# Federal Democratic Republic of Ethiopia
## Federal Ethics and Anti- Corruption Commission
## in Collaboration with
# JGAM Donors

# *"Survey on Perception of the level of Corruption*
# *By*
# *Foreign Investors in Ethiopia"*

**Addis Ababa**                                                                      **January, 2014**

# Contents

# Acronyms

| | |
|---|---|
| CRC | Citizen Report Card |
| CSA | Central Statistical Authority |
| 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 |
| KI | Key Informants |
| MoFED | Ministry of Finance and Economic Development |
| 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** | 1. Agriculture, hunting and forestry<br>2. Construction<br>3. Education<br>4. Health and social work<br>5. Hotel and Restaurant<br>6. Manufacturing<br>7. Mining and quarrying<br>8. Real estate, renting and business activities<br>9. Transport, storage and communication<br>10. 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:** | Draft 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) has identified corruption as the single greatest obstacle to economic and social development. According to the WB 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 areas and institutions.

The study was based on interviewing of 350 sampled executives of foreign companies that represented all regional states of the country. Moreover, the respondents were represented by nationalities of 42 countries and 5 continents (Except Latin America and Antarctica).

Following an assessment of the general profile the survey focused on three major areas namely: a) rules and regulations; b) bureaucratic red tape; and c) ease of doing business and corrupt practices. The findings of the survey are presented concisely under each section as follows.

### a) Rules and Regulations

The great majority (82.8%) of the respondents agree that acquiring information on the laws and regulations regarding investors companies is easy. Moreover, 77.7% of the respondents perceive that interpretations of regulations affecting companies are consistent and predictable. In this regard there is improvement in the current period as compared to 3 years back which was 72.5% based on retrospective data.

The data analysis results showed that the three main governmental business regulatory areas where obstacles are the highest among those that are sought pertinent for growth and operation of companies are foreign currency/exchange (26%) followed by land acquisition (23.4%) and customs/foreign trade (19.4%). On the contrary, the proportion of the respondents that reported there is no obstacle was the highest on investment licensing (54%) followed by environment directives and quality and standards (36.6% each).

Moreover, high proportion (84.6%) of the respondents perceive that the legal system in Ethiopia will uphold their contract and property rights in business disputes if they are the reasonable party" as compared to the period three years back (76.6%).

Results of the data analysis regarding the country's legal framework in terms of its attractiveness for FDI showed that higher proportion (84.6%) of the respondents reported the country's legal framework is attractive, 12.9% reported not attractive and the rest 2% reported don't know.

### b) Bureaucratic Red Tape

The average number of days required for registration process from beginning to end including document authentication, investment license, business license, etc. is 7.8 days. There is also improvement on the length of the time required for registration process during the current period as compared to the time when they registered their company. Accordingly, about 41% of the respondents reported that it takes shorter time today while 23.1% reported it takes longer time and 33.1% reported don't know.

The three main areas that are considered as most difficult in operating business with respect to the government requirements are customs/foreign trade - reported by 36.6% of the respondents, business licensing (32.3%), and tax regulations (28%). These results are consistent with the findings of rules and regulations section that identified customs/foreign trade, foreign currency/exchange and tax regulations are among the first four problematic regulatory areas for operating business in the country.

Greater proportion (38.9%) of the respondents stated that it is never possible to have to pay some unofficial payments to have undue influence and get things done; as opposed to 9.4% of the respondents that perceive this is mostly true and only 2.9% reported this is always true. Moreover, high proportion (50%) of the respondents reported that business firms never know in advance about how much this unofficial payment is, while only 1.4% responded that business firms always know this. As to mode of communication to initiate unofficial payments, hints provided by government agents were found to be the most common that accounts for 63.9% of the respondents.

However, most of the respondents responded that if a government agent acts against the rules one can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments, there are substantial number of respondents that stated the opposite.

## c) Ease of Doing Business and Corrupt Practice

Perceptions on unofficial payments can be interpreted in culture-specific ways. As a consequence, evaluations made by foreign investors tend to be biased to cultural grounds of the home countries. Accordingly, a 300 Birr paid to a traffic police is regarded neither as a bribe nor a corruption relatively by high proportion of Pakistani (61.5%), German (55.6%), and Chinese (48.9%) respondents. Similarly, the offer of 10,000 Birr to a government officer is considered a corruption by a relatively small proportion of Pakistani (8.3%), Sudanese (23.1%), American-Ethiopian (28.6%), American (30.8%), Chinese (38.3%) and Dutch (35.7%) nationalities as compared to investors from other countries.
This survey captured views on whether respondents feel that overall corruption levels have increased or decreased across selected 12 service rendering areas in the last three years. The results showed that the majority (37.1%) of respondents do not generally know whether it has changed or not, 25.1% responded that it has remained the same, 18.5% responded it has increased, 16.7% responded it has decreased, and the remaining 2.6% didn't respond.

