered after 2005. The total number of these companies is 1201.

4. The frequency and actual incidence of "unofficial payment" requests by employees in key government owned service delivery agencies;
5. The perception of level of corruption with regard to Government Procurement;
6. And last but not least, their suggestions to improve the foreign direct investment (FDI) climate in the country.

The majority of the respondents believed that obtaining information related to the rules and regulations is easy and the interpretation of regulations is consistent and predictable. In the opinion of those who have been running businesses for more than three years, there has been an improvement in the rules and regulations concerning foreign investment. The confidence of the foreign investors was also highlighted by their 85% positive response to the question of whether they believed that the legal system in Ethiopia will uphold their contract and property rights in business disputes if they are the aggrieved party.

However, foreign investors identified major obstacles related to three key areas of their operations in the regulations governing foreign currency, land acquisition and customs/foreign trade. These appear to be the reasons for the respondents' judgements that the country's legal environment is "Somehow attractive (32.6%)" and "Not attractive (12.9%)"

The respondents also pointed to the impact of bureaucratic inefficiencies on the registering, opening and running foreign owned businesses, and indicated that the whole registration process, i.e., from document authentication to getting a legal business license takes on average about 8 days. This may seem a reasonable length of time but it does not compare favorably with the fact that it takes only 2 days in Rwanda³.

With regard to the perceived levels of corruption faced by foreign investors in the day-to-day running of their businesses, some of the respondents (32%) indicated that it is common to pay some unofficial payment and more than 10% said this happens either mostly or always. This should be a cause for concern even though it mostly involves petty corruption and the proportion of respondents reporting the practice is not large. The survey results showed that in most cases the unofficial payment is not communicated to the respondents directly by those seeking it, but rather indirectly in the form of "hints" in

³ See Doing Business (DB2014): Economy Profile Ethiopia by The World Bank. P. 14

the form of procedural delays, citing regulations that suggest process complications, making themselves "unavailable", etc... We feel that these are the typical maneuverings of corrupt employees seeking unofficial payment and, most of the times they exploit weaknesses in the transparency of working procedures and systems.

On the other hand, about two third of the respondents indicated that they believe that if an employee acts against the rules they can go to his/her superior to get proper treatment. Almost 60% of the respondents stated that they would not give any bribe money if asked. The data pattern also showed that being asked for bribes did not translate directly to actual unofficial payments. However, in the case of traffic police those who paid willingly bribe money are more than those who were asked for it. These results should be interpreted carefully because some of the respondents wish to not be "perceived corrupt" by the interviewers. This can lead us to believe that corruption prevention may be easily strengthened by creating more awareness and confidence of foreign investors that going to the superior can solve the problem and that not paying unofficial money is the correct and moral thing to do.

Except for the traffic police, the findings show that reported incidences of actual corruption in 14 key service delivery Government agencies is limited to less than 6% of respondents ranging from 0.6% to 5.1%. The agencies/areas where there are reports of actual bribe money payment by more than 3% of the respondents include the Electric Power Company (5.1%), Customs (4.9%), Federal/Local police (4%) and Construction Permits(3.4%). Those who reported having made some sort of unofficial payment indicated that the amount can range from 50 Birr (or USD 2.60) to Birr 50, 000 (or USD 2,605.00). By international standards, this can only be categorized as petty corruption. However, since there should be zero tolerance for corruption coupled with the identification of the above agencies as places where most of the reported actual corruption takes place, the FEACC and those Agencies cited above should look to ways to reduce the levels of petty corruption by implementing appropriate policy measures.

The key battleground against corruption in many countries should focus on government procurement. The appreciation of this fact led the Government to issue several proclamations in just few years, an indication that the GOE is serious about preventing corruption. On the positive side, only 0.6% of respondents indicated personal exposure to actual corruption in government procurement. This should be interpreted carefully

because of the tendency of respondents to avoid self-incrimination. It is also good to note that only 10% of the respondents said that a complex Government procurement process has been a major problem for their businesses. However, asked about their overall perception, they gave a different picture. When asked for their opinion on the following statement: "*Contracts relating to government procurement are generated in a clear and efficient manner*" only 7.4% believed this statement to be true while 21% believed it is not true at all. Despite the fact that the latter figure is relatively low, the great majority of those who responded (80%) believed that government contracts involve unofficial payments in 2 to 50% cases. Additionally, they believed that the unofficial payment can be up to 10% of the contract price. Thus, one area for further improvement is clearly the Government Procurement System.

Among other things, success in combating corruption is dependent on the willingness of the public to report corrupt practices. The survey results show some reluctance on the part of foreign investors to make such reports due to a number of reasons, including the belief that no action will be taken against those involved in corruption (43%) and a lack of clarity about corruption reporting procedures (41.7%). Hence, it is clear that improvements in these areas are needed from FEAC and other stakeholders.

Finally, the respondents expressed opinions about what should be done to combat corruption and attract more FDI to Ethiopia. About 55% of them believe that corruption is less in Ethiopia than similar developing countries. However, to further improve the environment for FDI, they suggested many improvements but the most important is that Government Agencies involved with foreign investors should work in an integrated manner, and if possible a "one window shop" for licensing, customs clearing, land acquisition, etc should be established.

1. Introduction

The Federal Ethics and Anti-Corruption Commission (FEACC) was established in 2001 - Through Proclamation No. 235/2001 - as an independent federal government agency with the following three objectives:

1. To create awareness in Ethiopian society that corruption will not be condoned or tolerated by promoting ethics and anti-corruption education;
2. To prevent corruption offenses and other improprieties; and
3. To strive to create and promote integrity in public services by detecting, investigating, and prosecuting suspected cases of corruption offenses and other improprieties.

In 2005, the Commission's establishment, special procedures, and rules of evidence proclamations were amended by the House of People's Representatives (Proclamation No. 433/2005). The amendment was necessary to ensure that the Commission's operation and activities are transparent and accountable. The amendment also enabled the Commission to prevent, investigate and prosecute corruption, and redefined its powers and duties in line with the amended criminal code of the country. The revised FEACC Establishment Proclamation of 2005 resulted in the modification of the Commission's objectives. The Commission's revised objectives are as follows:

1. In cooperation with relevant bodies, to strive to create awareness in Ethiopian society that corruption will not be condoned or tolerated by promoting ethics and anti-corruption education;
2. In cooperation with relevant bodies, to prevent corruption offenses and other improprieties; and
3. To expose, investigate, and prosecute corruption offenses and improprieties.

The Commission believes that its efforts should be based and assisted by focused research on corrupt practices. In line with this, the Commission has mobilized various studies aimed at supporting the ongoing fight against corruption. These include:

1. Diagnosing Corruption in Ethiopia: Perception, Realities and the Way Forward for Key Sectors;
2. Construction Sector Transparency Initiative-Ethiopia;
3. Second Corruption Perception Survey in Ethiopia;
4. Transparency International-CPI of Ethiopia and 2013 Global Corruption Barometer:

As an additional research effort, the FEACC in collaboration with donors supporting the Joint Governance Assessment and Measurement (JGAM) fund (managed by the World Bank) decided to conduct focused research on the perceptions of corruption risk held by foreign direct investors in Ethiopia. This findings and recommendations of this research are the subject of this report and will augment the findings of the prior research undertaken in 2012 by the FEACC, JGAM donors and the World Bank entitled “Diagnosing Corruption in Ethiopia: Perceptions, Realities, and the way forward for key Sectors.” The current study targeted foreign investors operating in Ethiopia and gathered their views, perceptions and experiences regarding corrupt practices in the country. The study mainly assessed their perceptions and also any corruption challenges they faced either in starting up their business, or in maintaining day-to-day operations. Issues covered in the study include the ease of business start-up, obtaining licenses and appropriate registration, capitalization, and issues relating to tax and customs. In addition to their perceptions of corruption, foreign investors were surveyed to gather data about their views on the strength of Ethiopian institutions in combating corrupt practices and their experiences with actual instances of attempted or successful malpractice.

The report is conveniently divided into six sections including this introduction. The next section presents the objective and expected outputs of the consulting assignment. Section Three deals with the methodology of the study and Section Four outlines the results of the literature review. The core section, Section Five describes in detail the findings of the survey. In Section Six, the major conclusions and recommendation of the study are put forward. Additional information is also presented in annexes.

2 Objectives and Scope of Work

2.1 Objectives

The Terms of Reference (TOR) define, the objective of the study as “find out the general perception level of corruption in Ethiopia and identify the sectors and public sector institutions that are more prone to corruption according to foreign investors operating in Ethiopia, with a view to identify remedial action and training to those high risk areas and institutions at a later date.” (TOR P. 3)

2.2 Scope of Work

The TOR calls for a baseline survey of Foreign Investors currently operating in Ethiopia. The list of foreign firms will be made available to the FEACC by the Foreign Investment Office. The survey will be conducted by a consulting firm which shall complete the following tasks:

- Develop a survey questionnaire in partnership with the FEACC which will collect all data relevant to the exercise;
- Using the questionnaire, survey a representative sample of foreign direct investors;
- Encode the data; ensure utilization of a data entry software that simulates the designed data/information collection instruments and provides audit trail print outs of questionnaires to verify the data entered.
- Analyze the survey results and produce a clear and concise draft report, including an executive summary of not more than five pages, to be delivered to the FEACC and JGAM partners;
- Present draft findings and recommendations to the relevant stakeholders in a feed-back gathering workshop;
- Incorporating the comments of the stakeholders into a final version of the report;
- On conclusion of the research, provide the FEACC and stakeholders with both hard and soft copies of the report.

The scope of the baseline survey includes data gathering, encoding, conducting statistical analysis, developing general recommendations and delivering the output to the FEACC. The TOR required that the consulting firm should survey approximately 300 investment firms

operating in the country. The sample firms must be representative of the eight sectors identified in the earlier studies and all regions of the country. The sample size and selection method should be agreed with the FEAAC and the JGAM partners.

2.3 Expected Deliverables/Specific Outputs

As per the TOR (Pp.4-5), the deliverables of the consulting contract are:

- Deliver all the Questionnaires that were filled by the Foreign Investors;
- To deliver the encoded data which is gathered from the questionnaires by soft copy
- To make necessary statistical roundups and submit in both hard and soft copy.
- Produce a draft report and, taking into account stakeholder comments produce a final report

3. Methodology of the Study

3.1. Determination of Sample Size

As noted above, the TOR (p. 4) required a survey of approximately some 300 foreign investment firms. Initial information indicated that there are 1000 – 1200 FDI firms operating in Ethiopia.

With this information, the following formula was chosen to enable calculation of the sample size (ss) with 95% confidence level \pm 5 percent precision.

Sample Size Formula⁴

$$ss = \frac{Z^2 * (p) * (1-p)}{c^2}$$

Where:

- Z = Z value (Z=1.96 for 95% confidence level)
- p = percentage picking a choice, expressed as decimal
(0.5 used for sample size needed)
- c = confidence interval, expressed as decimal
(We used 0.5)

Correction for Finite Population

$$\text{Corrected ss} = \frac{ss}{1 + \frac{ss-1}{\text{population}}}$$

⁴ Source: Leonard J. Kazmier, Theory and Problems of Business Statistics, Schuam's Outline Series, McGraw Hill, 1976. P. 144-145.

Thus we have calculated the sample size with Z 1.96, p=0.5 and c=0.05 as follows:

$$SS = \frac{(1.96)^2 * (.5) * (1-.5)}{(0.05)^2}$$

$$SS=384.16$$

The Correction Factor for finite Population is calculated as:

$$\text{Corrected ss} = \frac{384.16}{1 + ((384.16 - 1) / 1201)} \quad \text{new ss} = 291$$

Hence, the total sample size for 95% level of confidence is 291. To deal with any unexpected contingencies the sample size was increased to 350 investment firms.

3.2. Primary Data

After determining the sample size, the list of all foreign investors who obtained their license between 2005 and 2012 was prepared by the Federal Investment Agency and sent to the FEACC. The list was used to select the required sample of 350 companies out of the total comprising 1201 companies operating across the country. The sample selection was carried out by considering the inclusion of all regional states in the country and all economic sectors. The distribution of foreign firms in the regions is uneven with most of them being concentrated in Addis Ababa and Oromia while in some regions such as Benshangul-Gumuz, Harar or Dire Dawa there were only 3-6 foreign investment firms. This led us to include all the firms in the regions except Addis Ababa and Oromia (see table 3 for details).

The questionnaire was designed by the consultant and counterpart staff of FEACC have commented and approved it as final. The questionnaire is attached as Annex 1 to this report. Training was given to the 30 Supervisors/Enumerators and the actual data was gathered in November, 2013. During the survey, field supervision was carried out by the consultant's key personnel as well as three experts from FEACC.

Collecting the required data had not been easy due to several reasons. The respondents needed to be convinced that data was collected merely for a research project and that their

firm's name or the respondents name were not necessary. Besides, the data collectors needed to assure the respondents about confidentiality of the collected data. The questionnaire was also designed to warm up the respondent enough before going to critical questions related to corruption "per se".

3.3. Secondary Data

From the desk research carried out by the consultant, the reference materials shown in Annex II were used to support the facts derived from the findings of the analysis and results of the primary data. Besides, the available literature was summarized and presented in section four of this report.

3.4. Limitations of the Study

As with all studies, this one also has its limitations that the reader must know up-front. The aim of this study was limited to assess only the perception of foreign investment firms and not local investment ones. Thus, comparing the results with previous studies on corruption in Ethiopia including the Enterprise Survey by IFC and the World Bank, the second corruption survey for Ethiopia, etc may not be methodologically correct since those studies had different survey targets and not exactly the same respondents and sample size as this one. In principle the results should be similar, but in some cases discrepancies should be expected because of the nature of the studies. Section 5.10 of this report highlights the similarities and differences between the results of some of these studies.

There are inherent limitations of this study because it is not an attempt to measure hard and documented facts but rather the opinions and current perceptions of the respondents. Even though there are numerous journalistic accounts⁵ of corruption it is still difficult to estimate precisely the actual extent of corruption. There are two basic approaches to measure corruption at the macro level: (1) general or target-group perception and (2) incidence of corruptive activities (also referred to as the proxy method). The first type of measures reflect the feeling of the public or a specific group of respondents concerning the 'lack of justice' in public transactions. In this case the perception of corruption perception is an indirect measure of the actual level of corruption. The incidence-based approach is based on surveys among those who potentially bribe and those to whom bribes are potentially offered. Golden and Picci (2005)⁶ criticize survey-based measures of corruption as they have at least two intrinsic weaknesses. First, the reliability of survey information about corruption is largely unknown. Respondents directly involved in corrupt practices may have incentives to underreport such involvement, and who are not involved typically lack accurate information. Secondly, the reliability of the index may deteriorate over time. There is a danger that respondents report what they believe based on highly publicized results in the media rather than how much 'real' corruption exists. So, in this survey we

⁵ See for instance: <http://www.guardian.co.uk/indonesia/Story/0,2763,1178382,00.html>.

⁶ Golden, Miriam A. and Lucio Picci. 2005. "Proposal for a New Measure of Corruption: Illustrated with Italian Data". *Economics and Politics* 17(1): 37-75.

were even aware that some of the questions could be self-incriminating for the respondents and we can only take the answers at face value.

4. Literature Review

Is corruption detrimental or beneficial to the economic activity? This question may seem ironic and even provocative; however, it is still controversial among economists.

Common wisdom views corruption as an impediment to development and growth. This view was recently supported by the results of studies focused on quantifying the consequences of corruption on growth. Exploration of this question was pioneered by Mauro (1995), who observed a significant negative relationship between corruption and investment that extended to growth. Mauro (1995)'s findings were confirmed by Brunetti and Weder (1998) and Mo (2001). On the basis of these studies, international organizations (e.g. the IMF, the World Bank, the UN and the OECD) gave the fight against corruption high priority. They took international initiatives (e.g. the 1999 OECD's Convention on Combating Bribery and the UN Convention against Corruption in 2003) and urged states to criminalize and deter the bribery of public sector office holders.

In contrast, other researchers have suggested that graft may be beneficial. Leys (1965) questioned "the problem about corruption". Bardhan (1997) recalled episodes in the history of Europe and the US which illustrate situations where corruption may have favored development by allowing entrepreneurs to grow out of bribers. Furthermore, Beck and Maher (1986) and Lien (1986) argued that corruption may raise efficiency. The most popular justification of the beneficial effects of corruption rests on the so-called "grease the wheels" hypothesis. Put forward by Leff (1964), Huntington (1968) and Leys (1965), that hypothesis suggests that corruption may be beneficial in a second best world because of the distortions caused by ill-functioning institutions. The argument here is that an inefficient bureaucracy constitutes an impediment to investment that some "speed" or "grease" money may help circumvent. In a nutshell, the "grease the wheels" hypothesis states that graft may act as a trouble-saving device, thereby raising efficiency hence investment and, eventually, growth.

Holding the line, on the other side of the argument was Nobel laureate Gunnar Myrdal. For example, Myrdal (1968) argued that bribes were a source of inefficiency, and even the sheer possibility of collecting bribes was enough to induce the bureaucracy to create artificial bottlenecks. To put it differently, corruption provided the wrong incentives. As such, it would then be expected to "sand the wheels". Papers that have been mentioned so far were mainly products of a theoretical approach and did not offer much in the way of state of the art mathematical treatments of this subject. In the 1980s corruption started receiving more formal treatment. One relevant example is Lui (1985), where in the context of a queuing model it was shown that corruption produced efficient outcomes in that the ones with the highest willingness to pay bribes were exactly the ones who had the highest opportunity costs of waiting.

The empirical evidence on the negative impact of corruption on growth and investment is not inconsistent with the “grease the wheels” hypothesis. This hypothesis implies that corruption may be beneficial in countries where other aspects of governance are ineffective, but remain detrimental elsewhere. Existing evidence shows that corruption is on average associated with lower growth and investment but do not demonstrate to what extent such an association depends on the quality of governance. Actually there is little evidence to support a rigorous rejection of the “grease the wheels” hypothesis. Mauro (1995) attempted to shed light of this issue by sub-dividing his sample into high red tape and low red tape countries and did not find any significant difference between the two sub-samples with respect to the negative impact of corruption. Kaufman and Wei (2000) tackled the issue from a different angle. Using firm-level data, found that multinationals that pay more bribes also tend to spend more time negotiating with foreign countries’ officials, which contradicts the “grease the wheels” hypothesis.

The “grease the wheels” versus the “sand the wheels” hypothesis: The debate on the impact of corruption on economic performance goes beyond a “moralistic view” that unequivocally condemns corruption. Moral judgments on corruption may bias understanding of its economic consequences. One strand of the literature argues that corruption may take place in parallel with a low quality of governance and can, therefore, reduce the inconvenience that it produces. This is the “grease the wheels” hypothesis. Another strand stresses that even though bribery may have benefits if the quality of governance is low, it may impose additional costs in the same circumstances. The existence of such costs provides a rationale for the “sand the wheels” hypothesis.

The core of the debate on the “grease” vs. the “sand the wheels” hypotheses lies in the interface between corruption and low quality of governance. While there are many aspects of governance that corruption may grease or sand, the literature has mainly focused on two. One concern poorly functioning bureaucracies (that fail to accomplish assigned goals - example Leff, 1964) while the other refers to policy options by public authority. The extent to which corruption can grease or sand the wheels in the presence of a low quality of governance is discussed below.

The “grease the wheels” hypothesis: Poorly functioning bureaucracies are considered the most prominent inefficiency that corruption could improve. Huntington (1968) stated: “In terms of economic growth, the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with a rigid, over-centralized, honest bureaucracy”. There are various aspects of poorly functioning bureaucracies that can be overcome through corruption. One is slowness. Using a formal economic model, Lui (1985) showed that corruption could efficiently lessen the time spent in queues. Bribes give bureaucrats an incentive to speed up processes, in otherwise sluggish administrations (Leys, 1964). Furthermore, Huntington (1968) argued that corruption could help overcome tedious bureaucratic regulations and foster growth. According to him, such a phenomenon had been observed in the 1870s and 1880s in the United States, where corruption by railroad, utility and industrial corporations resulted in faster growth.

Another aspect of poorly functioning bureaucracies is the poor quality of civil servants. Leys (1964) and Bailey (1966) argued that corruption can promote progress in bureaucracies by improving the quality of its civil servants. For example the existence of the perks of corruption may be enough to attract able civil servants other lines of business, when low government wages do not.

Finally, Beck and Maher (1986) and Lien (1986) suggested that corruption may enhance decision-making by officials. If bureaucrats do not have enough information or are not competent to make some decisions, corruption can replicate the outcome of a competitive auction. They formally showed that in processes to award government procurement contracts the ranking of bribes can replicate the ranking of firms by efficiency. Moreover, with investment projects that are dependent on obtaining licenses, corruption is very similar to a competitive auction. Leff (1964) concluded that licenses tend to be allocated to more generous bribers, who can be the most efficient. Hence, the capacity to offer bribes is equated with talent.

Some authors praise corruption for its role in allowing economic agents to escape the consequences of bad policies. Bailey (1966) for instance argues that if bribes help private agents evade public policies ill-suited to solve particular problems, they may enable the discovery of overlooked and better-suited solutions. This may in turn improve policy outcomes even in relation to the government's objectives. Leff (1964) and Bailey (1966), also argue that graft may simply be a hedge against bad public policies. This is particularly true if institutions are biased against entrepreneurship, for example on an ideological basis. By enabling leap-frogging over inefficient regulations, corruption may limit their adverse effects. It may also result in an alteration of the policy in a way that is friendlier to growth.

It has also been argued that graft may in some circumstances improve the quality of investments. This is the case (Leff, 1964) when government spending is inefficient. If corruption is a means of tax evasion, it can reduce the revenue of public taxes. Provided the bribers can invest efficiently, the overall efficiency of investment will be improved. In addition to the quality of investments, some authors argue that corruption may also raise the level of investment. For instance, Leff (1964) asserts that corruption may constitute a hedge against other systemic political risks, such as expropriation or violence. If corruption helps mitigate those risks, investment will be less risky and may accordingly increase.

All the above-mentioned arguments share the presumption that corruption may positively contribute to growth and development, because it compensates the consequences of a defective bureaucracy and bad policies. One may nevertheless wonder whether corruption creates or reinforces other inefficiencies and whether bribers are always taking more efficient decisions than public authority. Although bribery may have benefits in a weak institutional environment, it may as well impose additional costs in the same circumstances. The existence of such costs provides a rationale for the "sand the wheels" hypothesis.

The “sand the wheels” hypothesis: The presumption that corruption can have a positive impact on bureaucratic slowness rests on the assumption that a civil servant can speed up an “exogenously” slow processes. However, corrupt civil servants could cause delays that would not appear otherwise, just to get the opportunity to extract a bribe (Myrdal, 1968). Moreover, the ability of civil servants to speed up processes can be very limited when the administration includes a succession of decision centers. In this case, civil servants at each stage can have some form of veto power or some capacity to slow down a project. Using industrial organization models, Shleifer and Vishny (1993) show that the cost of corruption can be higher when, for example, to obtain authorization for a project many independent agents (rather than only one) are involved. Bardhan (1997) reports that an Indian high official once declared that he could not be sure to be able to move a file faster but could immediately stop it. The increased number of transactions due to graft may well offset the increased efficiency with which transactions are carried out (Jain, 2001). Under these circumstances one distortion adds to the others instead of overcoming them, which is precisely the meaning of the “sand the wheels hypothesis”

At an aggregate level, the impact of corruption on the quality of civil servants is questionable. Kurer (1993) argued that corrupt officials have an incentive to create other distortions in the economy to preserve their illegal source of income. For instance, a civil servant may have an incentive to ration the provision of a public service just to be able to decide to whom to allocate that service in exchange for a bribe. Similarly civil servants also have the incentive to limit new colleagues’ (especially competent ones) access to key positions in order to preserve their income from corruption. While individuals can indeed obtain advantages from bribes, nothing is gained from corruption at the aggregate macro-economic level.

The argument that corruption may enhance decision-making is also subject to doubt. There are reasons to believe that agents paying the highest bribe are not always able to improve efficiency. Rose-Ackerman (1997) argues that a firm may be able to pay the highest bribe simply because it compromises on the quality of the goods it will produce if it gets a license. Mankiw and Whinston (1986) show that entry in a market may be beneficial for the firm but detrimental for overall welfare. In these cases, entry is, in general, subject to an authorization. Although entry is detrimental for welfare, the firm can find it profitable to pay the bribe to get the authorization and enter the market. Finally, if the profitability of a license is uncertain, the winner of the auction may be the more optimistic rather than the most efficient, a situation that is known as the “winner’s curse”. In these cases, corruption is not the best way to award a license. Thus, even if the analogy between corruption and a competitive auction holds, there are situations where the winner is not enhancing efficiency.

Turning to the second category of institutional deficiencies (i.e. policy options by public authority), the argument in favor of corruption can be counter-balanced in various respects. The argument according to which corruption may raise both the quantity and the quality of investment is questionable. There is evidence that this may not be true for public investment. Empirical evidence shows that higher corruption is associated with higher public investment (Tanzi and Davoodi, 1997) and that this results in a diversion of public

spending towards less efficient allocations (Mauro, 1998). ***In other words, corruption results in a greater amount of public investments in unproductive sectors, which is unlikely to improve efficiency and result in faster growth.***

One may also doubt that the assertion that corruption may be a hedge against risk in a politically uncertain environment. This may only be true if the corrupt act does not imply additional risk-taking. However, corruption is not a simple transaction. Given their illegal nature, the commitment to comply with corrupt agreements may indeed be very weak which may lead to opportunism, especially on the bribee's part. As Bardhan (1997) points out, the inherent uncertainty of such agreements may simply make the efficiency-enhancing mechanisms ineffective. This presumption is supported by the results obtained by Campos et al. (1999) and Lambsdorff (2003) who observe that the unpredictability of corruption has an impact on investment and capital inflows that is independent from the impact of the corruption itself. As a result, it is likely that corruption may increase the risks associated with a weak rule of law instead of mitigating them.

Corruption Level impact on FDI: Wei (2000) investigates whether or not FDI flows from US and other source countries are statistically different by using data on bilateral flows between 14 source countries and 45 host countries for the years 1990 and 1991. He concludes that corruption has a negative and significant impact on the levels of FDI, and that this impact does not vary according to the source country.

Smarynzka and Wei (2000) argue that host country corruption causes foreign investors to favor joint ventures over wholly owned firms. Lambsdorff and Cornelius (2000) found a negative impact of corruption on FDI for a sample of African countries. Wei and Wu (2001) concluded that corruption impacts on the composition of capital inflows in a way that reduces FDI, and increases countries' reliance on bank loans. This, in turn, makes the country in question more vulnerable towards financial and currency crises.

Habib and Zurawicki (2001) examined the impact of corruption on both foreign direct investments and local investments and found that corruption has a stronger negative impact on FDI. Lambsdorff (2002) studied the question of how corruption influences persistent capital flows. This study breaks down investment into two broad categories: domestic savings and net capital inflows. A significant negative impact of corruption on the latter variable is proven. Yet, no distinction is made between different forms of capital inflows. In order to identify potential channels of influence, this study also examines certain institutional variables such as bureaucratic quality, civil liberty, government stability, and law and order traditions. A somewhat surprising result emerges in that all but the last variable matter for attracting capital inflows.

On the other hand, there are a series of studies which remain inconclusive on the above mentioned link. Using cross-sectional data, Alesina and Weder (1999) fail to produce a significant parameter estimate for the corruption variable on FDI in spite of trying a series of model specifications. Working on data for Sub-Saharan Africa, Okeahalam and Bah (1998) also produce inconclusive results. To wrap up, it is fair to say that the literature has documented mixed results regarding the impact of corruption on FDI. For this report, the

results of a survey conducted recently were also taken into consideration and will be detailed later. The pioneering effort in this area was the study by Mauro (1995) who found that corruption lowers investment and thereby economic growth. Later, the study by Tanzi and Davoodi (1997) further extended and elaborated this line of causality by showing that corruption increases public investment while reducing its productivity.

Empirical studies suggest that corruption is, indeed, associated with a misallocation and misappropriation of public expenditures which are often inflated as a result. Gupta et al. (2000) find that corruption has the effect of reducing the provision of education and health care, and of increasing infant mortality. Mauro (1997) presents evidence that corruption distorts public expenditures away from growth-promoting areas (like education and health) towards other types of projects (e.g., infrastructure investment) that are less productivity-enhancing. In a similar vein, Tanzi and Davoodi (1997) find that corruption leads to a diversion of public funds to where bribes are easiest to collect, implying a bias in the composition of public spending towards low-productivity projects (e.g. large-scale construction) at the expense of value enhancing investments (e.g. maintenance of the existing infrastructure). The same authors conclude that, as a result of corruption, the amount of public investment tends to rise, while the quality of this investment tends to fall, where the latter is measured for example by the number of paved roads in bad condition and power supply faults.

Following theoretical and empirical arguments pointing to the damage which corruption inflicts on economies, several empirical researches looked at the impact of corruption on the inflows of foreign direct investment by controlling variables positively correlated with FDI (the rule of law, control of corruption, regulatory quality, government effectiveness, and political stability). The analysis indicates that US firms are less likely to invest in countries where bribery, as measured by the Corruption Perception Index (CPI), is widespread. Many authors examined US Foreign Direct Investment (FDI) outflows with respect to the level of corruption (in the form of bribery) in 42 recipient countries over a five-year period. As might be expected, the size of the foreign market is found to be a more robust factor determining US outward investment, with larger economies attracting more investment. The level of bribery, while significant by itself, loses its importance when included with other economic and cultural political and governance variables.

It has also been observed that "FDI may be a major cause of corruption, especially in resource-rich poor countries, if international investors try to gain access to natural resources (e.g. minerals, forests, and agricultural land) by paying bribes to government officials controlling the access (Leite and Weidmann,1999; Pinto and Zhu,2013). Where such corruption is successful in circumventing government restrictions designed to protect the environment, it may entail the contradictory effects of raising the country's GDP, but lowering its overall welfare by damaging the environment and public health"⁷.

⁷ OECD (2014). Issue Paper: Corruption and Economic Development. See: <http://www.oecd.org/g20/topics/anti-corruption/Issue-Paper-Corruption-and-Economic-Growth.pdf>

A study conducted by Ali Al-Sadig (2009) entitled “The Effects of Corruption on FDI Inflows” which analyzed a 20 year panel data of 117 countries offered the following conclusion:

“The corruption level in the host country has an adverse effect on FDI inflows: a one-point increase in the corruption level leads to a reduction in per capita FDI inflows by about 11 percent. However, after controlling for other characteristics of the host country such as the quality of institutions, the negative effects of corruption disappear and sometimes it becomes positive but statistically insignificant. In fact, the results show that the country’s quality of institutions is more important than the level of corruption in encouraging FDI inflows into the country. For instance, ceteris paribus, a country with sound institutions is able to attract as much as 29 percent more per capita FDI inflows than a country with poor institutions.”

On the other hand, Morten; Feldmann, Sven E.; Dreyer Lassen, David (2011) found that firms that perceive the national legislature to be of higher quality invest more in political influence and pay less bribes while, conversely, firms with lower faith in the legislature perceive themselves as having less influence and report more bribe paying. This is consistent with the theoretical argument, made by Harstad and Svensson (2010), that firms tend toward rule-breaking when credibility of political systems is low, while they invest (more) in rule-changing when political credibility increases.

In general, the trend in recent literature also emphasizes the above findings. Castro and Nunez (2013) concluded that “it is clear that corruption is a crucial determinant of FDI inflows.” Sammi and Abedini (2012) asserted also that Corruption is one of the most important factors creating inflation tax through budget deficit. A study by Alemu (2012) on the Effects of Corruption on FDI Inflow in Asian Economies based on the Transparency International Index states that *“The empirical evidence in this study generally confirms that corruption remains a significant problem for inward FDI in Asian economies. This is equivalent to saying that if a country is able to decrease the level of corruption by 1%, the inward FDI may increase by about 9.1 percentage points. Thus, the argument of some scholars that corruption does not keep FDI out of those corrupt countries is either flawed or invalid. In fact, some countries such as China and India, which are characterized by high level of corruption and a remarkable FDI inflow at the same time, could even double their inward FDI if the present pervasive level of corruption can be reduced.”*⁸

⁸ Alemu, Aye Mengistu. 2012. Effects of Corruption on FDI Inflow in Asian Economies. *Seoul Journal of Economics* 25(4): 387-412. P. 404

5. Survey Findings

5.1 Description of the Surveyed Firms

Differing views on corruption are important as they offer various insights into how corruption affects lives in different contexts. This corruption perception survey targets foreign companies operating in Ethiopia and aims at capturing their perceptions and attitudes as well as their experiences with corruption in this country. Major factors that could influence the perception of persons include their personal background, their respective country's socio-economic and political situation as well as culture. The positions within their companies of the respondents interviewed during this corruption perception survey are presented in Table 1.

Table 1- Position of respondents in the companies covered by the survey

| Position of Respondent | Number | Percent |
|------------------------------|------------|--------------|
| Owner/Principal | 64 | 18.3 |
| Partner/Share Holder | 51 | 14.6 |
| CEO | 19 | 5.4 |
| Managing Director/G. Manager | 128 | 36.6 |
| Finance/Admin Manager | 52 | 14.9 |
| Liaison Officer/Facilitator | 34 | 9.7 |
| Other | 2 | 0.6 |
| Total | 350 | 100.0 |

Source: Own Survey, November 2013

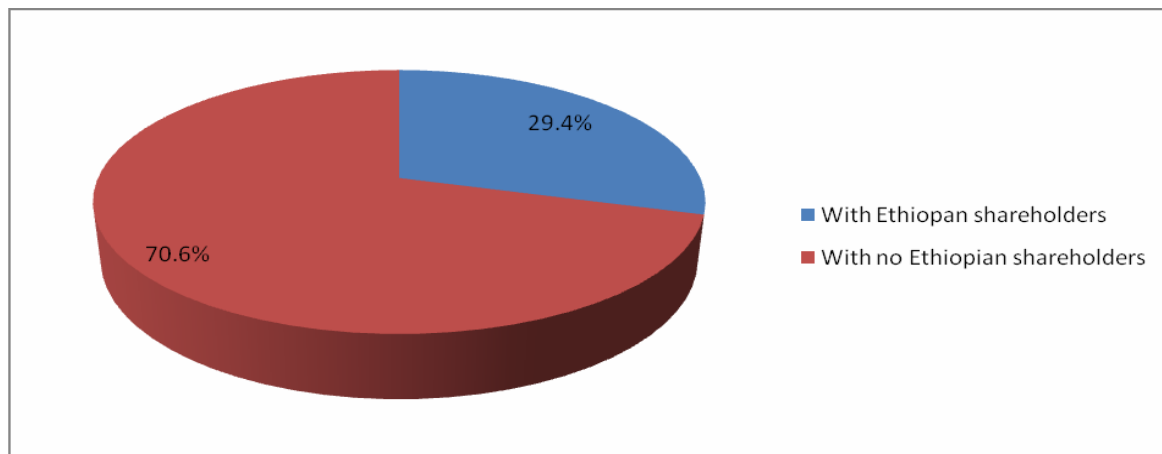
The majority of the respondents interviewed were Managing Directors/General Managers (36.6%) followed by principal/owners (18.3%), Finance/Administration Managers (14.9%), Partner/shareholders (14.6%) and Liaison Officers (9.7%). The proportion of liaison officers is low (9.7%) although they normally have the responsibility of handling the day to day contacts with government officials/employees and face the challenges especially related to petty corruption. Similarly the proportion of CEOs is low (5.4%), but this could be attributed to the naming of the head of the organization as Managing Director/General Manager or CEO.

The respondents included citizens of 42 countries and all continents except Latin America, as shown in Annex 3. Their perceptions of corruption in Ethiopia could reflect their economic, political and cultural differences, and their range of nationalities provide wider view of foreign firms operating in the country. The dominant nationalities of the respondents were Chinese and Indians (14% and 12%, respectively) followed by Americans (7.4%), Turkish and Italians (6.6% each) and British (5.1%). The next higher

nationalities were Dutch (4%) and Sudanese and Pakistanis (3.7% each). There are also Ethiopian-Americans, Ethio-Chinese and Ethio-Pakistani companies that increased the proportions of those countries by 2%, 0.6% and 0.3%, respectively.

Moreover, most of the companies surveyed do not have Ethiopian shareholders in their companies, those which do account for about 29% of the firms as depicted in Figure 1.

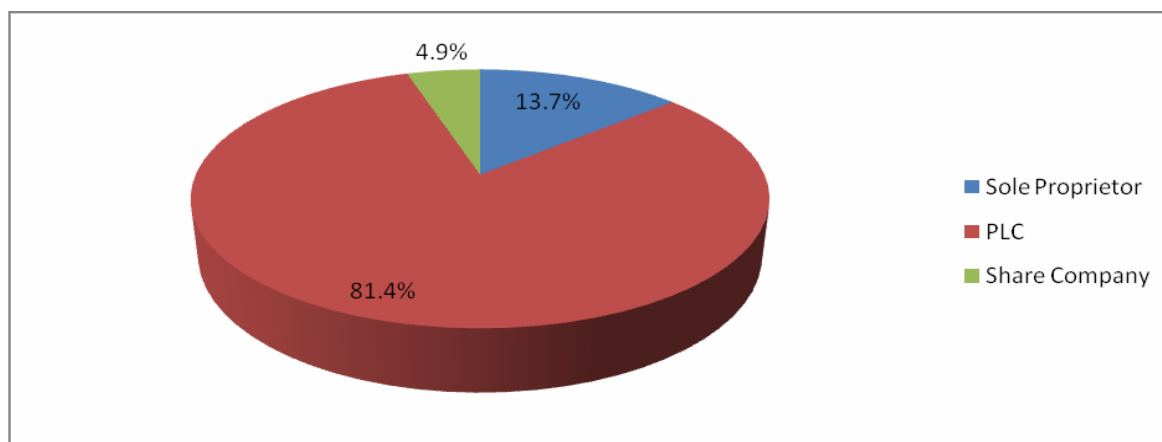
Figure 1. Proportion of foreign companies operating in Ethiopia with Ethiopian Share holders



Source: Own Survey, November 2013

The dominant legal form of companies surveyed in the study is PLC (81.4%) followed by Sole proprietorship (13.7%).

Figure 2. Proportions of the types of companies covered by the survey



Source: Own Survey, November 2013

Most of the surveyed companies (60.3%) have been operating in Ethiopia for over 5 years, with the average year being 4.3 years. On the whole, therefore, these companies would

have sufficient institutional experience to provide informed opinions about the levels and nature of corruption that are faced during both establishment and operation phases

Table 2. Foreign companies surveyed by year of establishment

| Company Established (year) | # of Companies | Percent |
|----------------------------|----------------|--------------|
| 2012-2013 | 50 | 14.3 |
| 2010-2011 | 89 | 25.4 |
| 2008-2009 | 93 | 26.6 |
| Before 2008 | 118 | 33.7 |
| Total | 350 | 100.0 |

Source: Own Survey, November 2013

Furthermore, all regional States are represented in the survey of foreign companies operating in Ethiopia. The result showed that the majority of the foreign companies operating in Ethiopia are concentrated in and around Addis Ababa. Over 44% operate in Addis Ababa and 31% in Oromia. The count by region is higher than the sample total because some companies are operating in more than one Region.

Table 3. Operational areas of surveyed foreign companies

| Regional State | Total | |
|----------------|------------|--------------|
| | Count | % |
| Amhara | 26 | 6.4 |
| SNNP | 21 | 5.1 |
| Oromia | 127 | 31.1 |
| Addis Ababa | 181 | 44.3 |
| Afar | 8 | 2.0 |
| Somali | 3 | 0.7 |
| Harari | 5 | 1.2 |
| Dire Dawa | 6 | 1.5 |
| Ben.-Gumuz | 6 | 1.5 |
| Gambella | 8 | 2.0 |
| Tigray | 18 | 4.4 |
| Total | 409 | 100.0 |

Source: Own Survey, November 2013

The survey showed that about 43% are engaged in manufacturing and agro-processing while 16.6% provide services, 12.6% operate in construction and 11.7% work in agriculture. The “other” includes firms engaged in consultancy, water well drilling, IT

services, health and education as well as Import/Export and account en toto for about 11% of the surveyed firms.