20.9% of respondents perceive that contracts relating to government procurement are generated in a clear and efficient manner mostly while 16.3% reported that this is happening frequently, 27% responded sometimes and about 21% answered contracts are not generated in a clear and efficient manner.

The majority (71.5%) of respondents indicated there is difficulty of doing business in the country. The major factors that make doing business difficult is existence of corrupt practices (76.6%) followed by too complex procurement process (72.9%), frequent and high unofficial payments (71.1%) and too much competition (65.2%).

From the total 350 respondents 20% have given their opinion regarding government procurement contracts that involve unofficial payment. Of these respondents, the majority (about 80%) of the respondents said government contracts involve unofficial payment ranging from 2% to 50% while few of them (19.7%) believe over 50% of contracts are awarded by involving some unofficial payment.

Similarly out of the 56 respondents that gave valid responses, over 57.1% replied unofficial payments out of total contractual prices can range from 1% to 10% . About 7% of the respondents are of the opinion that 11-25% of the contract values are required to be paid in order to secure any contract while 21.4% of these respondents believed that it is in the range of 26 to 50%.

67.4% of the sampled respondents' perceive that they are certain of getting services or resolving problems by giving bribe to government officials/employees while only 5.4% are extremely uncertain about this. The survey also asked opinions of respondents on how they react when asked to give a bribe for an exchange of favor or service. From the total respondents about 70% replied they will not give and even refuse the request to give a bribe while 12.6% admitted to give a bribe. The respondents who are willing to give a bribe

justify their actions as to speed up the process and because there is no other way they can obtain the services or resolve the problem.

Regarding getting information from acquaintances or others on corruption, about 30% of respondents have heard of foreign firms paying bribes to obtain a public service in the last 12 months.

During the survey the perception of the respondents regarding reasons for not reporting corruption to the relevant authorities has been assessed. From analysis of the survey result the top 3 reasons that emerged are due to lack of evidence, lack of actions against those that commit corruption and lack of clarity about corruption proceedings. Therefore, most of the corrupt acts remain unreported. Nevertheless, the organizations to which the report are forwarded by those who reported a corrupt act mostly are the police, Federal EACC and Regional EACC.

During the last 12 months when the survey was conducted 6.3% of the respondents reported a corrupt act to a public official, 92.3% responded that they didn't report while the rest 1.4% didn't respond. Although the proportion of those who reported corrupt acts is small, greater proportions perceive that the process of corruption reporting is easy. However, most of the respondents that report corrupt practices perceived that they are not protected from potential harassment.

Although the majority of the respondents who report corrupt practices stated that they get satisfied with the feedback they are getting as a result of their corruption report, still there are significant numbers of corruption reporters that are not satisfied with the feedback they are getting.

Regarding awareness on anti-corruption measures being taken by the government, 76.9% of the respondents responded that they are aware of the anti-corruption measures while 21.4% are not aware of any anti-corruption measures, which imply that there is still a need to carryout awareness raising interventions by the government to bridge the gap. Of those that responded having awareness, the great majority perceived that the government's anti-corruption effort is effective.

Similarly, the results of the data analysis regarding the perceptions of the respondents on the government's commitment and will to combat corruption showed that 49.7% somewhat agree that the government has a "sincere commitment and will to combat corruption" and 21.4% strongly agree. On the other hand, 2.9% of the respondents strongly disagree with the statement and another 17.4% somewhat disagree.

On the other hand, the respondents were requested to compare the status of corruption in Ethiopia with respect to similar developing countries and the data analysis results indicated that 54.6% of the respondents perceived that it is lower, 26% it is similar and 14% it is bigger. Personal experience (26.6%), talk with friends and acquaintances (23.1%), talk with relatives or family (17.1%) and information provided by the media (14.9%) were indicated to be the major sources of information as a base for their assessment of the level of corruption in the country.

Despite extensive efforts, there is still lack of information about the relevant institutions responsible for corruption cases playing as one of the hindrances for not reporting corruption and thus this needs to be addressed. Although the majority of the sampled respondents (68%) responded that they are aware of the existence of the Federal and Regional level anti-corruption commissions, sizeable proportion of the respondents (26.6%) do not know this fact.

Moreover, there is a gap on information about foreign investors' rights/obligation in the area of corruption, anticorruption legislation and institutions where one may complain about officials' corrupt behavior.

The first 5 top measures proposed by the respondents on possible measures that they can personally do to reduce corruption are abstain from paying bribes for public services (24.1%), refuse to make favors to officials or to their relatives related with investors' job (14.8%), report corrupt officials behavior to competent authorities (13.6%), participate in awareness campaigns against corruption (12.2%), and report corruption in the press (11.5%).

The data analysis results showed that among the service providers identified as the first most corrupt; 18.9% of the respondents responded Ethiopian Revenues & Customs Authority, 8.3% responded Transport Authority, 7.4% responded land administration, 6.9% responded tax regulation, and 6.5% responded ELEPA (EEPCO).

# 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 been striving to conduct and implement various studies aiming at supporting the ongoing fight against corruption: Diagnosing Corruption in Ethiopia: Perception, Realities and the Way Forward for Key Sectors; Construction Sector Transparency Initiative-Ethiopia, Second Corruption Perception Survey in Ethiopia, Transparency International–CPI of Ethiopia and 2013 Global Corruption Barometer: Findings and Recommendations are among the major studies conducted over the past two years.

As an additional research effort, the Federal Ethics and Anti-Corruption Commission in collaboration with donors of the Joint Governance Assessment and Measurement (JGAM) fund (managed by the World Bank) is interested to conduct a focused research into the

"perception of corruption risk held by foreign direct investors in Ethiopia." This research 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." Hence, the current study was focused on foreign investors operating in Ethiopia by gathering their views, perceptions and experiences regarding corrupt practices in the country. The study mainly assessed the perception they have 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 with which the business was started, gaining licensing and appropriate registration, capitalization, and issues relating to tax and customs. To this end foreign investors were surveyed to gather data about both their perceptions of corrupt practices and the strength of Ethiopian institutions in combating them as well as data relating to actual instances of malpractice, actualized or attempted.

Thus, this report is the outcome of the study on "Perception of Foreign Investors on the Level of corruption in Ethiopia." 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 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 forwarded. Additional information is also presented through annexes.

# 2 Objectives and Scope of Work

## 2.1 Objectives

As per the TOR, the objective of the assignment is to "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 Consulting firm's task is to work on the baseline survey of Foreign Investors currently operating in Ethiopia using data provided to the FEACC by the Foreign Investment Office.

A consultancy firm will be required to undertake the following tasks:

- Develop a survey questionnaire in partnership with the FEACC which will collect all data relevant to the exercise;
- By using the questionnaire, survey all foreign direct investors; Encoding 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.
- Using the results of the survey, analyze the 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 (the stakeholders);

- Make presentation to the relevant stakeholders on a feed-back providing workshop;
- Incorporating the comments of the stakeholders into a final version of the report;
- On conclusion of the research, to provide the FEACC and stakeholders with both hard and soft copies of the report.

The scope of the baseline survey is limited to data gathering, encoding as well as making some statistical analytical relationships, identify general recommendations and delivering the output for the Federal Ethics and Anti-Corruption Commission. To undertake the baseline survey, the consulting firm should agree on the selection method and sample size. (Although this is subject to discussion, at least the sample size should include the eight sectors identified in the earlier studies and should also cover all regions of the country and consisting of approximately 300 investment firms).

# 2.3 Expected Deliverables/Specific Outputs

As per the TOR (Pp.4-5), the consultant is expected to deliver the following as part of this assignment.

- 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 indicated in the TOR (p. 4), the consultant will conduct the survey in approximately some 300 foreign investment firms. Initial information gathered by the consultant indicates that there are about 1500 – 2000 firms under the category of FDI.

Having this information is useful to determine the sample size based on scientifically accepted methods. Hence, we use the following formula to calculate the required Sample Size (ss) to draw any conclusion with 95% confidence level.

Sample Size  Formula[1]

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

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

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

---

[1]  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:

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

Hence, the total sample size for 95% level of confidence is 291. We added some contingency and put this sample size as 350 investment firms.

## 3.2. Primary Data

After ascertaining 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 FEAC. The list was used by the consultant 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 the economic sectors.

The questionnaire was designed by the consultant and counter part 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.

## *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.

# 4. Literature Review

Is corruption detrimental or beneficial to the economic activity? At first sight the question seems ironic and even provocative. It is, however, still controversial among economists.