Table 4. Sectoral distribution of the surveyed companies

| Sector | Count | Percent |
|--------------------------------|------------|--------------|
| Manufacturing (light industry) | 91 | 26.0 |
| Manufacturing (Heavy Industry) | 30 | 8.6 |
| Agro-Processing | 29 | 8.3 |
| Agriculture | 41 | 11.7 |
| Construction (Road & Building) | 44 | 12.6 |
| Telecom | 8 | 2.3 |
| Power | 5 | 1.4 |
| Mining | 5 | 1.4 |
| Services (Tourism, Hotel ,etc) | 58 | 16.6 |
| Other (Specify) | 39 | 11.1 |
| Total | 350 | 100.0 |

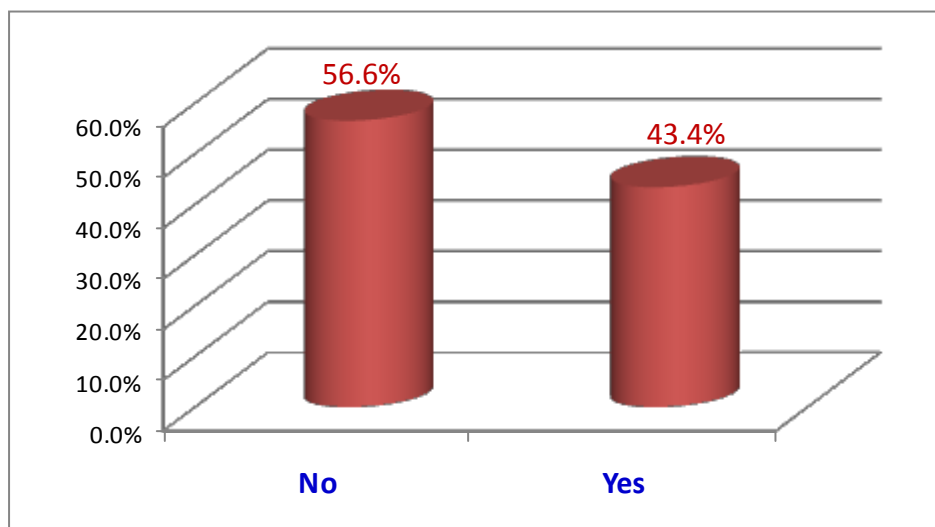
Table 5. Product markets for the surveyed companies

| Where do you sell mainly your products? | Export Market | Local Market |
|---|---------------|--------------|
| 0% | 70.5 | 8.0 |
| Up to 20% | 4.4 | 7.1 |
| 20% to 40% | 4.7 | 3.7 |
| 41% to 60% | 7.9 | 8.0 |
| 61% to 80% | 6.1 | 4.0 |
| above 80% | 6.4 | 69.1 |

Source: Own Survey, November 2013

The majority of the companies covered by the survey sell their products/services in the local market. A little over 6% of respondents export more than 80% of their products/services. On the other hand, about 43% of the surveyed foreign firms sell their products/services to government bodies (including both budgeted public sector agencies and enterprises owned by government).

Figure 3. Percentage of foreign firms selling products/services to government



The majority (56%) of the companies are not dependent on government bodies for inputs other than power, telecom and water. In addition, almost half of them import raw materials from abroad (for details, see Figure 4 and Figure 5).

Figure 4. Dependency on government bodies for inputs/raw materials other than Telecom/Power/Water

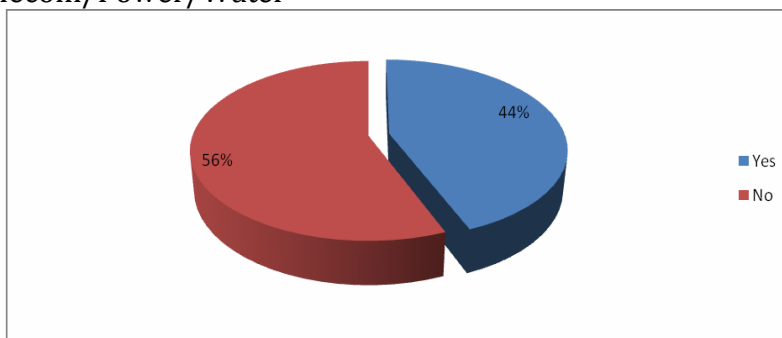
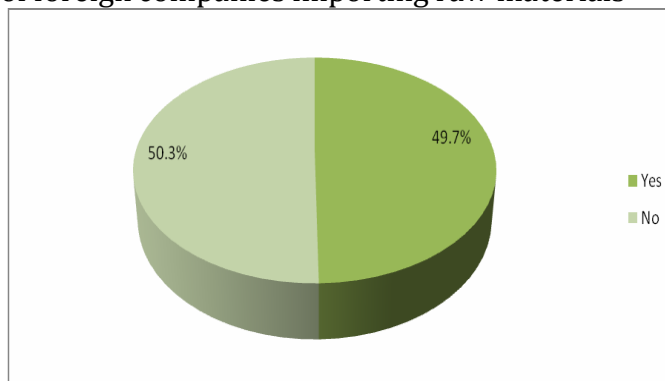
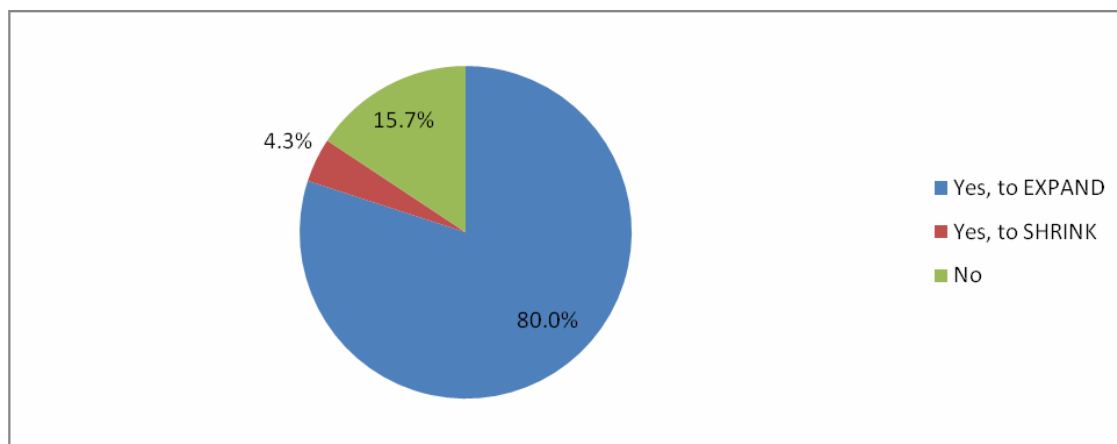


Figure 5. Proportion of foreign companies importing raw materials



About 80% of the surveyed companies have plans to expand their investment in Ethiopia while only 4% have a plan to shrink. The rest 15.7% planned to operate at their current size.

Figure 6: Plans for expanding/shrinking investment in Ethiopia



Source: Own Survey, November 2013

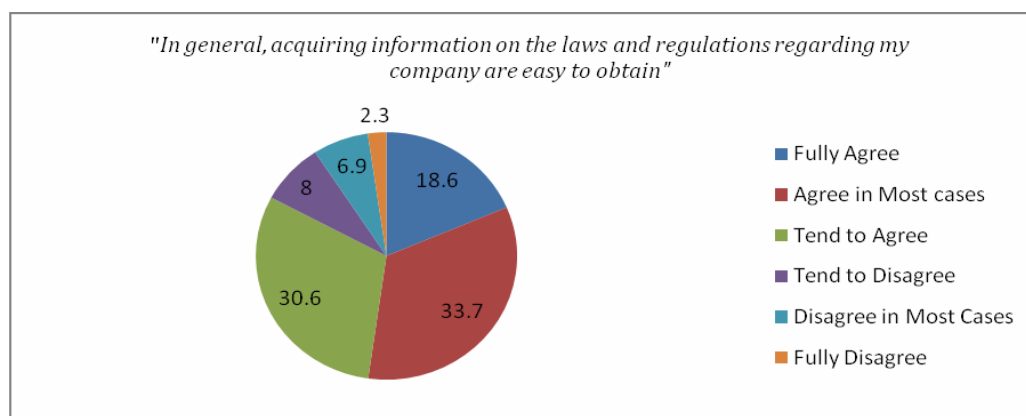
5.2 Accessing Information on Rules and Regulations

The questions under this section focused the respondents' opinion about rules and regulations of the country covering businesses in general and FDI in particular. During the survey respondents were asked to report their level of agreement with the statement:

"In general, acquiring information on the laws and regulations regarding my company are easy to obtain".

The proportion of the respondents that agree with the statement is by far greater than those that do not agree. In aggregate 82.8% of the respondents agree with the statement while the rest (17.2%) don't agree. More specifically, 18.6% reported that they fully agree, 33.7% agree, 30.6% tend to agree, 8% tend to disagree, 6.9% disagree in most cases and 2.3% reported that they fully disagree (Figure 7).

Figure 7. Agreement of the respondents with the statement "In general, acquiring information on the laws and regulations regarding my company are easy to obtain"



Respondents were also requested to express their perception regarding the country's legal framework in terms of its attractiveness to FDI. The results indicated that 11.4% of the respondents reported that the country's legal framework is very attractive, 40.6% attractive, 32.6% somehow attractive while 12.9% reported not attractive and 2% didn't know.

5.3 Variation in Perceptions of Corruption OVER Time

Respondents were asked to give their level of agreement with the statement that:

"In general, interpretations of regulations affecting my company are consistent and predictable" comparing the current period with 3 years back.

The proportion of respondents with affirmative responses is somewhat higher for the present (77.7%) compared to three years ago (72.5%). Particularly, for now 20.3% of the respondents fully agree, 27.7% agree in most cases, 29.7% tend to agree, 10.6% tend to disagree, 7.4% disagree in most cases and 4.3% reported that they fully disagree. For 3 years ago, 9.1% of the same respondents reported that they fully agree, 32.3% agree in most cases, 31.1% tend to agree, 14.9% tend to disagree, 9.7% disagree in most cases and 2.9% reported that they fully disagree.

Table 6: Perceptions of the interpretation of regulations

| In general, interpretations of regulations affecting my company are consistent and predictable. | 3 years ago (%) | Now (%) |
|--|------------------------|----------------|
| Fully Agree | 9.1 | 20.3 |
| Agree in Most cases | 32.3 | 27.7 |
| Tend to Agree | 31.1 | 29.7 |
| Tend to Disagree | 14.9 | 10.6 |
| Disagree in Most Cases | 9.7 | 7.4 |
| Fully Disagree | 2.9 | 4.3 |
| Total | 100 | 100 |

The respondents were also requested to opine on the statement that:

“I am confident that the legal system in Ethiopia will uphold my contract and property rights in business disputes if I am the aggrieved party,” comparing the present with 3 years ago.

The proportion of respondents that agree on the statement is by far higher than those that don't agree. For the present, 30.3% of the respondents reported that they fully agree, 31.4% agree, 22.9% tend to agree, 7.4% tend to disagree, 1.1% disagree and 2.6% reported that they fully disagree, while 4.3% didn't respond. For 3 years ago, 16.3% of the respondents reported that they fully agree, 29.7% agree, 30.6% tend to agree, 6.3% tend to disagree, 2.3% disagree, 2.9% fully disagree, and 12% didn't respond. This reveals that the proportion of respondents with affirmative responses regarding contract and property rights is higher at present (84.6%) than it was three years ago (76.6%).

Table 7: Perceptions of the Ethiopian legal system comparing the present with 3 years ago

| I am confident that the legal system in Ethiopia will uphold my contract and property rights in business disputes if I am the aggrieved party. | 3 ago | Now |
|---|--------------|------------|
| Fully Agree | 16.3 | 30.3 |
| Agree in Most cases | 29.7 | 31.4 |
| Tend to Agree | 30.6 | 22.9 |
| Tend to Disagree | 6.3 | 7.4 |
| Disagree in Most Cases | 2.3 | 1.1 |
| Fully Disagree | 2.9 | 2.6 |

| I am confident that the legal system in Ethiopia will uphold my contract and property rights in business disputes if I am the aggrieved party. | 3 ago | Now |
|---|--------------|------------|
| didn't answer | 12.0 | 4.3 |
| Total | 100 | 100 |

The respondents were asked for their views on whether they feel that overall corruption levels have increased or decreased in specific bureaucratic processes and institutions where corruption was perceived to be widely practiced in the last three years. The answers are summarized in table 8 below.

Table 8. Changes in the status of unofficial payments/corruption in the last three years

| Corruption in the last 3 years | Changes in the status | | | | |
|--|------------------------------|-------------|----------------|-------------------|----------------------|
| | Less | Same | Greater | Don't know | Didn't answer |
| To get connected to public services (like Electricity and Telecom) | 24.0 | 24.3 | 20.3 | 29.4 | 2.0 |
| To get licenses and permits | 24.9 | 28.3 | 15.1 | 29.7 | 2.0 |
| To Acquire land for business purposes | 13.7 | 24.3 | 25.1 | 34.6 | 2.3 |
| To deal with taxes and tax collection | 18.9 | 26.3 | 22.0 | 30.9 | 2.0 |
| To secure bank loans | 14.0 | 24.9 | 16.3 | 42.3 | 2.6 |
| To secure foreign currency | 17.4 | 22.3 | 22.3 | 35.4 | 2.6 |
| To open letters of credit | 15.1 | 24.6 | 19.1 | 38.0 | 3.1 |
| To gain government contracts | 11.7 | 25.1 | 18.9 | 41.4 | 2.9 |
| To deal with customs/imports | 13.1 | 26.0 | 26.3 | 31.4 | 3.1 |
| To deal with Police | 14.0 | 26.6 | 15.1 | 41.1 | 3.1 |
| To deal with courts | 14.9 | 23.4 | 10.6 | 48.0 | 3.1 |
| To deal with standards and safety inspectors | 18.9 | 25.4 | 10.3 | 42.6 | 2.9 |

Table 8 also shows that a plurality of respondents do not know whether levels of corruption in the specified processes or institutions have changed or remained the same. The table also shows that opinions were mixed about whether corruption has become less, remained the same and increased in the last three years.

Compared to the situation three years ago respondents ranked the processes and institutions where corruption increased most as customs/imports (26.3%), acquiring land,

(25.1%), securing foreign currency (22.3%), dealing with taxes and tax collection and obtaining connections to public utilities like Electricity and Telecom (20.3%).

Respondents also stated that the average time required to complete the registration process, including document authentication, investment license, business license etc, was 7.8 days. 41% believed that less time is required now than when they registered their companies, 23.1% reported that it takes longer and 33.1% didn't know.

5.4 Perceived Difficulties Related to Government Requirements and Accessing Services

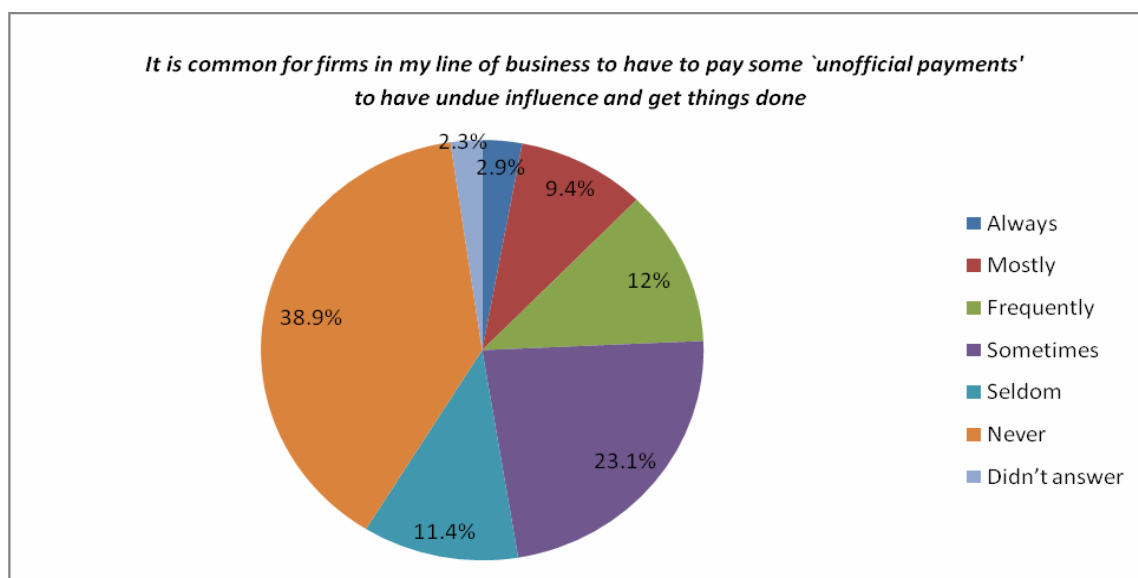
Data was collected on the perception of foreign investors regarding government requirements that are considered to be the most difficult in operating business. Results of the data analysis showed that customs/foreign trade was believed to be among the most difficult by 36.6% of the respondents, business licensing by 32.3%, tax regulations by 28%, foreign currency/exchange, labour hiring/firing by 9.1%, quality standards by 4.3%, both construction standards and environmental directives by 3.7% and others by 7.1%. These results are consistent with the findings of highlighted in Table 13 where it is shown that customs/foreign trade, foreign currency/exchange and tax regulations are among the most problematic regulatory areas for operating foreign businesses in the country.

Respondents were also requested to express their opinion on the statement that:

“It is common for firms in my line of business to have to pay some unofficial payments to have undue influence and get things done”.

Figure 8 shows that the greatest proportion (38.9%) of the respondents stated that this is never true, 11.4% that it is seldom true, 23.1% that it is sometimes true, 12% that it is frequently true, 9.4% that it is mostly true and the rest (2.3%) didn't respond.

Figure 8. Perceptions of the relation between making unofficial payments and getting things done

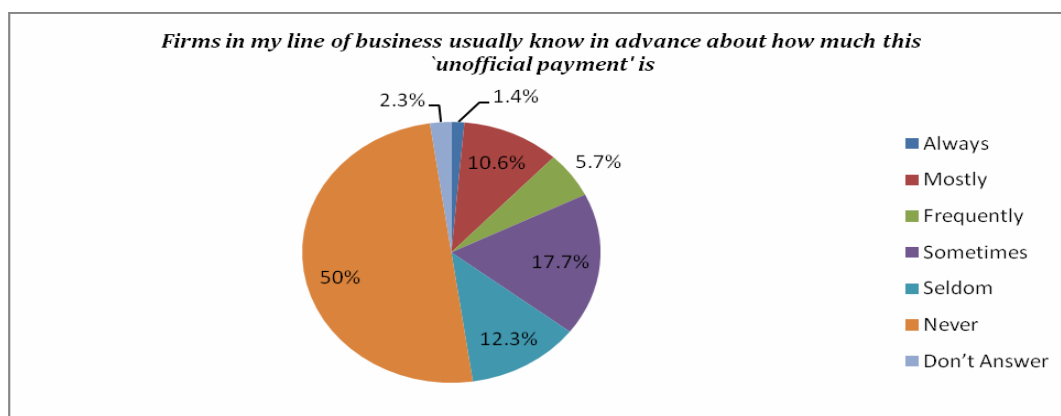


The respondents were also requested to express their opinion about the statement that

“Firms in my line of business usually know in advance about how much this unofficial payment is”.

Figure 9 depicts, among all of the answers that 50% of respondents stated that this is never true while only 1.4% stated that it is always true.

Figure 9. Perceptions of advance knowledge about requirements for unofficial payments



In the same way respondents were requested to express their opinions on the statement that:

“If a firm pays the required unofficial payment the service is usually also delivered as agreed”.

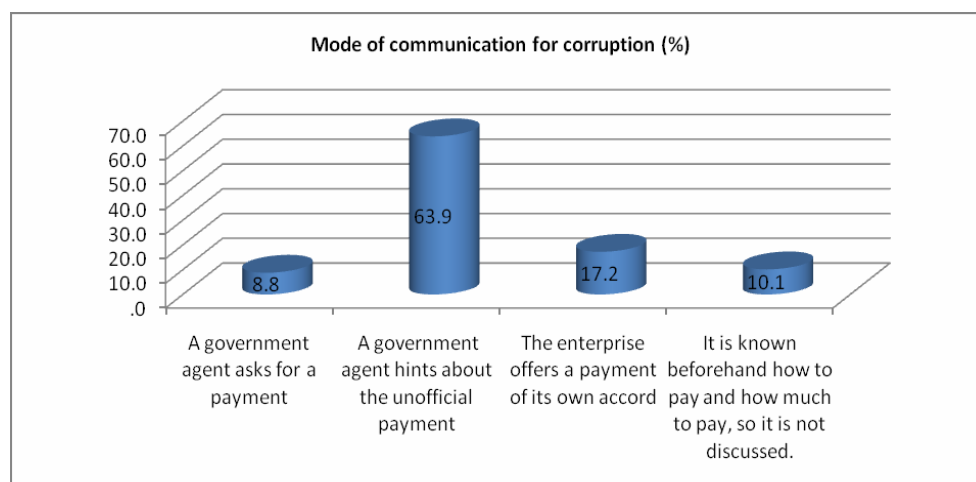
Here too, the greatest proportion (36.9%) responded that this is never true while the proportions that responded this is seldom true, sometimes true, frequently true, mostly true and always true were respectively 12.3%, 16.6%, 8.0%, 19.4% and 2.6%. Details are shown in table 9.

Table 9: Perceptions of the return on unofficial payments

| If a firm pays the required "unofficial payment" the service is also delivered as agreed | Percent |
|---|----------------|
| Always | 2.6 |
| Mostly | 19.4 |
| Frequently | 8.0 |
| Sometimes | 16.6 |
| Seldom | 12.3 |
| Never | 36.9 |
| Didn't Answer | 4.3 |

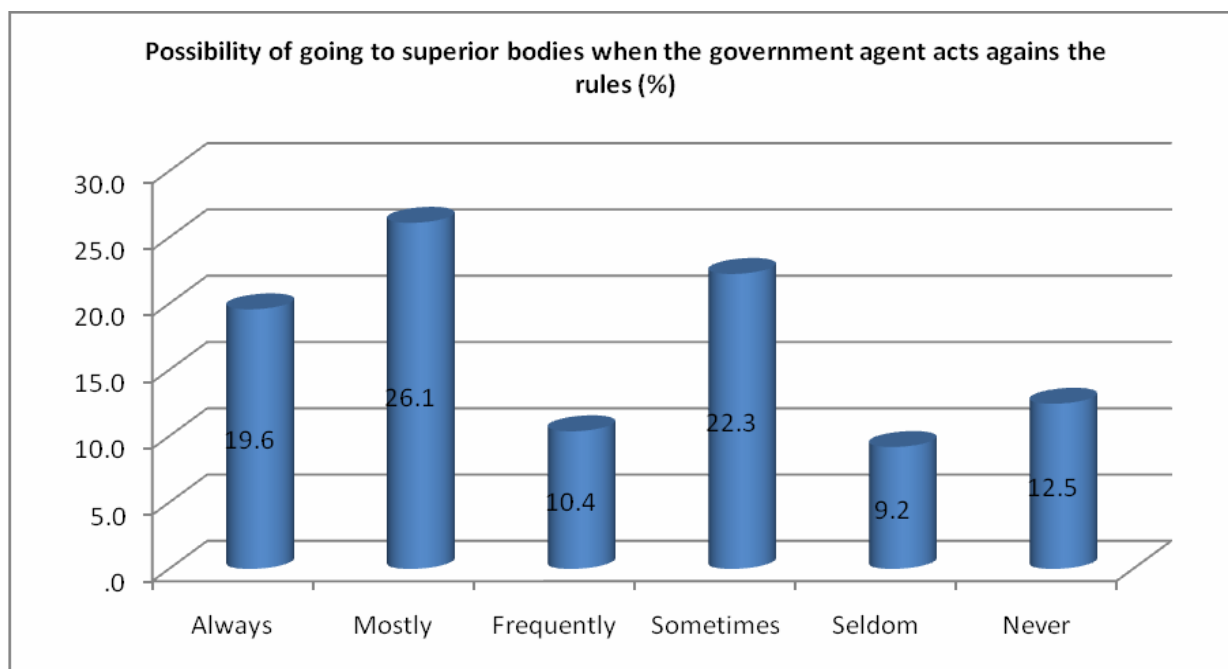
Data on the mode of communication for initiating corruption conversations was collected and out of the 350 respondents 296 valid responses were obtained. 63.9% stated that hints provided by government agents were the most common method used.

Figure 10: Common modes of communication for corruption



The respondents were requested to share their experience on how often it is true that if a government agent acts against the rules one can usually go to another official or to his superior and get proper treatment without recourse to unofficial payments. Out of the total 337 respondents, 96.3% gave valid responses. 22.3% responded that this is sometimes true, 26.1% that it is mostly true and 19.6% always as shown in Figure 11.

Figure 11 Possibility of going to superior bodies when a government agent acts against the rules



One of the questions posed during the survey was how frequently the foreign owned companies contacted (or sought the services of) about 15 key government agencies and their employees during the previous 12 months. Following this, respondents were asked if they had encountered requests or hints for unofficial payments in order to obtain the services from these agencies/employees and whether they paid any amount of money in bribes. The survey results revealed that EEPCo is the organization with the highest average number of foreign companies seeking its services. In fact, the data shows that some foreign companies had contacted EEPCo as much as 240 times while most did so 12 times during the 12 months preceding the survey. Ethio telecom is the next most frequently contacted agency with an average of about 10 per year. The statistical mode, i.e., the number of contacts mentioned more repeatedly by respondents for EEPCo, Ethio telecom and the water and sewerage company is 12, perhaps because bills had to be paid on a monthly basis to these agencies. The maximum contact mentioned is with Judges or court officials which was as much as 300 times during the last 12 months preceding the survey for few of the respondents. The following table shows the details.

Table 10: Frequency of contact between foreign companies and government agencies during the previous 12 months

| No. | Government Agencies/ Officials | % of Respondents | Average Contact With Agency during previous 12 months | Useful Statistics | | |
|-----|---|------------------|---|-------------------|---------|---------|
| | | | | Mode | Minimum | Maximum |
| 1. | Electric Power Company | 57.4 | 11.6 | 12 | 1 | 240 |
| 2. | Telephone Company | 47.4 | 9.64 | 12 | 1 | 100 |
| 3. | Judges/ Court officials | 21.7 | 9.54 | 1 | 1 | 300 |
| 4. | Tax Agency/ Inspectors | 61.7 | 8.4 | 12 | 1 | 100 |
| 5. | Water and Sewerage Company | 35.7 | 8.11 | 12 | 1 | 50 |
| 6. | Officials influencing polices affecting your firm | 12.3 | 6.86 | 1 | 1 | 70 |
| 7. | Traffic Police | 40.6 | 6.5 | 1 | 1 | 200 |
| 8. | Government companies selling inputs | 16.6 | 6.45 | 1 | 1 | 50 |
| 9. | Customs and trade licensing | 56.9 | 6.35 | 1 | 1 | 100 |
| 10. | Federal/Local Police | 25.4 | 5.94 | 2 | 1 | 100 |
| 11. | Land Acquisition /Administration | 35.4 | 4.47 | 1 | 1 | 30 |
| 12. | Investment License Authorities | 68.9 | 4.26 | 1 | 1 | 52 |
| 13. | Construction permits | 32.6 | 4.21 | 1 | 1 | 42 |
| 14. | Government procurement | 18.9 | 4.2 | 2 | 1 | 16 |
| 15. | Standards and safety | 24.9 | 3.86 | 2 | 1 | 50 |

Responses to a follow up question, about whether respondents were asked for any unofficial payment during the previous twelve months, put both EEPCo and Traffic Police employees high on the list. EEPCo staff asked about 6% of the respondents a total count of 213 times for bribes which is an average of 10 requests per respondent. Traffic police asked 16.6% of respondents for more total bribes (370) but with an lower average of 6 bribe demands per respondent. The Revenue and Customs Authority employees asked 6% of the respondents a total of 54 times for bribes for customs/trade licenses (an average twice per respondent) and 49 times for tax inspections. Staff from the Federal/Local police and employees involved in authorizing construction permits approached 3.4% and 4% the respondents, respectively, for bribes. More detail on this is presented in the table below.

Table 11: Average number of times asked for bribe during the previous 12 months⁹

| No. | Government Agencies/ Officials | % of Respondents | Average # of Times Asked for Bribe | Useful Statistics | | | |
|-----|---|------------------|------------------------------------|-------------------|---------|---------|--------------------------|
| | | | | Mode | Minimum | Maximum | Count of Total Incidence |
| 1. | Electric Power Company | 6.3 | 9.68 | 1 | 1 | 100 | 213 |
| 2. | Traffic police | 16.6 | 6.38 | 1 | 1 | 70 | 370 |
| 3. | Gov. Company Selling inputs | 2.0 | 5 | 1 | 1 | 20 | 35 |
| 4. | Judges/ Court officials | 2.3 | 4 | 1 | 1 | 10 | 32 |
| 5. | Federal/Local Police | 3.4 | 3 | 2 | 1 | 10 | 36 |
| 6. | Officials influencing polices affecting your firm | 2.3 | 2.88 | 1 | 1 | 6 | 23 |
| 7. | Construction permit | 4.9 | 2.76 | 1 | 1 | 10 | 47 |
| 8. | Standards and Safety | 2.6 | 2.67 | 1 | 1 | 10 | 24 |
| 9. | Customs and trade license | 6.0 | 2.57 | 1 | 1 | 15 | 54 |
| 10. | Government Procurement | 1.7 | 2.5 | 1 | 1 | 4 | 15 |
| 11. | Water and Sewerage Company | 1.7 | 2.5 | 1 | 1 | 10 | 15 |
| 12. | Tax Agency/ Inspectors | 6.3 | 2.23 | 1 | 1 | 10 | 49 |
| 13. | Telephone Company | 1.4 | 2.2 | 3 | 1 | 3 | 11 |
| 14. | Investment License Authorities | 2.3 | 1.88 | 1 | 1 | 5 | 15 |
| 15. | Land Acquisition /Administration | 2.9 | 1.8 | 1 | 1 | 4 | 18 |

The respondents were also asked to mention the average amount of unofficial payments that they had made to the employees in these institutions during the previous twelve months. Their answers reveal that employees in all agencies are being bribed though with differences in the average amount of bribe money. Even though 18% of the respondents identified the Traffic Police to be the most corrupt by all measures, the most alarming cases were reported about employees involved with Customs and Trade, Land Acquisition /Administration, Investment Licenses, Tax Agency Inspection and Government Procurement. The respondents revealed that employees in these agencies are collecting on average bribe money ranging from 5,000 to 7000 Birr (USD 260 to 364.60). The survey data also informs that maximum bribes range from 20,000 to 50,000 Birr (USD 1042 to 2,604). The total of reported bribes by institution/employees shows that customs staff are the most corrupt having collected 121,660 Birr (USD 6,336) from respondents, followed by employees approving construction permits and conducting tax inspection with a total bribe money payment amounting to Birr 43,400 and 41,900 (USD 2260 and 2,182), respectively.

⁹ Note: The counts of incidences and the sum of bribes paid are estimates based on responses received and not directly documented amounts.

On the other hand, the data pattern as revealed by the statistical mode and the minimum and maximum bribe payments suggests that petty rather than grand corruption is more ubiquitous. More detail on this is presented in the table below.

Table 12: Percentage of respondents who have paid bribes

| No. | Government Agencies/ Officials | % of Respondents | Average Bribe Paid By Respondents | Useful Statistics | | | |
|-----|---|------------------|-----------------------------------|-------------------|---------|---------|--------------------------|
| | | | | Mode | Minimum | Maximum | Sum of Total Bribe Money |
| 1. | Customs and trade license | 4.9 | 7,156 | 1000 | 100 | 50000 | 121660 |
| 2. | Land Acquisition /Administration | 1.7 | 5,925 | 200 | 200 | 20000 | 35550 |
| 3. | Investment License Authorities | 1.1 | 5,483 | 200 | 200 | 20000 | 21930 |
| 4. | Tax Agency/ Inspectors | 2.3 | 5,238 | 3000 | 50 | 20000 | 41900 |
| 5. | Government Procurement | 0.6 | 5,000 | 5000 | 5000 | 5000 | 10000 |
| 6. | Telephone Company | 0.6 | 3,750 | 500 | 500 | 7000 | 7500 |
| 7. | Construction permit | 3.4 | 3,623 | 200 | 100 | 30000 | 43470 |
| 8. | Standards and Safety | 1.4 | 3,280 | 200 | 200 | 10000 | 16400 |
| 9. | Electric Power Company | 5.1 | 1,992 | 300 | 50 | 10000 | 35850 |
| 10. | Judges/ Court officials | 1.4 | 1,950 | 50 | 50 | 5000 | 9750 |
| 11. | Water and Sewerage Company | 1.4 | 1,860 | 200 | 200 | 5000 | 9300 |
| 12. | Federal/Local Police | 4.0 | 1,300 | 2000 | 150 | 3600 | 18200 |
| 13. | Gov. Company Selling inputs | 1.4 | 1,140 | 100 | 100 | 3000 | 5700 |
| 14. | Officials influencing polices affecting your firm | 1.7 | 1,033 | 2000 | 100 | 2000 | 6200 |
| 15. | Traffic police | 18.3 | 401 | 100 | 100 | 2000 | 25671 |

Respondents were also asked to judge on a scale from 1 to 4 (no obstacle, minor obstacle, moderate obstacle, and major obstacle) how problematic are the 10 regulatory areas: investment licensing, business licensing, customs/foreign trade, labor hiring/firing, foreign currency/exchange, land acquisition, environmental directives, tax regulations, immigration/work permit, and quality and standards for the operation and growth of their companies. Major obstacles were reported most for foreign currency/exchange (26%) followed by land acquisition (23.4%), customs/foreign trade (19.4%), tax regulations (12%), immigration/work permit (11.7%), labor hiring/firing (9.7%), for quality and standards (8.3%), business licensing (6.9%), investment licensing (4.6%), and environmental directives (4%).

On the other end of the spectrum, the proportion of the respondents that reported there is no obstacle was the highest for investment licensing (54%) followed by environmental directives and quality and standards (36.6% each), immigration/work permit (33.7%), business licensing (33.1%), tax regulations (22.3%), foreign currency/exchange (20.9%),

land acquisition (18%) and customs/foreign trade 16.9%. The proportion of respondents that reported minor to moderate obstacles was the highest on tax regulations (63.5%) followed by customs/foreign trade (60%) and business licensing (59.2%). These details are presented in the Table below.

Table 13: Respondents' perceptions of the difficulties encountered in different regulatory areas (%)

| How problematic are the different regulatory areas for the operation and growth of your Company? | No Obstacle | Minor Obstacle | Moderate Obstacle | Major Obstacle | Didn't answer |
|--|-------------|----------------|-------------------|----------------|---------------|
| Investment Licensing | 54.0 | 31.7 | 9.4 | 4.6 | 0.3 |
| Business Licensing | 33.1 | 38.6 | 20.6 | 6.9 | 0.9 |
| Customs/Foreign Trade | 16.9 | 32.3 | 27.7 | 19.4 | 3.7 |
| Labor (Hiring/Firing) | 36.0 | 36.3 | 17.1 | 9.7 | 0.9 |
| Foreign Currency/ Exchange | 20.9 | 27.7 | 23.1 | 26.0 | 2.3 |
| Land Acquisition | 18.0 | 30.3 | 21.7 | 23.4 | 6.6 |
| Environmental Directives | 36.6 | 36.0 | 16.6 | 4.0 | 6.9 |
| Tax Regulations | 22.3 | 38.9 | 24.6 | 12.3 | 2.0 |
| Immigration/Work Permit | 33.7 | 33.1 | 18.6 | 11.7 | 2.9 |
| Quality and Standards' | 36.6 | 35.7 | 14.6 | 8.3 | 4.9 |

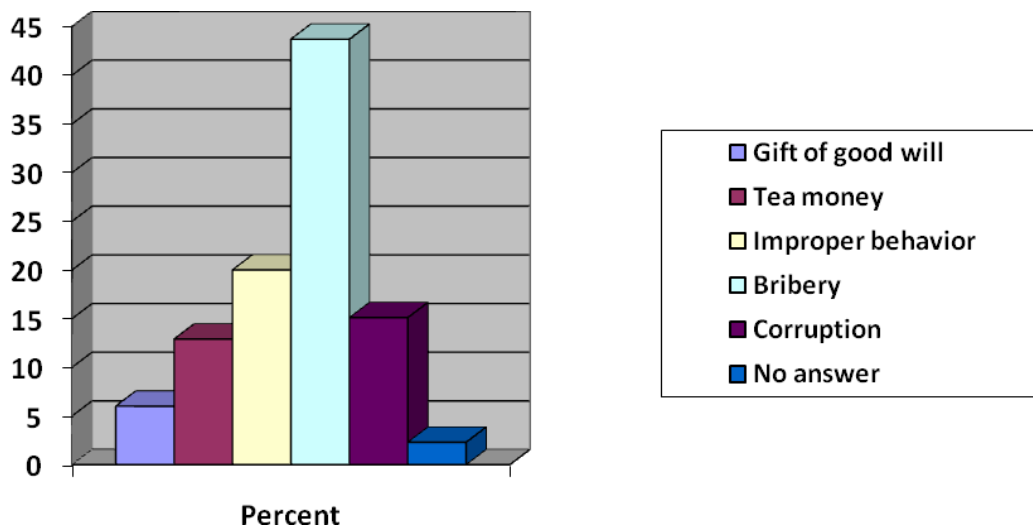
5.5 Perceptions of Corrupt Practices in Government Procurement

Respondents were asked suggest the level of malpractice in the example below.

To avoid having to visit the police office and pay a full fine, a traffic offender offered to pay Birr 300 (or about USD 5) to the traffic police. The traffic police did not ask for the money but accepted it.

The majority of the respondents (43.7%) considered the case as bribery and 15.1% as corruption. Only 6% perceived it as gift of good will and about 13% as tea money as shown in Figure 12.

Figure 12: Differing perceptions of malpractice (%) among respondents

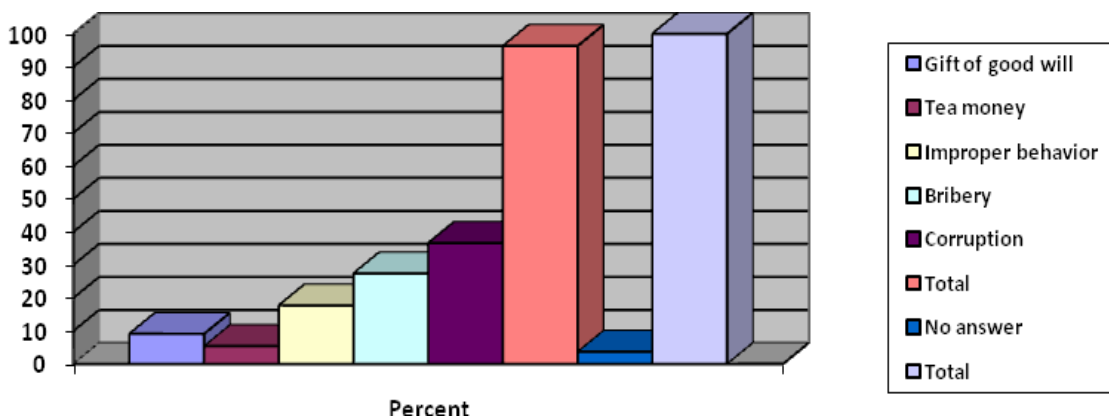


Similarly the answer given to the case stated below is another indicator for variations in the respondents' perceptions of levels of malpractice.

“Someone visits a government office and receives good assistance from the officer in charge. When the matter is concluded, he offers Birr 10,000 (or about USD 520), which the official accepted.”

36.6% perceived it as corruption and 27.4% as bribery as shown in Figure 13.

Figure 13. Differences in perceptions of respondents on the malpractice example



The above questions are further elaborated as follows. One should note that such survey questions should be interpreted carefully and in culture-specific ways. A question on 'bribe or corruption practices', for example, is certainly colored by country-specific perceptions of what is meant by bribe or corruption. As a consequence, evaluations made by foreign

investors tend to be biased by the cultural principles and practices of their home countries. Accordingly, 300 Birr paid to a traffic police officer is regarded neither as a bribe nor corruption by a relatively high proportions of Pakistani owned firms (61.5%), German owned firms (55.6%), and Chinese owned firms (48.9%). Similarly, the offer of 10,000 Birr to a government officer is considered corruption by relatively small proportions of Pakistani (8.3%), Sudanese (23.1%), American-Ethiopian (28.6%), American (30.8%), Chinese (38.3%) and Dutch (35.7%) owned firms, as compared to investors from other countries.