Common wisdom views corruption as an impediment to development and growth. This view was recently supported by the results of the literature aimed at quantifying the consequences of corruption and growth. That literature 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). As a result, international organizations (e.g. the IMF, the World Bank, the UN or the OECD) gave the fight against corruption high priority. They took international initiatives (e.g. the UN resolution in 1998 or the 1999 OECD's "Convention on combating bribery") and urged States to criminalize and deter the bribery of foreign office holders.

In contrast, other researchers have suggested that graft may be beneficial. Leys (1965) questioned "the problem about corruption". Bardhan (1997) recalled episodes of 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 the 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 mainly included 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 taking its due share from a more formal treatment. One relevant example is Lui (1985), where in the context of a queuing model it was shown that corruption induced 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. The 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 investigate to what extent such an association depends on the quality of governance. Actually there is little evidence allowing a rigorous rejection of the "grease the wheels" hypothesis. Mauro (1995) has attempted to shed light of this issue by splitting his sample in high red tape and low red tape sub-samples of countries. He 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, they tested whether corruption reduces the time that firms spend negotiating with foreign countries' officials. They 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. The moral judgement on corruption may bias the 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 of such low quality. 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 as well 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 combination of corruption with a 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 concerns the ill functioning of bureaucracy (i.e. its failure 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:* The ill functioning of the bureaucracy is considered as the most prominent inefficiency that corruption could grease. Huntington (1968) stated: "In terms of economic growth, the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, overcentralized, honest bureaucracy". There are various aspects of ill functioning of the bureaucracy that can be compensated by corruption. A first one concerns slowness. Using a formal economic model, Lui (1985) showed that corruption could efficiently lessen the time spent in queues. The reason is that bribes could give bureaucrats an incentive to speed up the process, in an otherwise sluggish administration (Leys, 1964). Furthermore, Huntington (1968) argued that corruption could help surmount tedious bureaucratic regulations and foster growth. According to him, such a phenomenon had been observed in the 1870's and 1880's in the

United States, where corruption by railroad, utility and industrial corporations resulted in faster growth.

Another consequence of an ill-functioning bureaucracy concerns the quality of civil servants. Leys (1964) and Bailey (1966) argued that corruption can amend a bureaucracy by improving the quality of its civil servants. If wages in government service are insufficient, the existence of perks may constitute a complement that may attract able civil servants who would have otherwise opted for another line of business.

Finally, Beck and Maher (1986) and Lien (1986) suggested that corruption may enhance the choice of the right decisions by officials. If bureaucrats do not have enough information or are not competent for some decisions, corruption can replicate the outcome of a competitive auction. They formally showed that when attributing a government procurement contract the ranking of bribes can replicate the ranking of firms by efficiency. Moreover, if some investment projects are dependent on the attribution of a license, corruption may be an efficient way of selecting such projects. Here again, corruption in the attribution of a government license is very similar to a competitive auction. The intuition (Leff, 1964) is that licenses tend to be allocated to the more generous bribers, who can be the more efficient. Hence, the capacity to offer a bribe is correlated with talent.

Turning to the other aspect of governance, some authors praise corruption for its role in allowing economic agents to escape the consequences of some policies. Bailey (1966) for instance argues that if bribes could help private agents to evade a public policy designed to solve a particular problem, they may thereby allow them to find an overlooked and better-suited solution. This may in turn allow an improvement of the policy's outcome even in terms of 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, due for instance to an ideological bias. By simply impeding inefficient regulations, corruption may then 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 risks originating from the political system, such as expropriation or violence. If corruption helps mitigating those risks, investment will turn out 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:*** Starting with the ill functioning of bureaucracy, the positive impact of corruption on slowness rests on the assumption that a civil servant can speed up an "exogenously" slow process. However, corrupt civil servants may 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 the process can be very limited when the administration is made of 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, say to get an authorization for a project, many independent agents are involved than when only one is. 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 up to the others instead of compensating 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 a civil servant also has the incentive to limit new servants' (especially competent ones) access to key positions in order to preserve the rent form corruption. While individual bribers can indeed improve their own situation thanks to a perk, nothing is gained from corruption at the aggregate macro-economic level.

The argument that corruption may enhance the choice of the right decisions 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 on a market may be beneficial for the firm but detrimental for 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 corruption may be a hedge against risk in a politically uncertain environment. This may only be true if corruption does not imply additional risk-taking. However, corruption is not a simple transaction. As it is illegal, the commitment to comply with the terms of the agreement 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 corrupt 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 level of corruption. As a result, it is likely that corruption may increase the risks associated with a weak rule of law instead of compensating it.