Table 14: Perceptions of the offer of Birr 300 (or USD 5) to a traffic police officer by nationality of foreign investor

| Nationality | Gift of good will | Tea money | Improper behavior | Bribery | Corruption |
|-------------------|-------------------|-----------|-------------------|---------|------------|
| American | 7.7 | 0.0 | 34.6 | 46.2 | 11.5 |
| American Ethiopia | 14.3 | 14.3 | 0.0 | 42.9 | 28.6 |
| British | 0.0 | 5.6 | 11.1 | 66.7 | 16.7 |
| Chinese | 4.3 | 23.4 | 21.3 | 36.2 | 14.9 |
| Dutch | 0.0 | 0.0 | 35.7 | 64.3 | 0.0 |
| France | 0.0 | 22.2 | 22.2 | 11.1 | 44.4 |
| Germany | 11.1 | 11.1 | 33.3 | 33.3 | 11.1 |
| Indian | 4.7 | 14.0 | 20.9 | 41.9 | 18.6 |
| Italian | 9.1 | 4.5 | 18.2 | 40.9 | 27.3 |
| Pakistani | 7.7 | 38.5 | 15.4 | 30.8 | 7.7 |
| Sudanese | 7.7 | 23.1 | 7.7 | 53.8 | 7.7 |
| Turkish | 9.1 | 13.6 | 13.6 | 45.5 | 18.2 |

Table 15: Perceptions of the offer of Birr 10,000 (or USD 520) to a government officer by nationality of foreign investors

| Citizenship | Gift of good will | Tea money | Improper behavior | Bribery | Corruption |
|--------------------|-------------------|-----------|-------------------|---------|------------|
| American | 3.8 | 7.7 | 26.9 | 30.8 | 30.8 |
| Ethiopian-American | 28.6 | 14.3 | 0.0 | 28.6 | 28.6 |
| British | 0.0 | 0.0 | 16.7 | 44.4 | 38.9 |
| Chinese | 0.0 | 8.5 | 17.0 | 36.2 | 38.3 |
| Dutch | 14.3 | 7.1 | 28.6 | 14.3 | 35.7 |
| France | 11.1 | 0.0 | 0.0 | 22.2 | 66.7 |
| Germany | 11.1 | 0.0 | 22.2 | 22.2 | 44.4 |
| Indian | 7.1 | 4.8 | 14.3 | 31.0 | 42.9 |

| Citizenship | Gift of good will | Tea money | Improper behavior | Bribery | Corruption |
|-------------|-------------------|-----------|-------------------|---------|------------|
| Italian | 0.0 | 9.1 | 27.3 | 22.7 | 40.9 |
| Pakistani | 41.7 | 8.3 | 16.7 | 25.0 | 8.3 |
| Sudanese | 23.1 | 0.0 | 15.4 | 38.5 | 23.1 |
| Turkish | 9.1 | 4.5 | 9.1 | 27.3 | 50.0 |

During the survey, respondents were also asked to rate four factors that were generally considered as an impediment to run their business efficiently: procurement processes in the country, competition by other firms, frequent and high unofficial payment requests and the existence of corrupt practices. The respondents were asked to judge these factors as “No”, “Minor, Difficult or Major” problem.. Procurement processes, competition, frequent and high unofficial payment requests and existence of corrupt practices were ranked as a major problem by 10%, 6.9%, 15.1% and 19.4% of the respondents respectively. Added together, the ratings of these responses as either “No Problem” or “Minor Problem” are consistently higher with 63.7% (procurement), 73.7% (competition), 60.8% (unofficial payments) and 54% (corrupt practices). The full sets of rankings are shown in Table 16.

Table 16: Ease or difficulty of doing business in Ethiopia by major factors

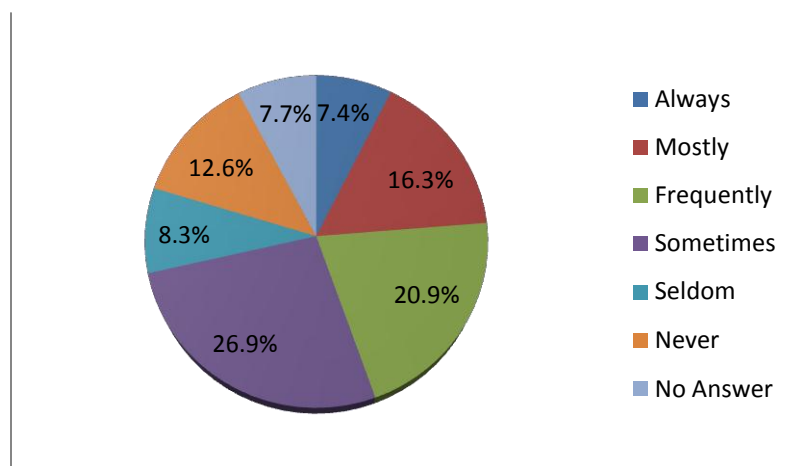
| Factors for ease or difficulty of doing business | Percent | | | | |
|--|------------|---------------|------------------|---------------|-----------|
| | No Problem | Minor Problem | Moderate Problem | Major Problem | No Answer |
| Procurement Process is too complex | 23.7 | 40.0 | 22.9 | 10.0 | 3.4 |
| There is too much competition | 31.7 | 42.0 | 16.3 | 6.9 | 3.1 |
| Frequent & High Unofficial Payment Requests | 25.4 | 35.4 | 20.6 | 15.1 | 3.4 |
| Existence of Corrupt Practices | 19.7 | 34.3 | 22.9 | 19.4 | 3.7 |

As it is indicated in table 17, one of the areas that where impediments to running businesses efficiently and in which corruption are commonly observed is government procurement. To specifically assess their perceptions in this area, respondents were asked to give opinions on the following statement.

Contracts relating to government procurement are generated in a clear and efficient manner.

7.4% the 350 respondents characterized this statement as always true, 16.3% that it is mostly true, 20.9% frequently true, 26.9% sometimes, 8.3% seldom true and 12.6% never true.

Figure 14: How clearly and efficiently does the Government handle procurement?



Above it was noted that only 43.4% of the surveyed foreign firms actually sell their products/services to the government sector. However, respondents from only 21% of the 350 sampled firms gave opinions on whether government procurement contracts involve unofficial payments. 80% of these respondents stated that from 2% to 50% of government contracts involve unofficial payments, while 20% believe that over 50% of total government contracts are awarded after some unofficial payment has been made.

Table 17: % of respondents' perceptions of the proportion of government procurement contracts that involve any unofficial payment

| Proportion of contracts that involve unofficial payment in % | Percent of Responses |
|--|----------------------|
| Up to 10% | 31.0 |
| From 11 - 25% | 21.1 |
| From 26 to 50% | 28.2 |
| From 51 to 90% | 16.9 |
| More than 90% | 2.8 |
| Total | 100.0 |

Similarly to the above question, respondents from respondents from only 16% of the 350 surveyed foreign firms gave valid answers about the amount of unofficial payments in relation to the total value of individual contracts. Out of these respondents, 57.1% replied that the amount ranges from 1% to 10%, 7% stated from 11 to 25%, while 21.4% perceived that the range was 26 to 50%.

Table 18: Perceptions of unofficial payment compared to total contract price

| Perceptions of unofficial payment compared to total contract price | Percent of Responses |
|--|----------------------|
| Up to 10% | 57.1 |
| From 11 - 25% | 7.1 |
| From 26 to 50% | 21.4 |
| From 51 to 80% | 14.3 |
| More than 80% | 0 |
| | 100.0 |

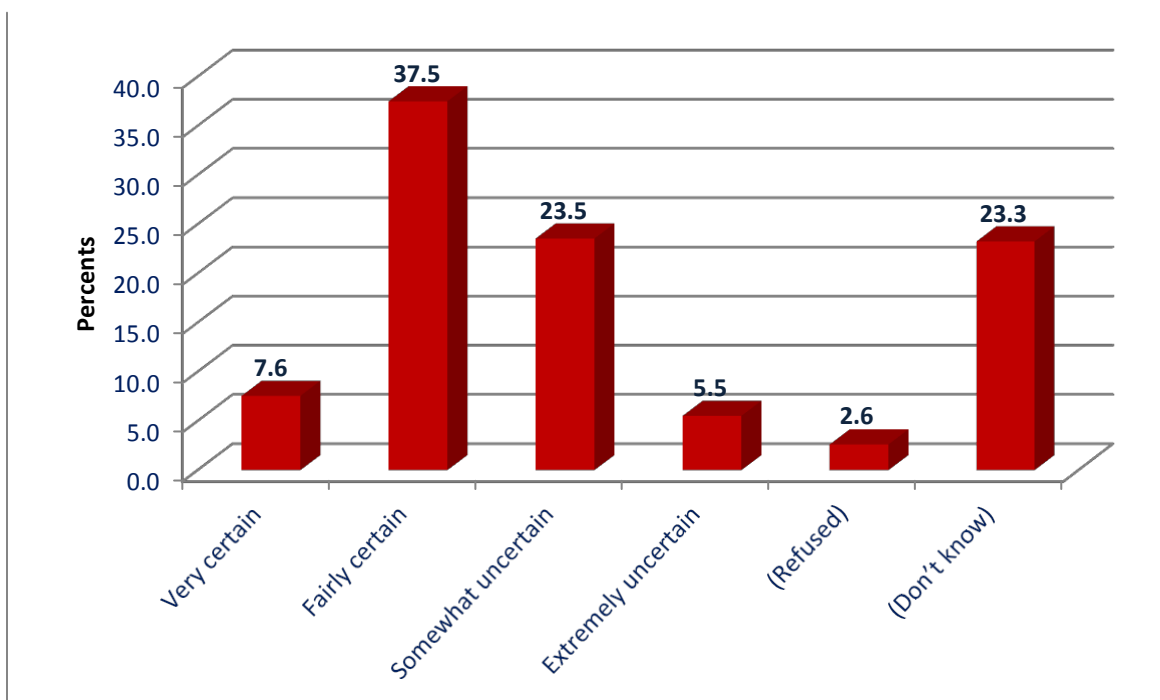
Among the areas covered by this survey are the motives behind corrupt practices. The result is summarized in table 19.

Table 19: Main Reasons for justifying why people engage in corrupt practices/actions (multiple response allowed)

| Reasons for justifying corrupt action | Count |
|--|-------|
| To speed up the processes/procedures | 59.4% |
| To avoid punishment/sanctions | 33.4% |
| To have an alternative source of income | 24.9% |
| To get preferential treatment/privileges | 22.0% |
| There is no other way to get things done | 21.7% |
| To be treated (served) appropriately | 18.9% |
| To avoid higher official payments | 18.0% |
| Don't know | 8.6% |
| The practice of obligatory (illegal) "payments" to supervisors | 7.7% |
| Other | 1.1% |
| Refused to answer | 0.6% |

According to the respondents the three most common reasons people justify their corrupt practices are speeding up the processes/procedures, avoiding punishment/sanctions and to have alternative source of income in the case of those getting bribed. A significant number of respondents also felt that people engage in corrupt actions to get preferential treatment, because they believe there is no other way to get things done and/or to be treated/served appropriately.

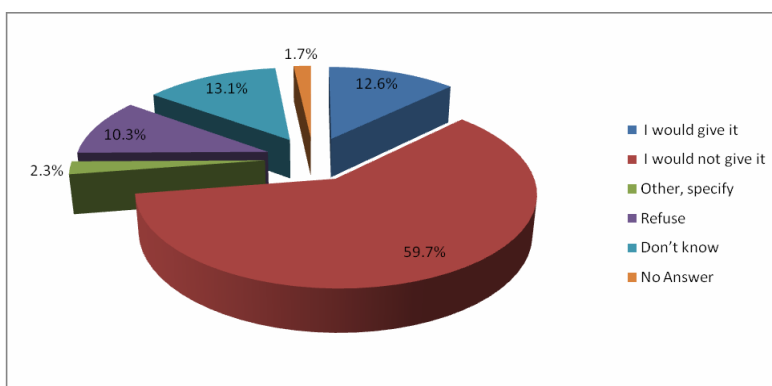
Figure 15: Certainty of getting services or resolving a problem by giving bribes to government employees



Regarding respondents' certainty of getting services or resolving a problem by giving bribes to government officials/employees, the survey result indicated that 7.6% are very certain while 37.5% are fairly certain and only 5.5% are extremely.

The survey also asked for respondents' opinions on how they would react if asked to give a bribe for favors or service. They were then asked if they would pay the bribe or not. Further, those that had paid one or more bribes were asked why they had done so, and those who had not why they had not. The results are summarized in Figure 16.

Figure 16: Reactions of respondents when asked hypothetically to give a bribe



59.7% the total respondent replied they would neither give nor offer a bribe to obtain a service or resolve a problem, while 12.6% would give a bribe when asked. The respondents who were willing to give bribes said they did so to speed up processes (6.6%) and/or because there was no other way to obtain services or resolve problems (5.4%). These and other details are found in Table 20.

Table 20: Reasons for giving bribes when asked

| Reason | Count | Percent |
|---|------------|--------------|
| Because everyone gives | 5 | 1.4 |
| Because there's no other way I can obtain the service | 19 | 5.4 |
| I would be able to negotiate a lower price | 1 | 0.3 |
| To speed up the process | 23 | 6.6 |
| To be sure I get what I need | 4 | 1.1 |
| Other, specify | 2 | 0.6 |
| Refused | 1 | 0.3 |
| Don't know | 3 | 0.9 |
| No answer | 292 | 83.4 |
| Total | 350 | 100.0 |

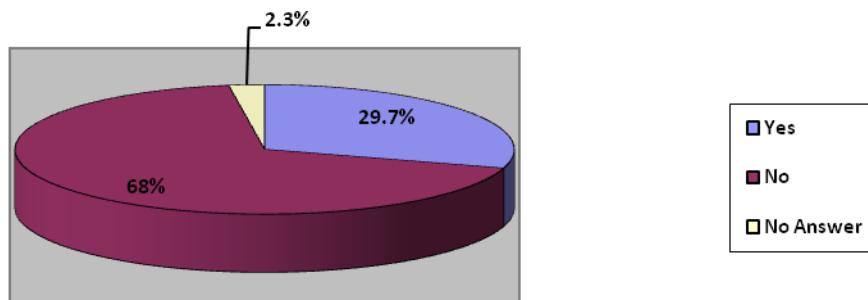
On the other hand, those who stated that "I will not give it" explained that it was unacceptable according to their principles (40.3%) or because they chose to resolve the issue through legal means (15.7%). These and other details are found in Table 21.

Table 21: Reasons for not giving bribes

| Reasons | Count | Percent |
|---|------------|--------------|
| Because there is a high risk to be punished | 23 | 6.6 |
| Because it is unacceptable for me | 141 | 40.3 |
| Because I will try to resolve the issue through legal means | 55 | 15.7 |
| Others | 7 | 2.0 |
| Refused | 3 | 0.9 |
| Don't know | 4 | 1.1 |
| No answer | 117 | 33.4 |
| Total | 350 | 100.0 |

About 30% of respondents stated that they have heard information from acquaintances or others about foreign firms paying bribes to obtain public services in the 12 months preceding the survey. These are found in Figure 17.

Figure 17: Percent of respondents of who heard of paying bribes by foreign investors to get a public service during the previous 12 months



The respondents were requested to express their opinions on:

Whenever you have contacted officials in the public sector, how often did the following (behavioral examples) happen?

The answers to be given by respondents are conditional upon having contacts with the service providers. The answers given by respondents are summarized in the table 22.

Table 22: Responses to the question: "Whenever you have contacted officials in the public sector, how often did the following happen?"

| Whenever you have contacted officials in the public sector, how often did the following happen | All cases | Most cases | Rare cases | No cases at all | Not seen Any public Officer | Don't Know | No Answer |
|---|------------------|-------------------|-------------------|------------------------|------------------------------------|-------------------|------------------|
| The officials directly demand cash, gift or favor | 2.3 | 8.6 | 31.1 | 31.4 | 12.0 | 12.3 | 2.3 |
| The officials do not demand directly but show that they expect a cash gift or a favor | 6.6 | 26.0 | 30.3 | 14.6 | 7.7 | 13.7 | 1.1 |
| You give cash to the official without being asked | 0.6 | 8.0 | 20.0 | 48.9 | 9.1 | 11.1 | 2.0 |
| You give a gift to the official without being asked | 0.9 | 4.9 | 21.7 | 50.3 | 9.7 | 9.7 | 2.9 |
| You do the official a favor without being asked | 1.1 | 7.4 | 18.6 | 49.4 | 9.4 | 10.6 | 3.4 |
| You are asked to do a favor to relatives of the official | 0.6 | 9.7 | 18.9 | 46.3 | 9.7 | 12.3 | 2.6 |

| Whenever you have contacted officials in the public sector, how often did the following happen | All cases | Most cases | Rare cases | No cases at all | Not seen Any public Officer | Don't Know | No Answer |
|---|------------------|-------------------|-------------------|------------------------|------------------------------------|-------------------|------------------|
| You use personal connections to get preferential treatment | 2.0 | 8.3 | 19.1 | 44.3 | 9.7 | 13.1 | 3.4 |

As related above, 8.6% the respondents stated that in most of their direct contacts in public agencies, officials make direct demands for cash, gifts or favours while 26% responded that officials rather hint for cash, gifts or favours in most cases. Also in most cases, 20.3% of interviewees said that they give cash, gifts or favours without being directly or indirectly asked. This finding is in agreement with conclusions presented elsewhere in this report that hints by government agents and offers by foreign companies are the top two common modes of communication about unofficial payments.

The respondents were also requested to rank the three most corrupt sectors and/or service providers. The data showed that 38.5% of the respondents ranked as most corrupt the Ethiopian Revenues & Customs Authority, 8.3% ranked equally the Transport Authority and EEPCo, 7.4% land administration and 4% the Sub City Administrations in Addis Ababa as the most corrupt. These and other findings presented in Table 23 are consistent with the discussion in section 5.4 comparing current perceptions of present day levels of corruption with those of three years ago.

Table 23: Proportion of respondents identifying sectors/services as the most corrupt

| Sectors/service providers | Percent |
|--|----------------|
| Ethiopian revenues & customs Authority | 28.7 |
| EEPCO | 8.3 |
| Transport Authority | 8.3 |
| Land Administrations | 7.4 |
| Sub City Administration | 4.0 |
| Construction Permit Office | 3.7 |
| Procurement Agency | 3.1 |
| Investment Agency | 2.9 |
| Trade Authority | 2.3 |
| Woreda Officers | 2.0 |
| Banks | 1.7 |
| ETC | 1.7 |
| Police Authority | 1.7 |
| Courts | 1.1 |

| Sectors/service providers | Percent |
|-------------------------------|------------|
| Business Licensing | 0.9 |
| Road Authority | 0.9 |
| Water Authority | 0.6 |
| Foreign Currency Exchange | 0.3 |
| Ministry of Mining | 0.3 |
| Ministry of Urban Development | 0.3 |
| Total | 100 |

5.6 Use of Anti-corruption Mechanisms by Firms

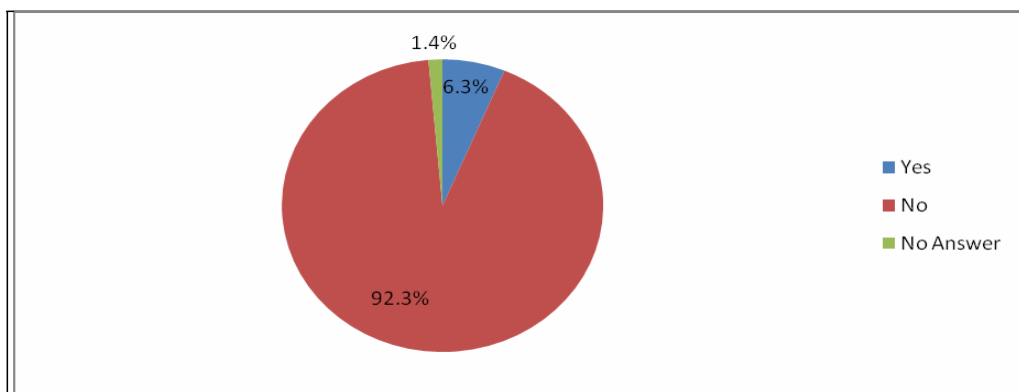
The survey assessed perceptions about the reasons that corruption is not reported to relevant authorities. 46.3% of respondents pointed to a lack of evidence, 42.9% to a lack of actions against those that commit corruption and 41.7% a lack of clarity about corruption proceedings. These and other details are presented in Table 24.