**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 induces foreign investors to favor joint ventures over wholly owned firms. Lambsdorff and Cornelius (2000) maintain a negative impact of corruption on FDI for a sample of African countries. Wei and Wu (2001) is another study investigating the relationship between corruption and capital flows. The main conclusion of this paper is that corruption impacts on the composition of capital inflows in a way that reduces FDI, and increases the countries' reliance on bank loans. This, in turn, makes the country in question more vulnerable towards financial/ currency crises.

Habib and Zurawicki (2001) examine the impact of corruption on both foreign direct investments and local investments. Accordingly, corruption has a stronger negative impact on FDI than on local investments. Lambsdorff (2002) asks the question of how corruption influences on the 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 controls certain institutional variables such as the bureaucratic quality, civil liberty, government stability, and the law and order tradition of a country. A somewhat surprising result emerges in that the author finds all but the last variable to matter for attracting capital inflows.

On the flip side of the coin 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 produced mixed results regarding the impact of corruption on FDI. For the purpose of this research, in addition to previous research on this subject, the results of a survey conducted recently were also taken into consideration and will be specified 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 the economy, 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 economies and cultural variables.

Finally, there was 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 and 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."

# 5. Survey Findings

## *5.1 General Information*

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 background, their respective country's socio-economic, political situation and culture. Hence the profile of the foreign companies covered by this corruption perception survey is presented as follows.

Table 1- Position of respondent in the companies cover 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 looks low, which could be attributed to the naming of the head of the organization as Managing Director/General Manager or CEO.

The respondents were represented by nationalities of 42 countries and 5 continents (Except Latin America and Antarctica) as shown in Annex 3. This could reflect the economic, political and cultural differences of countries towards perception on corruption as observed in Ethiopia and gives wider view of foreign firms operating in the country from various backgrounds. 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 proportions of the respondents were Dutch (4%) and Sudanese and Pakistanis (3.7% each). There are also Ethiopian-Americans, Ethio-Chinese and Ethio-Pakistani companies that increase 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 have Ethiopian shareholders account only about 29% as depicted in Figure 1.

Figure1. Proportion of foreign companies operating in Ethiopia with Ethiopian Share holders
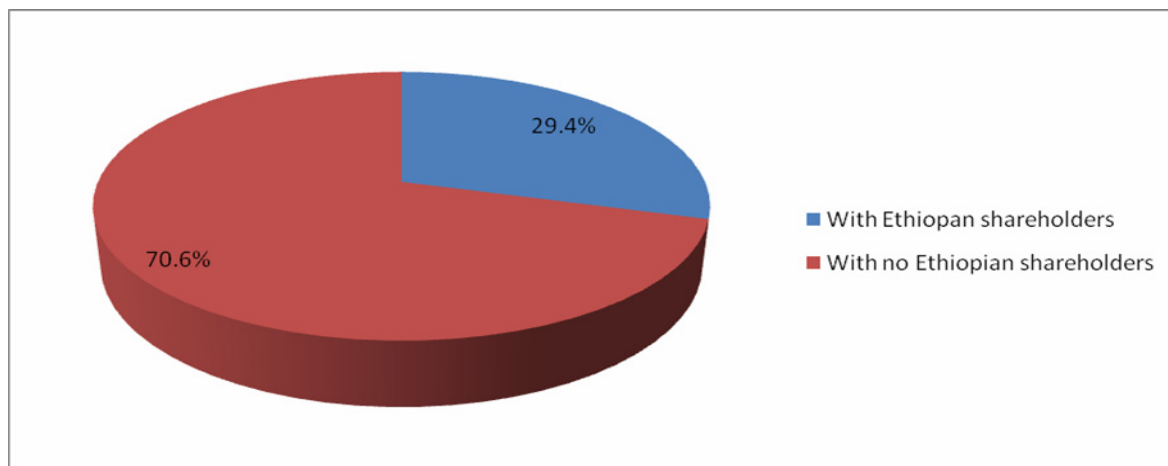


Source: Own Survey, November 2013

Data on the legal form of foreign companies operating in Ethiopia were collected during the survey. The result indicated that the dominant legal form of companies surveyed is PLC (81.4%) followed by Sole proprietorship (13.7%).