Table 24: Perception of why corruption is not reported (%)

| Please tell me which of the following you personally consider as a reason for not reporting corruption to the relevant authorities | Yes | No | Don't Know | Refused | No Answer |
|--|------|------|------------|---------|-----------|
| Lack of evidence to prove the corrupt practices | 46.3 | 21.1 | 27.4 | 2.9 | 2.3 |
| No actions will be taken even if corruption is reported. | 42.9 | 20.3 | 32.6 | 2.0 | 2.3 |
| Lack of clarity about corruption proceedings | 41.7 | 23.1 | 29.1 | 2.3 | 3.7 |
| No Whistle blower protection | 39.7 | 18.9 | 34.6 | 2.9 | 4.0 |
| Those who report corruption will be subject to retaliation | 38.0 | 22.3 | 33.1 | 3.1 | 3.4 |
| The society does not reward those who report corruption. | 37.4 | 22.9 | 33.4 | 2.6 | 3.7 |
| Most people who commit corruption only do so because of economic hardship. | 26.0 | 38.3 | 28.9 | 3.7 | 3.1 |
| Don't know the relevant institution responsible for corruption cases. | 20.3 | 42.3 | 28.9 | 4.9 | 3.7 |
| It is not worth reporting corruption if I am not personally hurt. | 19.1 | 50.3 | 23.4 | 3.7 | 3.4 |

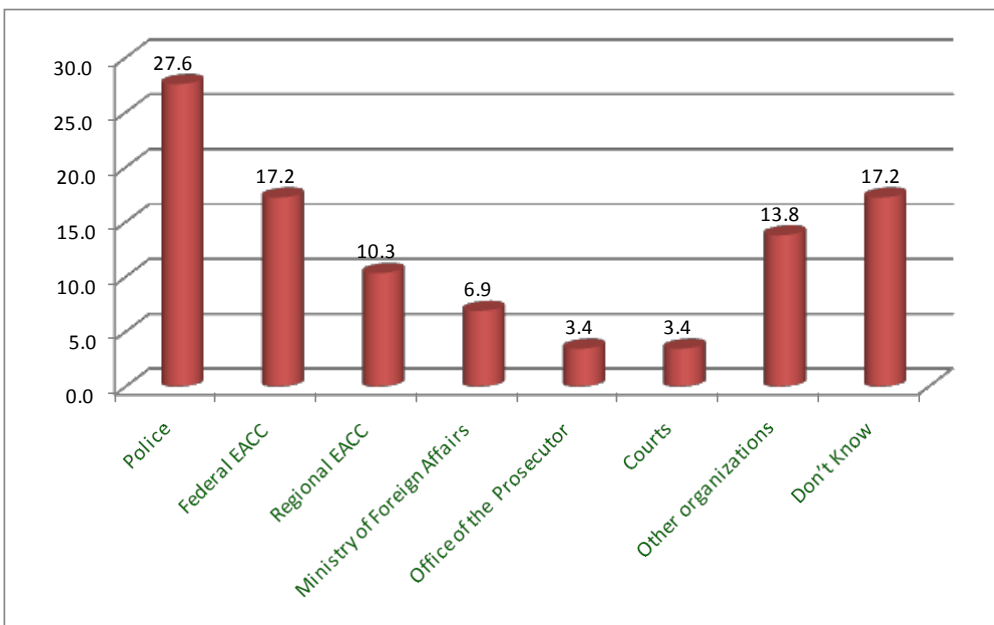
Perhaps in line with the above perceptions, only 6.3% of the respondents stated that they or anyone in their company reported a corrupt act to a public official during the 12 months preceding the survey, while 92.3% declared that no reports were made and 1.4% didn't respond (see Figure 18).

Figure 18. Proportion of those who reported corrupt acts over the previous 12 months



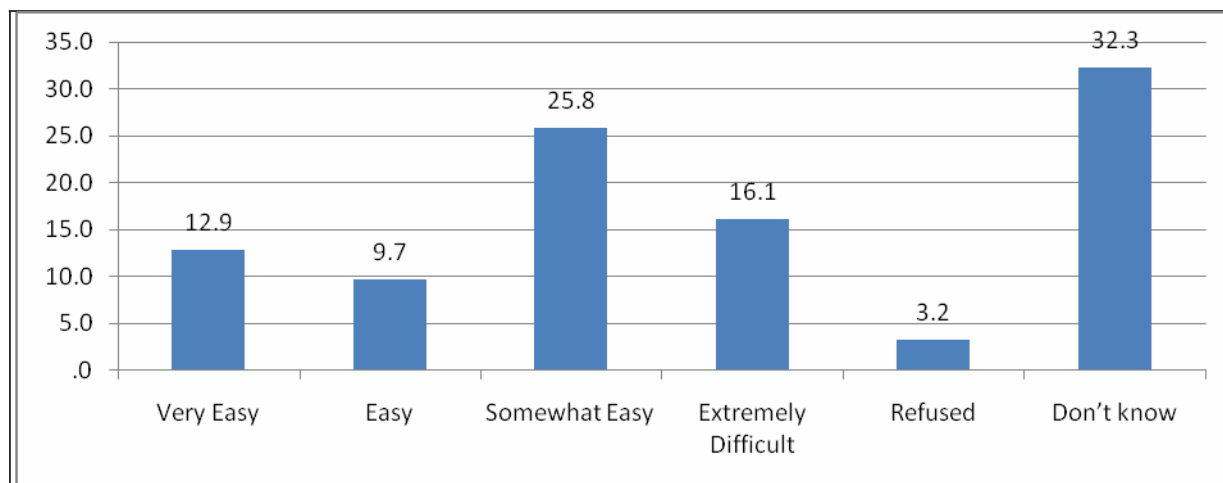
As shown in Figure 19, most corruption complaints were submitted to the Police and the Federal and Regional EACCs. Smaller percentages were reported to the Ministry of Foreign Affairs, the Office of the Prosecutor and the Courts. Included in the other category are the Revenue and Customs Authority, EEPCo and the Traffic Police.

Figure 19: Organization to which corrupt acts were reported



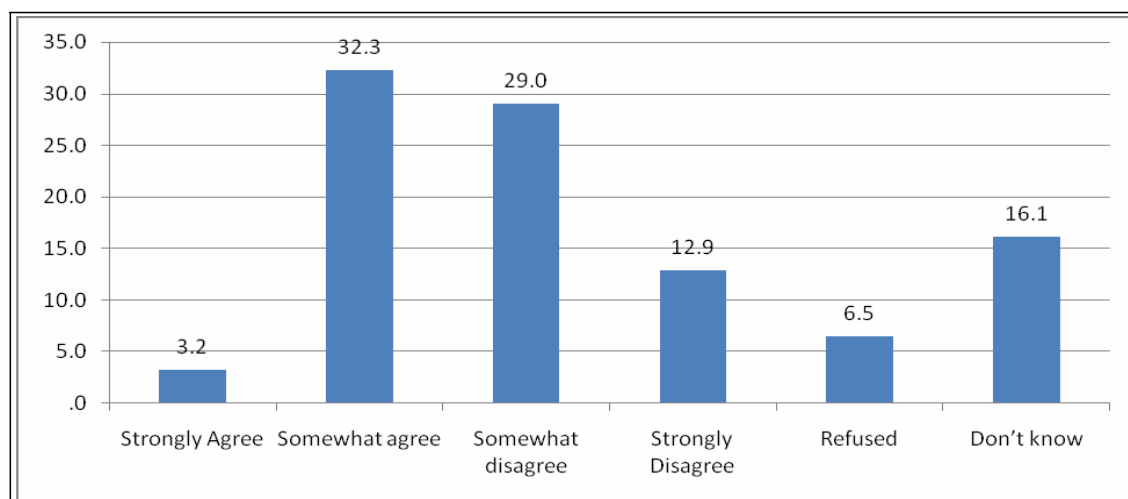
Of those who reported submitting complaints about corrupt acts, Figure 20 shows that 12.9% stated that the process was very easy, 9.7% that it was easy, 25.8% that it was somewhat easy, while 16.1% said that the process was extremely difficult.

Figure 20: Perception on the ease of reporting corruption



When asked, “do you agree or disagree that as a reporter of corruption, you felt protected from potential harassment” 32.3% of respondents stated that they somewhat agree, while 42% stated that they somewhat disagree or strongly disagree. These and other details are presented in Figure 21.

Figure 21: Perceptions of the protection of corrupt act reporters from harassment



Although the majority of the respondents who report corrupt practices stated that they were satisfied with the feedback they received, there are significant numbers who were not satisfied. For the question forwarded to rate level of satisfaction with the feedback they received as a result of their corruption report; Figure 22 shows that 15.6% were very satisfied 21.9% somewhat satisfied, and 12.5% dissatisfied 15.6% strongly dissatisfied.

Figure 22: Levels of satisfaction with the feedback received as a result of corruption reporting (%)

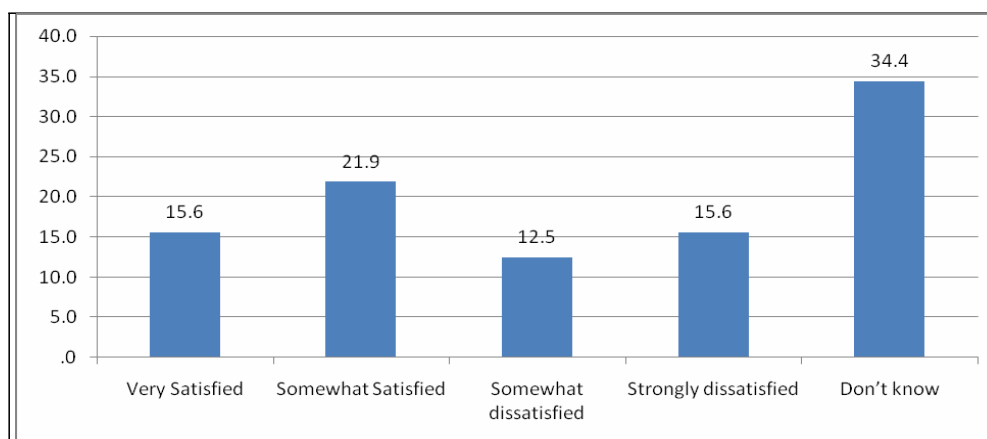
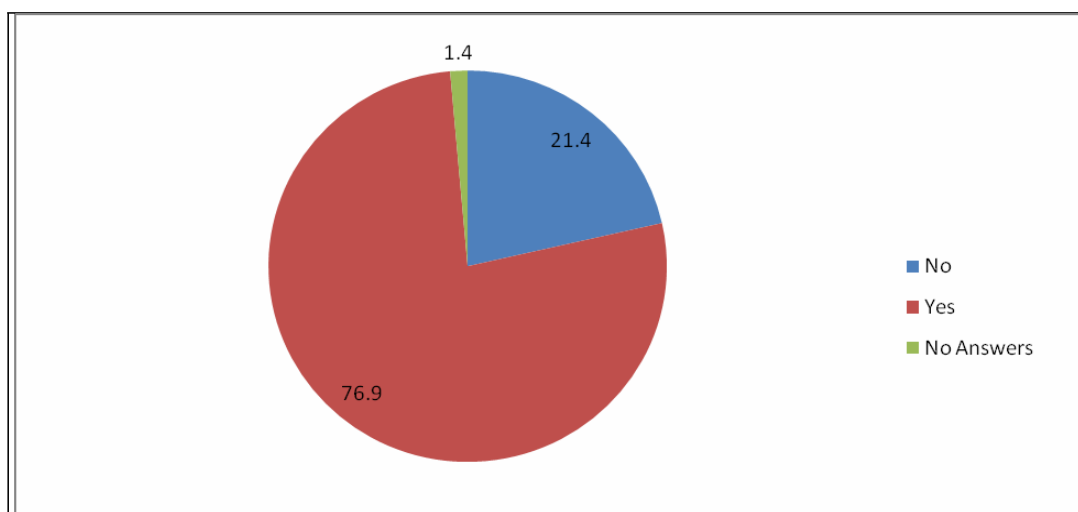


Figure 23 shows that the great majority of respondents (76.9%) stated that they were aware of anti-corruption measures being taken by the Government of Ethiopia, while 21.4% were not, implying that there is still a need for the government to carry out awareness raising interventions to bridge the gap.

Figure 23: Proportion of respondents who were aware of government anti-corruption measures



5.7 Government's Commitment to Combat Corruption

Respondents were queried about their perceptions of the government's anti-corruption efforts in the country. . Figure 24 shows that majority plurality of respondents believed that the government's efforts are effective: 7.4% stated very effective, 38.6% somewhat effective, 21.7% not very effective, and only 5.1% reported not effective.

Figure 24: Perceptions of the effectiveness of the Government's anti-corruption efforts (%)

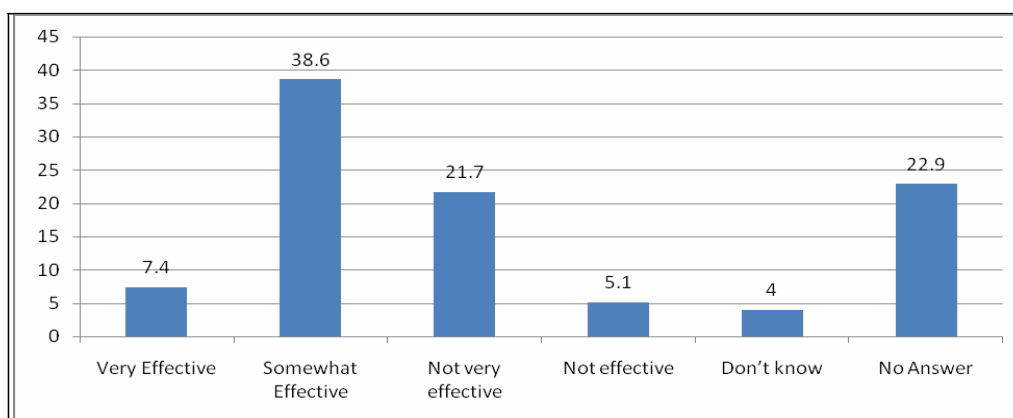
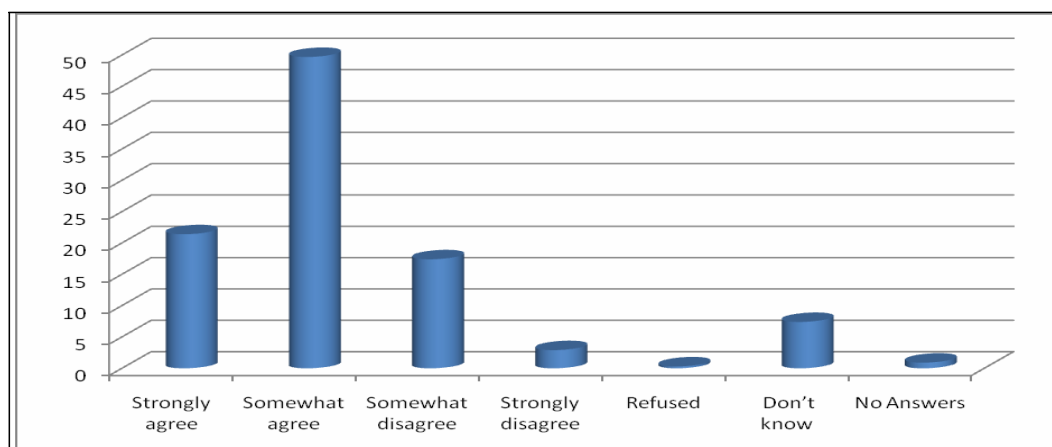


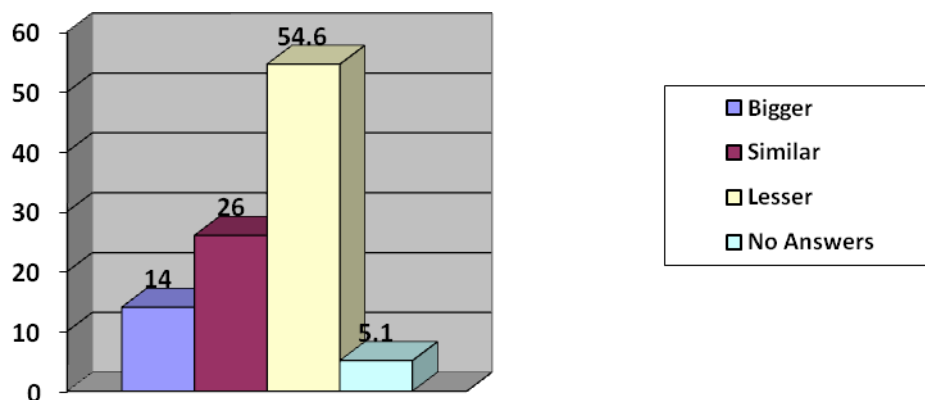
Figure 25 shows that additionally, 21.4% strongly agree and 49.7% somewhat agree that the government has a "sincere commitment and will to combat corruption." On the other hand, 2.9% of the respondents strongly disagree and another 17.4% somewhat disagree with the statement.

Figure 25: Perceptions of the commitment of the government to combat corruption



The respondents were requested to compare levels of corruption in Ethiopia to similar developing countries and Figure 26 shows that 54.6% of the respondents perceived it lesser, 26% similar and 14% bigger (Figure 26).

Figure 26: Perception of the status of corruption (%)



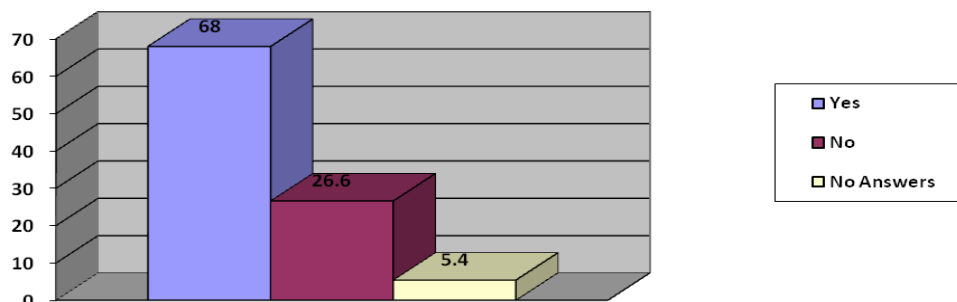
When asked to indicate on which information sources they based their assessment of the level of corruption in the country, as Table 25 shows, 26.6% respondents pointed to personal experience, 23.1% to talk with friends and acquaintances, 17.1% to talk with relatives or family and 14.9% to the media.

Table 25: Information sources on which respondents base their assessments of the level of corruption in the country

| On which information sources do you base your assessment of the level of corruption in the country? | Percent |
|--|----------------|
| Personal experience (you have had to provide cash, gifts, or favor) | 26.6 |
| Talk with friends and acquaintances | 23.1 |
| Talk with relatives or family | 17.1 |
| Information provided by the media (TV, radio, newspapers, internet, etc...) | 14.9 |
| Information about corruption given by Organizations (corruption awareness) | 8.0 |
| No Answers | 4.9 |
| Don't know | 4.3 |
| Refused | 0.9 |
| other | 0.3 |
| Total | 100 |

Figure 27 shows that although the majority of the respondents (68%) stated that they were aware of the existence of the Federal and Regional EACCs, about a quarter of respondents (26.6%) were not. Lack of information about the institutions responsible for handling corruption cases could be one of the impediments to reporting instances corruption and should be addressed.

Figure 27: Awareness of the existence of Federal and Regional Anti-Corruption Commissions (%)



When asked what types of assistance they would like to have from the Federal and Regional EACCs, 19.2% of respondents identified information about the rights/obligations of foreign investors, 17.7% about anti-corruption legislation and 15.8% about the institutions where they may complain about officials' corrupt behavior. In addition, 11.1% expressed a wish for free legal advice to formulate their complaints about corruption, 8.6% for free legal support for collecting information and evidence related to corruption cases and 10.8% anti-corruption awareness activities. These and other details are shown in Table 26.

Table 26: Types of assistance foreign investors are seeking from The Federal and Regional Anti-Corruption Commissions

| Which of the following types of assistance would you want the Federal or Regional Anti Corruption Commission to provide to you? | Percent |
|---|---------|
| Information about Foreign Investors rights/Obligation in the area of corruption | 19.2 |
| Information about anticorruption legislation | 17.7 |
| Information about institutions you may complain about officials' corrupt behavior | 15.8 |
| Free legal advice to formulate your corruption complaint | 11.1 |
| Anticorruption awareness activities | 10.8 |
| Free legal support in collecting information and evidence related to corruption cases | 8.6 |
| Free legal support in development and submission of corruption case documents | 8.0 |

| Which of the following types of assistance would you want the Federal or Regional Anti Corruption Commission to provide to you? | Percent |
|--|----------------|
| Anticorruption education activities | 7.7 |
| Don't know | 0.8 |
| If other, please specify | 0.4 |

When asked about measures that they could take personally to reduce corruption in the country, 24.1% selected abstaining from paying bribes for public services, 14.8% refusing to make favors to officials or to their relatives, 13.6% reporting corrupt officials' behavior to competent authorities, 12.2% participating in awareness campaigns against corruption, and 11.5% reporting corruption in the press. These details are shown in Table 27.

Table 27: Measures proposed by foreign investors to reduce corruption

| What can you personally do to reduce corruption in Ethiopia? | Percent |
|--|----------------|
| Abstain from paying bribes for public services | 24.1 |
| Refuse to make favors to officials or to their relatives related with my job | 14.8 |
| Report corrupt officials behavior to competent authorities | 13.6 |
| Participate in awareness campaigns against corruption | 12.2 |
| Report corruption in the press | 11.5 |
| Participate and supporting an anticorruption educational campaign | 10.9 |
| Report corrupt behavior of public officials to NGO anticorruption center | 5.7 |
| File a lawsuit against the corrupt official | 3.4 |
| There is nothing I can do | 1.5 |
| Don't know | 1.0 |
| If other, please specify | 0.8 |
| Refused | 0.3 |

5.8 General Comments of Respondents

Over 90% of respondents shared their views on what the Ethiopian Government should do to increase the flow of FDI. The main recommendations are summarized as follows:

- Ease work permit norms for essential foreign employees in key positions.
- Reduce bureaucratic red tape in all relevant government agencies by rationalizing work processes.
- Improve and synchronize the working relationships between relevant agencies and foreign investors. In fact, many respondents suggested creating a “one stop shopping” for licensing, customs clearing, land acquisition, utilities, etc.
- Hold an annual or bi-annual consultation forum between the Ethiopian Government and all foreign investors to discuss the bottlenecks that the latter are facing.

- ☑ Adopt international best practices by emulating the fair, smooth and soft regulations and institutional practices that enabled exemplary countries (e.g. Malaysia, Dubai, Hong Kong, and Singapore) to sky rocket economically from very humble beginnings.
- ☑ Ease access to bank loans.
- ☑ Improve the qualifications (through proper training), salaries and promotion opportunities of Government Agency staff that deal with FDI, especially if they are involved in sensitive decision making areas.
- ☑ Simplify the business license renewal¹⁰ process. Currently it is like re-opening businesses from scratch every year.
- ☑ Strengthen the working relationship between Federal and Regional Agencies to have a smooth flow of investment.
- ☑ Provide extended tax breaks and ban the foreign currency restrictions on repatriating profits.
- ☑ Improve infrastructure such as telecommunications, transport, etc. Currently, doing internet-based business in Ethiopia is practically impossible due to problems with the government telecom company.
- ☑ Use international media such as the BBC, CNN and Al-Jazzera to attract FDI. Advertise the good things that Ethiopia has.
- ☑ Even in advance of WTO accession, institute WTO-like procedures to attract more FDI.

The survey respondents were also asked to give general recommendations about how the Ethiopian government could more effectively combat corruption:

- ☑ Focus on improving attitudes and commitment to combat corruption by all concerned at all levels through continuous awareness creation and provide adequate sensitization and awareness for the business community on their rights and obligations.
- ☑ Streamline the duties and responsibilities of officials and experts.
- ☑ Enforce accountability and transparency at all levels.
- ☑ Take appropriate and timely measures on persons practicing corruption and announce the measures publicly.
- ☑ Strengthen internal control systems at all levels of government.
- ☑ Improve the salaries and benefits of civil servants.
- ☑ Include corruption as a topic in the education system/curriculum.
- ☑ Strengthen the media towards combating corruption.
- ☑ Encourage and reward people who combat corruption and give them adequate protection against vengeance.
- ☑ Improve the efficiency of service delivery by making rules and procedures clear, short and straight forward for foreign investors and the public. Automate all government offices and carry out routine checks. Make it possible for foreign investor to complete most of the requirements on line. Improve the working

¹⁰ This suggestion seems related to the recent directive of the Ministry of Trade which makes annual renewal of trade licenses very similar to first time registration.

- environment for the business community/private sector; and human skill development.
- ☑ Undertake experience sharing with other countries.
 - ☑ Reduce poverty in general and control inflation in particular.

Finally, respondents were asked to offer any other comments and recommendations:

- ☑ Work hard to increase the salaries of civil servants to reduce the chances that low wages lead to corrupt behavior¹¹.
- ☑ Facilitate discussions with foreign investors to find solutions to combating petty and grand corruption.
- ☑ Make periodical assessments of the problems that foreign investors are facing in order to develop and provide appropriate and timely solutions, transit and customs issues needing particular attention.
- ☑ Raise awareness of the public on the government efforts and measures to combat corruption. Strengthen the on-going anti-corruption activities by the government.
- ☑ Publicize investment opportunities that the country can offer to foreign investors more aggressively.
- ☑ Handle small and minor business mistakes more smoothly and logically without harassing foreign investors
- ☑ It would be good to open an FDI office and create a website issues and concerns of investors can be discussed and dealt with anytime.

¹¹ The authors have reservations about this recommendation because the employees in the institution identified as the most corrupt, the Revenue & Customs Authority, benefit from one of the highest salary scales. As such, the relationship between higher salary scales and reduced corruption levels is questionable.

5.9 Comparison of the Results with other Studies

There are specific and recent studies on the levels of corruption level in Ethiopia. Below noteworthy similarities and discrepancies in their findings are highlighted reported results. However, the reader should refer to the issues raised in the sub-section on limitations of the study in the methodology section above.

5.9.1 Doing Business (DB2014): Economy Profile Ethiopia by The World Bank.

This is authoritative publication by the World Bank it ranked Ethiopia 125th out of 185 countries in 2014 and 124th in 2013 showing a decline by 1. Table 28 includes the comparisons of selected indicators from the data published by DB2014 and the results of this study.

Table 28: Selected Indicators from DB2014 and this survey

| No. | Indicator | Data from DB2014 | Data in this report |
|-----|--|---|---|
| 1 | Time Needed to start a Business (days) | 15.0 | 7.8 |
| 2 | Strength of investor protection | Index (0-10) = 3.3. | 84.6% of the respondents perceived that the legal system in Ethiopia will uphold their contract and property rights. |
| 3 | Paying taxes number per year | 30 times | Tax Offices are contacted on average 8.4 times a year. |
| 4 | Time it takes to register property. | A declining trend from DB2012 to DB2014 (see p. 43) | 84.6% of respondents believed that the legal system in Ethiopia will uphold their contract and property rights in business disputes if they are the aggrieved party as compared to 76.6% when looking back three years. |

5.9.2 Diagnosing Corruption In Ethiopia by The World Bank.

The Diagnosing Corruption report highlights the following risks reported by stakeholders as having recently occurred in Ethiopia in the construction Sector (P. 251):

- ☑ Packaging of contracts in a manner intended unfairly to favour some contractors over others.
- ☑ Lack of transparency in planning some design-build contracts and off-budget engineering, procurement, and construction contracts.

This Report included the following in the section on government procurement:

“Respondents from only 21% of the 350 sampled firms gave opinions on whether government procurement contracts involve unofficial payments. 80% of these respondents stated that from 2% to 50% of government contracts involve unofficial payments, while 20% believe that over 50% of total government contracts are awarded after some unofficial payment has been”

5.9.3 Enterprise Surveys: Ethiopia¹². 2011. IFC and The World Bank.

The Ethiopia 2011 Enterprise Survey is based on interviews with business owners and top managers in 644 firms (local/foreign and all sizes). Even though the questions asked may be different from those posed in this survey, the results of both studies are compared in the table below.

Table 29: Selected Indicators from the Enterprise Survey 2013 and this survey

| Indicator | Enterprise Survey 2013 ¹³ | | This Study Results |
|--|--------------------------------------|--------------------|------------------------|
| | Ethiopia | Sub-Saharan Africa | |
| Bribery incidence (percent of firms experiencing at least one bribe payment request) | 6.5 | 23.1 | 4.8 (Table 12 Average) |
| Percent of firms expected to give gifts in meetings with tax officials | 3.8 | 18.1 | 6.3 (see Table 12) |
| Percent of firms expected to give gifts to get an operating license | 13.5 | 20.6 | 6.0 (see table 12) |
| Percent of firms expected to give gifts to get a construction permit | 7.7 | 26.3 | 4.9 (see table 12) |
| Percent of firms expected to give gifts to | 5.3 | 21.3 | 6.3 (see table 12) |

¹² <http://www.enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Profiles/English/Ethiopia-2011>

¹³ The survey is conducted in 2011 but the report was issued in 2013.

| Indicator | Enterprise Survey 2013 ¹³ | | This Study Results |
|---|--------------------------------------|--------------------|---------------------|
| | Ethiopia | Sub-Saharan Africa | |
| get an electrical connection | | | |
| Percent of firms expected to give gifts to public officials "to get things done" | 4.0 | 34.9 | 2.3 (see table 12) |
| Percent of firms identifying corruption as a major constraint | 7.1 | 37.1 | 19.4 (see table 17) |
| Percent of firms identifying the courts system as a major constraint | 2.8 | 14.4 | 10.6 (see table 16) |
| Percent of firms identifying business licensing and permits as a major constraint | 3.0 | 16.2 | 15.1 (see table 16) |
| Percent of firms identifying customs and trade regulations as a major constraint | 19.7 | 22 | 26.3 (see table 16) |

The data from "Ethiopia: Enterprise survey 2013" in most cases points in the same direction of the results reported by this study. For instance, bribery incidence (6.5% vs. 4.8%), gifts to tax officials (3.8% vs. 6.3%), gifts to get construction permit (7.7% vs. 4.9%), gifts to get electrical connection (5.3% vs. 6.3%) and gifts to public officials "to get things done" (4% vs. 2.3%). The variation of the results for these indicators is just less than 4% in either side. However, even though the results are similar for other indicators the variations are relatively higher ranging from 7 to 12%. These indicators are identifying corruption as a major constraint (7.1% vs. 19.4%), identifying the courts system as a major constraint (2.8% vs. 10.6%), identifying business licensing and permits as a major constraint (3% vs. 15.1%) and identifying customs and trade regulations as a major constraint (19.7% vs. 26.3%). It is also observed that both studies have relatively more respondents identifying customs and trade regulations as a major constraint.

6. Conclusions and Recommendations

Governments are generally concerned with corruption and its corrosive effects on their development. Various empirical studies confirmed that corruption has significant impacts on foreign direct investment, private sector development and good governance. It is also associated with organized crime. As a result governments and non-governmental stakeholders are taking measures to reduce corruption. The Ethiopian government is taking bold steps towards that end. This survey was conducted to identify and revise gaps in policies and working procedures that will help to increase FDI. It targeted foreign companies operating in Ethiopia and captured their perceptions and attitudes as well as their experiences with corruption in this country.

The survey was comprehensive in terms of geographic representation, sectors, respondents' position in their companies, the companies' years of operation in the country, and types and ownership of those companies. The survey has generated data that leads to the following conclusions.

1. The opinion of respondents on the consistency and predictability of rules and regulations of the country with respect to FDI and their belief in the legal system with regard to contract and property rights are generally positive. However, the respondents identified some regulatory areas that are problematic: foreign exchange and land acquisition, customs/foreign trade, business licensing, and tax regulations. The government should give due attention for these areas to be make Ethiopia more attractive to FDI.
2. The survey results indicated that the major reason that foreign investors engage in corrupt practices is to avoid wasting time in lengthy processes/procedures. Process and procedural requirements for business registration (document authentication, investment license, business license, etc...) are indeed time consuming and increase the attractiveness of corrupt practices. Hence there is a need to streamline processes and procedures as much as possible. Institutions that are considered most corrupt (Revenue and Customs Authority, Transport Authority, EEPCo, land acquisition related agencies, Sub-city Administrations, etc.) should also be further strengthened and their operations closely monitored by the government using appropriate mechanisms.
3. The survey revealed that government contracts are of more concern than rules and regulations, with 21% of respondents perceiving that government procurement involves unofficial payments of, on averaging, 24% of the value of contracts. This needs to be urgently addressed.
4. According to the opinions of the foreign firms operating in the country there is no grand corruption in Ethiopia. In fact there respondents believe that the level of

corruption in general is decreasing, except the case of few institutions which are mentioned above. Hence, the government anti-corruption efforts appear to be bearing fruit and should continue and strengthened.

5. Lack of evidence, perceptions that actions are not taken against corruption officials and limited clarity about corruption proceedings are the three top reasons given for not reporting instances of corruption to the relevant authorities, although the survey indicated foreign companies believe that the Ethiopian Government has sincere commitment and will to combat corruption. This suggests that the government to do more to convince foreign companies that reporting corrupt practices will produce government action.

Based on all the results of the study, a number of recommendations to increase the flow of FDI have emerged:

1. Further actions are required by the Ethiopian government to streamline requirements and to cut down lengthy processes and procedures in the rules and regulations and the regulatory institutions that are considered problematic and corrupt. Agencies involved with foreign investment should have a more synchronized work relationship with investors. In fact, many respondents have suggested the creation of a “one stop shop” for licensing, customs clearing, land acquisition, obtaining utilities, etc.
2. Government procurement processes still need further improvement by streamlining the duties and responsibilities of officials and experts, enforcing accountability and transparency at all levels and building the capacity of institutions involved in public procurement.
3. In order to combat corruption at its early stage and attract more FDI, the Government of Ethiopia should consider working on simplifying and facilitating the reporting of corruption, on protecting of those reporting corrupt practices, on taking prompt public measures to investigate and sanction malfeasance, on assisting foreign investors to understand their rights/obligations, on organizing periodic consultation forums with them to discuss the bottlenecks and problems they are facing; and on adopting fair, smooth and soft regulations by drawing best practices from exemplary countries.
4. The other area for improvement is the capacity of government institutions and staff, which should be addressed through assigning more qualified staff in the institutions that have contacts with foreign firms, strengthening the media towards combating corruption and strengthening government systems and procedures for the registration and licensing of foreign firms.
5. Improving infrastructure such telecommunications, transport, electricity, etc is vitally important as they are basic requirements for business operations.

Annexes

Annex I – Survey Questionnaire
Questionnaire for Baseline Survey of
The Perception of the Level of Corruption by Foreign Investors in Ethiopia

When you find the Right Person, please introduce yourself using the following script. You must learn this introduction so that you can say it exactly as it is written below.

Good Morning/Afternoon. I am _____, an interviewer from Selam Development Consultants. This Study is being conducted on behalf of the Federal Ethics and Anti-Corruption Commission through World Bank Funding. Among other things, Corruption, or similar ways of making influence on decision-makers, is thought to be a challenge for those foreign investors who want to enter or operate in Ethiopia. The study is part of the effort of the FEACC to combat corruption based on facts. The objective of this survey is to examine some aspects of the problem, and particularly how foreign firms encounter unethical business practices when operating in the country. The data collected will be applied for research purposes. The information obtained will be treated strictly anonymously and confidentially. Neither your name nor the name of your company will be mentioned in any documents related to this study. During the survey we intend to cover about 400 foreign companies like yours and we add everyone’s answers together for our research purposes. Thank you in advance for your cooperation.

| General Information | | | |
|----------------------------|---|--|---------------------------------|
| A1 | What is your Position in the Company? | Owner/Principal Partner/Share Holder CEO Managing Director/G. Manager Finance/Admin Manager Liaison Officer/Facilitator Other (Specify) _____ | 1 2 3 4 5 6 7 |
| A2 | Nationality of Owner/Major Share holder? | _____ | |
| A3 | Are Ethiopian Nationals Share Holders of the Firm? | Yes No | 1 0 |
| A4 | Please specify the legal form of your Organization or Company? | Sole Proprietor PLC Share Company | 1 2 3 |

| | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------|---|--|---|---|--------------------|---|---------------|---|---------------|---|---------------|---|-----------------|---|-------------|---|-------------------|---|--------------------|---|----------------|----|----|
| | | Other (Specify) _____ | 4 | | | | | | | | | | | | | | | | | | | | |
| A5 | When Was the Company Established? | 2012-2013 2010-2011 2008-2009 Before 2008 | 1 2 3 4 | | | | | | | | | | | | | | | | | | | | |
| A6 | In Which Regional States Are You Operating? | <table border="1"> <tr> <td>Tigray</td> <td>1</td> <td>Afar Somali</td> <td>6</td> </tr> <tr> <td>Amhara</td> <td>2</td> <td>Harari</td> <td>7</td> </tr> <tr> <td>Oromia</td> <td>3</td> <td>Diredawa</td> <td>8</td> </tr> <tr> <td>SNNP</td> <td>4</td> <td>Ben.-Gumuz</td> <td>9</td> </tr> <tr> <td>Addis Ababa</td> <td>5</td> <td>Gambela</td> <td>10</td> </tr> </table> | Tigray | 1 | Afar Somali | 6 | Amhara | 2 | Harari | 7 | Oromia | 3 | Diredawa | 8 | SNNP | 4 | Ben.-Gumuz | 9 | Addis Ababa | 5 | Gambela | 10 | 11 |
| Tigray | 1 | Afar Somali | 6 | | | | | | | | | | | | | | | | | | | | |
| Amhara | 2 | Harari | 7 | | | | | | | | | | | | | | | | | | | | |
| Oromia | 3 | Diredawa | 8 | | | | | | | | | | | | | | | | | | | | |
| SNNP | 4 | Ben.-Gumuz | 9 | | | | | | | | | | | | | | | | | | | | |
| Addis Ababa | 5 | Gambela | 10 | | | | | | | | | | | | | | | | | | | | |
| A7 | How much is the Annual Turnover of Your Company? | _____USD/Worldwide _____USD/Ethiopia | | | | | | | | | | | | | | | | | | | | | |
| A8 | Which Sector is your company engaged in? | Manufacturing (light industry) Manufacturing (Heavy Industry) Agro-Processing Agriculture Construction (Road & Building) Telecom Power Mining Services (Tourism, Hotel, etc) Other (Specify) _____ | 1 2 3 4 5 6 7 8 9 10 | | | | | | | | | | | | | | | | | | | | |
| A9 | Where do you sell mainly your products? | Export Market _____% Local Market _____% | 1 2 | | | | | | | | | | | | | | | | | | | | |
| A10 | Do you Sell your Products/Services to Government Bodies? | Yes No | 1 0 | | | | | | | | | | | | | | | | | | | | |
| A11 | Do you depend on Government Bodies for Inputs or raw materials other than Telecom/Power/Water? | Yes No | 1 0 | | | | | | | | | | | | | | | | | | | | |
| A12 | Are raw material Imported by your Company? | Yes | 1 | | | | | | | | | | | | | | | | | | | | |

| | | | |
|-----|---|---|-------------|
| | | No | 0 |
| A13 | How many employees do you have in Ethiopia? | _____ Expatriate Staff _____ Ethiopian Staff | |
| A14 | Do you currently have plans to expand or shrink your Investment In Ethiopia? | Yes, to EXPAND Yes, to SHRINK No | 1 2 0 |

| B. Rules and regulations | | | | | | |
|---------------------------------|--|---|--------------------|-----------------------|---------------------------------|-----------------------|
| B1 | To what extent will you agree with the Following Statement? “In General, acquiring Information on the laws and regulations regarding my company are easy to obtain.” | Fully Agree Agree in Most cases Tend to Agree Disagree Most Cases Fully Disagree | | | 1 2 3 4 5 6 | |
| B2 | To what extent will you agree with the Following Statement? “In General, Interpretation of regulations Affecting my company are CONSISTENT and PREDICTIBLE” | Fully Agree Agree in Most cases Tend to Agree Tend to Disagree Disagree in Most Cases Fully Disagree | 3 Yrs Back | Now | 1 1 2 3 4 5 6 | |
| B3 | Please judge on a four point scale how problematic are the different regulatory areas for the operation and growth of your Company? | | | | | |
| | No. | Regulation Concerning: | No Obstacle | Minor Obstacle | Moderate Obstacle | Major Obstacle |
| | 1 | Investment Licensing | 1 | 2 | 3 | 4 |

| | | | | | | |
|----|---|-----------------------------------|------------------------|----------|------------------|----------|
| | 2 | Business Licensing | 1 | 2 | 3 | 4 |
| | 3 | Customs/Foreign Trade | 1 | 2 | 3 | 4 |
| | 4 | Labor (Hiring/Firing) | 1 | 2 | 3 | 4 |
| | 5 | Foreign Currency/ Exchange | 1 | 2 | 3 | 4 |
| | 6 | Land Acquisition | 1 | 2 | 3 | 4 |
| | 7 | Environmental Directives | 1 | 2 | 3 | 4 |
| | 8 | Tax Regulations | 1 | 2 | 3 | 4 |
| | 9 | Immigration/Work Permit | 1 | 2 | 3 | 4 |
| | 10 | Quality and Standadr | 1 | 2 | 3 | 4 |
| B4 | To what extent will you agree with the Following Statement? | | | | 3 Yrs Back | Now |
| | “I am confident that the legal system in Ethiopia will uphold my contract and property rights in business disputes if I am the reasonable party” | | Fully Agree | | 1 | 1 |
| | | | Agree in Most cases | | 2 | 2 |
| | | | Tend to Agree | | 3 | 3 |
| | | | Tend to Disagree | | 4 | 4 |
| | | | Disagree in Most Cases | | 5 | 5 |
| | | | Fully Disagree | | 6 | 6 |
| B5 | In General, How do you perceive the country’s legal framework in terms of its attractiveness for Foreign Direct Investment? | | | | | |
| | | | Very Attractive | | | 1 |
| | | | Attractive | | | 2 |
| | | | Somehow Attractive | | | 3 |
| | | | Not Attractive | | | 4 |
| | | | I don’t Know | | | 99 |

| C. Bureaucratic Red Tape | | | |
|---------------------------------|--|--|---|
| C1 | When you registered your company, how long the registration process took From Beginning to End including document authentication, investment license, business license, etc? | _____ Weeks _____ Months | 1 2 |
| C2 | Do you think that today this process takes longer or shorter time? | Shorter time Longer Time I don't know | 1 2 99 |
| C3 | In operating your business which Government requirements are the most difficult ones? | Business Licensing Tax Regulations Customs/Foreign Trade Foreign Currency/ Exchange Construction Standards Labor (Hiring/Firing) Environmental Directives Quality Standards Other (Specify) _____ | 1 2 3 4 5 6 7 8 9 |
| C4 | What is your opinion about the following statement: "It is common for firms in my line of business to have to pay some `unofficial payments' to have undue influence and get things done." This is true | Always Mostly Frequently Sometimes Seldom Never | 1 2 3 4 5 6 |
| C5 | What is your opinion about the following statement: "Firms in my line of business usually know in advance about how much this `unofficial payment' is." This is true | Always Mostly Frequently Sometimes Seldom Never | 1 2 3 4 5 6 |
| C6 | What is your opinion about the following statement: "If a firm pays the required "unofficial payment" the service is usually also delivered | Always Mostly Frequently Sometimes Seldom | 1 2 3 4 5 |

| | | | |
|----|--|---|----------------------------|
| | as agreed." This is true | Never | 6 |
| C7 | When unofficial payments are required, which of the following occurs more frequently? | <input type="checkbox"/> A government agent asks for a payment <input type="checkbox"/> A government agent Hints about the unofficial payment <input type="checkbox"/> The enterprise offers a payment of its own accord <input type="checkbox"/> It is known beforehand how to pay and how much to pay, so it is not discussed. | 1 2 3 4 |
| C8 | If a government agent acts against the rules I can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments. This is true. | Always Mostly Frequently Sometimes Seldom Never | 1 2 3 4 5 6 |

| C9 During the last year, please characterize the interactions you had in each of the following contexts. | | | | |
|--|---|--|---|--|
| No. | Agency/Officials | During the last year, how many times did your enterprise have contact with this agency or type of official | Of these total contacts, how many times did a public official request that you should make an unofficial payment? | On average, how much did you have to make in an unofficial payment each time you paid it? (equivalent value if gift or other favor)? |
| | Investment License Authorities | ----- Times | ----- Times | ----- Birr |
| | Land Acquisition /Administration | ----- | ----- | ----- Birr |
| | Construction permit | ----- | ----- | ----- Birr |
| | Standards and Safety | ----- | ----- | ----- Birr |
| | Tax Agency/ Inspectors | ----- | ----- | ----- Birr |
| | Government Procurement | ----- | ----- | ----- Birr |
| | Customs and trade license | ----- | ----- | ----- Birr |
| | Judges/ Court officials | ----- | ----- | ----- Birr |
| | Gov. Company Selling inputs | ----- | ----- | ----- Birr |
| | Traffic police | ----- | ----- | ----- Birr |
| | Federal/Local Police | ----- | ----- | ----- Birr |
| | Electric Power Company | ----- | ----- | ----- Birr |
| | Telephone Company | ----- | ----- | ----- Birr |
| | Water and Sewerage | ----- | ----- | ----- Birr |
| | Officials influencing polices affecting | ----- Times | ----- Times | ----- Birr |

| D. Ease of Doing Business and Corrupt Practices | | | | | | |
|--|---|-------------------|-------------------|------|---------|------------|
| D1 | <p>I'm going to describe situations that sometimes happen in many countries. Please select the item that best characterize the case</p> <p>a. To avoid having to visit the police office and pay a full fine, a traffic offender offered to pay 300 Birr to the traffic policeman. The policeman did not ask for the money but accepted it.</p> <p>b. Someone visits a government office and receives good assistance from the officer in charge. When the matter is concluded, he offers 10,000 Birr, which the official accepted.</p> | | Gift of good will | | 1 | |
| | | | Tea money | | 2 | |
| | | Improper behavior | | 3 | | |
| | | Bribery | | 4 | | |
| | | Corruption | | 5 | | |
| | | Gift of good will | | 1 | | |
| | | Tea money | | 2 | | |
| | | Improper behavior | | 3 | | |
| | | Bribery | | 4 | | |
| | | Corruption | | 5 | | |
| D2 | Would you say that the need for unofficial payments to each of these functions is greater, the same or less than three years ago? READ OUT FUNCTIONS | | | | | |
| | | | Less | Same | Greater | Don't know |
| | a. To get connected to public services (Electricity and Tel.) | 1 | 2 | 3 | 4 | |
| | b. To get licenses and permits | 1 | 2 | 3 | 4 | |
| | c. To Acquire land for business purposes | 1 | 2 | 3 | 4 | |
| | d. To deal with taxes and tax collection | 1 | 2 | 3 | 4 | |
| | e. To Secure Bank Loans | 1 | 2 | 3 | 4 | |
| | f. To Secure Foreign Currency | 1 | 2 | 3 | 4 | |
| | g. To Open LC | 1 | 2 | 3 | 4 | |
| | h. To gain government contracts | 1 | 2 | 3 | 4 | |
| | i. To deal with customs/imports | 1 | 2 | 3 | 4 | |
| | j. To deal with Police | 1 | 2 | 3 | 4 | |
| | k. To deal with courts | 1 | 2 | 3 | 4 | |
| l. To deal with standards and safety inspectors | 1 | 2 | 3 | 4 | | |
| D3 | <p>Has your Company made sales to the State Sector over the last 2 years ?</p> <p>If Yes (specify % of total sales) _____% of total sale.</p> | | Yes | | | 1 |
| | | | No | | | |
| | | | | | 0 | |
| | | | | | | |

| | | | | | |
|---|--|---|--|------------------|---|
| D4 | <p>Contracts relating to government procurement are generated in a clear and efficient manner.</p> <p>This is true</p> | <p>Always Mostly Frequently Sometimes Seldom Never</p> | <p>1 2 3 4 5 6</p> | | |
| D5 | <p>Whether or not you currently do business with the government, could you please comment on the ease or difficulty of the following:</p> | | | | |
| | | No Problem | Minor Problem | Moderate Problem | Major Problem |
| Procurement Process is too complex | | 1 | 2 | 3 | 4 |
| There is too much competition | | 1 | 2 | 3 | 4 |
| Frequent & High Unofficial Payment Requests | | 1 | 2 | 3 | 4 |
| Existence of Corrupt Practices | | 1 | 2 | 3 | 4 |
| D6 | <p>In your Opinion, when firms in your industry do business with the government, say, out of 10 procurement contracts,</p> | <p>1. what proportion of procurement contracts involve any unofficial payments? _____ % of procurements</p> <p>2. How much of the contract value must they offer in additional or unofficial payments to secure the contract? _____ % of the contract value</p> <p>3. Don't Know</p> | | | |
| D7 | <p>I will now read you some possible motives behind corrupt practices. In your opinion, which of the following are the main motives behind corrupt practices? I am referring to the main reasons that people who participate in corrupt acts use to justify their actions.</p> <p>[Multiple responses allowed; Accept up to three responses]</p> | <p>1. There is no other way to get things done</p> <p>2. To avoid punishment/sanctions</p> <p>3. To avoid higher official payments</p> <p>4. To speed up the processes/procedures</p> <p>5. To be treated (served) appropriately</p> <p>6. To get preferential treatment/privileges</p> <p>7. To have alternative source of income</p> <p>8. The practice of obligatory (illegal) "payments" to supervisors</p> <p>9. Other, Specify</p> <p>.....</p> | | | <p>1 2 3 4 5 6 7 8 9 99</p> |

| | | | |
|----|---|--|---|
| | | <ul style="list-style-type: none"> ▪ <i>Don't know</i> ▪ <i>Refused</i> | 98 |
| D8 | <p>If someone has paid a bribe to governmental employee in order to obtain a service or to resolve a problem, how certain it is that the service is obtained or the problem resolved?</p> <p>[Read response options and accept only one response]</p> | <ol style="list-style-type: none"> 1. Very certain 2. Fairly certain 3. Somewhat uncertain 4. Extremely uncertain 5. (Don't know) 6. (Refused) | <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>99</p> <p>98</p> |

| | | | |
|-----|---|---|---|
| D9 | <p>How would you react if you were asked to give a bribe (money, gift, asked for an exchange of favor, etc.)? Would you give the bribe or would you not give it?</p> | <ol style="list-style-type: none"> 1. I would give it [Go to D10] 2. I would not give it [Go to D11] 3. Other, specify [Go to D12] 4. Don't know [Go to D12] 5. Refused [Go to D12] | <p>1</p> <p>2</p> <p>3</p> <p>99</p> <p>98</p> |
| D10 | <p>Why would you give it?</p> <p>[DO NOT READ pre-coded response options; Mark category that most closely reflects the respondent's answer; If answer not listed, record response in category "other"]</p> <p>[Go to D11]</p> | <ol style="list-style-type: none"> 1. Because everyone gives 2. Because there's no other way I can obtain the service 3. I would be able to negotiate a lower price 4. To speed up the process 5. To be sure I get what I need 6. Other, specify 7. Don't know 8. Refused | <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>99</p> <p>98</p> |
| D11 | <p>Why would you NOT give it?</p> <p>[DO NOT READ pre-coded response options; Mark category that most closely reflects the respondent's answer; If answer not listed, record response in category "other"]</p> | <ol style="list-style-type: none"> 1. Because there is a high risk to be punished 2. Because it is unacceptable for me 3. Because I will try to resolve the issue through legal means 4. Because I have no money/means 5. Other, specify 6. Don't know 7. Refused | <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>99</p> <p>98</p> |
| D12 | <p>During the past 12 months, have you heard of anyone including acquaintances or other foreign investors paying bribes to obtain a public service?</p> | <p>Yes</p> <p>No</p> | <p>1</p> <p>0</p> |
| D13 | <p>Whenever you have contacted officials in the public sector, how often did the following happen?</p> <p><i>[Read categories one-by-one and ask "Did this happen in all cases, most cases, rare cases or no cases at all"; SHOW CARD for response categories; if respondent VOLUNTEERS saying that he/she has never dealt</i></p> | | |

| | | | | | | | | |
|---|--|--|-------------------|-------------------|--|------------------------------------|--------------------|----------------|
| <i>with public officials, CIRCLE code 5 in all response categories]</i> | | | | | | | | |
| | Behavior | All cases | Most cases | Rare cases | No cases at all | Not seen Any public Officer | (Don't Know | |
| | 1. The officials directly demand cash gift or favor | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 2. The officials do not demand directly but show that they expect a cash gift or a favor | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 3. You give cash to the official without being asked | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 4. You give a gift to the official without being asked | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 5. You do the official a favor without being asked | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 6. You are asked to do a favor to relatives of the official | 1 | 2 | 3 | 4 | 5 | 98 | |
| | 7. You use personal connections to get preferential treatment | 1 | 2 | 3 | 4 | 5 | 98 | |
| D14. | Some people in Ethiopia including foreigners are unwilling to report corrupt actions because of various reasons. I will list some of these possible reasons; please tell me which of the following you personally consider as a reason for not reporting corruption to the relevant authorities. | | | | | | | |
| | No. | Perception of Reasons for not reporting corruption | | | Yes | No | Don't Know | Refused |
| | 1 | Those who report corruption will be subject to retaliation | | | 1 | 0 | 98 | 99 |
| | 2 | No actions will be taken even if corruption is reported. | | | 1 | 0 | 98 | 99 |
| | 3 | It is not worth reporting corruption if I am not personally hurt. | | | 1 | 0 | 98 | 99 |
| | 4 | Most people who commit corruption only do so because of economic hardship. | | | 1 | 0 | 98 | 99 |
| | 5 | The society does not reward those who report corruption. | | | 1 | 0 | 98 | 99 |
| | 6 | No Whistle blower protection | | | 1 | 0 | 98 | 99 |
| | 7 | Lack of evidence to prove the corrupt practices | | | 1 | 0 | 98 | 99 |
| | 8 | Lack of clarity about corruption proceedings | | | 1 | 0 | 98 | 99 |
| | 9 | Don't know the relevant institution responsible for corruption cases. | | | 1 | 0 | 98 | 99 |
| D15 | During the past 12 months, have you or anyone in your company reported a corrupt act by a public official? | | | | Yes | [Go to D16] | 1 | |
| | | | | | No | [Go to D20] | 0 | |
| D16 | To which organization was the report or complaint forwarded? | | | | 1. Police | | | 1 |
| | | | | | 2. Office of the Prosecutor | | | 2 |
| | | | | | 3. Federal EACC | | | 3 |
| | | | | | 4. Regional EACC | | | 4 |
| | | | | | 5. Ethics Officer in same Organization | | | 5 |
| | | | | | 6. Office of the Prime Minister | | | 6 |
| | | | | | 7. Ombudsman | | | 7 |
| | | | | | 8. Courts | | | 8 |
| | | | | | 9. Human Right Commission | | | 9 |

| | | | |
|-----|--|---|------------------------------|
| | | 10. Ministry of Foreign Affairs 11. Other, Specify 12. Don't Know | 10 11 12 |
| D17 | How easy or hard was the process of corruption reporting? | 1. Very Easy 2. Easy 3. Somewhat Easy 4. Extremely Difficult 5. (Don't know) 6. (Refused) | 1 2 3 4 99 98 |
| D18 | Do you agree or disagree that as a reporter of corruption, you felt protected from potential harassment? | 1. Strongly Agree 2. Somewhat Agree 3. Somewhat Disagree 4. Strongly Disagree 5. (Don't know) 6. (Refused) | 1 2 3 4 99 98 |
| D19 | How would you rate your level of satisfaction with the feedback you received as a result of your corruption report? | 1. Very Satisfied 2. Somewhat Satisfied 3. Somewhat Dissatisfied 4. Strongly Dissatisfied 5. (Don't know) 6. (Refused) | 1 2 3 4 99 98 |
| D20 | Are you aware of any anti-corruption measures being taken by the Government of Ethiopia? | Yes No [Go to D22] | 1 0 |
| D21 | In your opinion, how effective is the Government's Anti Corruption efforts in Ethiopia?" | 1. Very Effective 2. Somewhat Effective 3. Not Very Effective 4. Not Effective 5. (Don't know) 6. (Refused) | 1 2 3 4 99 98 |
| D22 | Do you agree that the current government of Ethiopia has a sincere commitment and will to combat Corruption? | 1. Strongly Agree 2. Somewhat Agree 3. Somewhat Disagree 4. Strongly Disagree 5. (Don't know) 6. (Refused) | 1 2 3 4 99 98 |
| D23 | How do you compare the status of corruption in Ethiopia in regard to similar Developing Countries? | Bigger Similar Lesser | 1 2 3 |
| D24 | Are you aware of the fact that there are Federal and Regional Level Anti-Corruption Commissions? | Yes No [Go to D26] | 1 0 |
| D25 | Which of the following types of assistance would you want the Federal or Regional Anti Corruption Commission to provide to you? [Show Card; Multiple responses allowed; PROBE:] | 1. Information about Foreign Investors rights/Obligation in the area of corruption 2. Information about anticorruption legislation 3. Information about institutions you may complain about officials' corrupt behavior | 1 2 |

| | | | |
|------------|---|--|--|
| | | <ol style="list-style-type: none"> 4. Free legal advice to formulate your corruption complaint 5. Free legal support in collecting information and evidence related to corruption cases 6. Free legal support in development and submission of corruption case documents 7. Free representation in court 8. Anticorruption awareness activities 9. Anticorruption education activities 10. If other, please specify 11. (Don't know) 12. (Refused) | <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>98</p> <p>99</p> |
| <p>D26</p> | <p>In your opinion, what can you personally do to reduce corruption in Ethiopia? Please, list concrete actions you can personally undertake to help combat corruption.</p> <p>[Multiple response; Do not read response options]</p> | <ol style="list-style-type: none"> 1. Abstain from paying bribes for public services 2. Report corruption in the press 3. Refuse to make favors to officials or to their relatives related with my job 4. Report corrupt behavior of public officials to NGO anticorruption center 5. Report corrupt officials behavior to competent authorities 6. File a lawsuit against the corrupt official 7. Participate in awareness campaigns against corruption 8. Participate and supporting an anticorruption educational campaign 9. There is nothing I can do 10. If other, please specify 11. (Don't know) 12. (Refused) | <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>98</p> <p>99</p> |
| <p>D27</p> | <p>As a Business Man you had exposure to many sectors and offices in Ethiopia. Among the sectors and service providers you had contact with, please name the three most corrupt sectors or services, and rank them.</p> | <p>1st most Corrupt _____</p> <p>2nd most Corrupt _____</p> <p>3rd most Corrupt _____</p> | |

| | | | |
|-----|--|---|--|
| | | <hr/> 4 th most Corrupt <hr/> 5 th most Corrupt <hr/> | |
| D28 | On which information sources do you base your assessment of the level of corruption in the country? | <ol style="list-style-type: none"> 1. Personal experience (you have had to provide cash, gifts, or favor) 2. Talk with relatives or family 3. Talk with friends and acquaintances 4. Information about corruption given by Organizations (corruption awareness) 5. Information provided by the media (TV, radio, newspapers, internet, etc...) 6. If other, please specify 7. (Don't know) 8. (Refused) | |

E. General Comments and Recommendations

| | |
|----|--|
| E1 | What General recommendations would you give the Ethiopian Government to Increase the flow of FDI? |
| E1 | What General recommendations would you give the Ethiopian Government to Fight Effectively All forms of Corruption? |
| | |

| | |
|----|--|
| E1 | Any Other Comments or Recommendations? |
|----|--|

**This was the End of Our Interview and
Thank You for Your Valuable Time**

Date of Survey:

Name of Enumerator: Signature

Name of Supervisor: Signature

Annex II – Bibliography

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Annex III. Nationality of Owner/Major Share holder

| No. | Nationality | Count | Percent |
|------------|----------------------|--------------|----------------|
| 1 | American | 26 | 7.4 |
| 2 | American Ethiopian | 7 | 2.0 |
| 3 | Australian | 5 | 1.4 |
| 4 | Bahraini | 1 | 0.3 |
| 5 | Belgium | 3 | 0.9 |
| 6 | British | 18 | 5.1 |
| 7 | Canadian | 8 | 2.3 |
| 8 | Chinese | 49 | 14.0 |
| 9 | Djiboutian | 2 | 0.6 |
| 10 | Dutch | 14 | 4.0 |
| 11 | Egyptians | 3 | 0.9 |
| 12 | Ethio - Chinese | 2 | 0.6 |
| 13 | Ethiopian & Irish | 1 | 0.3 |
| 14 | Ethiopian & Pakistan | 1 | 0.3 |
| 15 | France | 9 | 2.6 |
| 16 | Germany | 9 | 2.6 |
| 17 | Greek | 4 | 1.1 |
| 18 | Holland | 2 | 0.6 |
| 19 | Indian | 45 | 12.9 |
| 20 | Irish | 3 | 0.9 |
| 21 | Israel | 9 | 2.6 |
| 22 | Italian | 23 | 6.6 |
| 23 | Japanese | 1 | 0.3 |
| 24 | Kenyan | 5 | 1.4 |
| 25 | Korean | 3 | 0.9 |
| 26 | Lebanese | 5 | 1.4 |
| 27 | Malaysian | 1 | 0.3 |
| 28 | Mauritius | 1 | 0.3 |
| 29 | Netherlands | 7 | 2.0 |
| 30 | Nigeria | 2 | 0.6 |
| 31 | Norwegian | 3 | 0.9 |
| 32 | Pakistani | 13 | 3.7 |
| 33 | Russian | 1 | 0.3 |
| 34 | Saudi Arabian | 10 | 2.9 |
| 35 | Spanish | 1 | 0.3 |
| 36 | Sudanese | 13 | 3.7 |
| 37 | Swedish | 9 | 2.6 |
| 38 | Switzerland | 1 | 0.3 |
| 39 | Syrian | 1 | 0.3 |
| 40 | Turkish | 23 | 6.6 |
| 41 | United Arab Emirates | 1 | 0.3 |

| No. | Nationality | Count | Percent |
|------------|--------------------|--------------|----------------|
| 42 | Yemeni | 5 | 1.4 |
| | Total | 350 | 100.0 |

Source: Own Survey, November 2013