Figure 2. Proportion of Legal form of companies covered by the survey
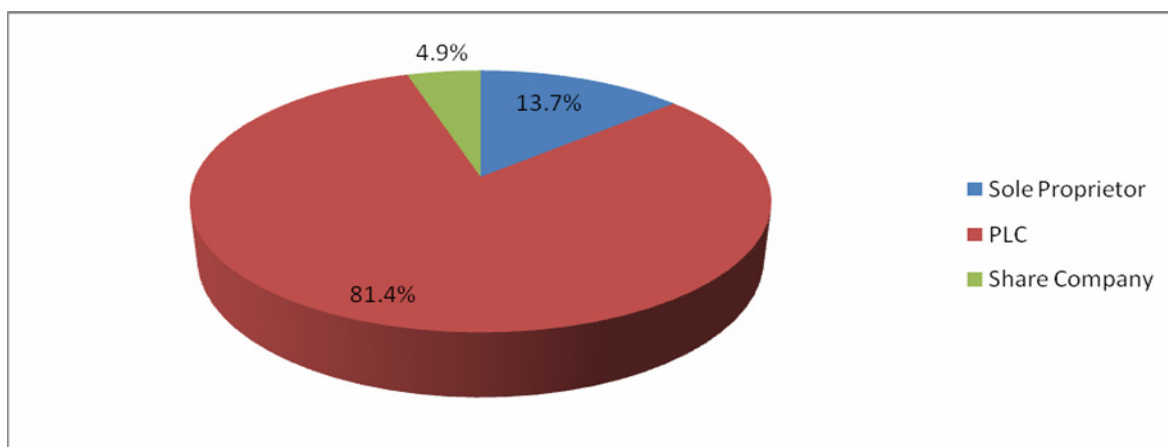


Source: Own Survey, November 2013

With regard to the length of operation of these companies in Ethiopia, most of them (60.3%) were in operation for over 5 years. The average year of companies in operation has been 4.3 years, which indicates that the companies could be able give adequate information on the challenges faced during establishment and operation of their companies in Ethiopia in relation to corruption.

Table 2. Foreign companies covered by the survey by year of establishment

| Company Established (year) | Frequency | 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 appears higher than the sample due to the fact that some are operating in more than one Region.

Table 3. Operational areas of foreign companies operating in Ethiopia

| 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 |
| Diredawa | 6 | 1.5 |
| Ben.-Gumuz | 6 | 1.5 |
| Gambela | 8 | 2.0 |
| Tigray | 18 | 4.4 |
| **Total** | **409** | **100.0** |

Source: Own Survey, November 2013

With regard to sectoral distribution of the companies the survey showed that about 43% are engaged in manufacturing and agro-processing while 16.6% engaged in services, 12.6% in construction and 11.7% in agriculture as depicted in table 4.

Table 4.  Sectoral distribution of the companies surveyed

| 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.  Where do you sell mainly your products?

| 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 to local market. A little over 6% of respondents export more than 80% of their products/services. Over 56.6% of respondents replied that they sell their products/services to government owned organizations as depicted in Fig. 3.

## Figure3. Selling of products/services to government bodies
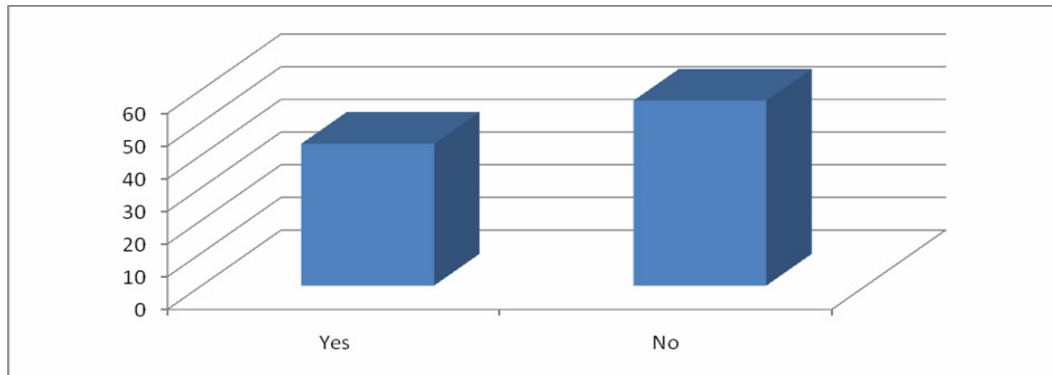


The majority (56%) of the companies are not dependent on government bodies for inputs other than power, telecom and water. In addition, almost half of them import raw materials for their companies' inputs (for details, see Figure 4 and Figure 5).

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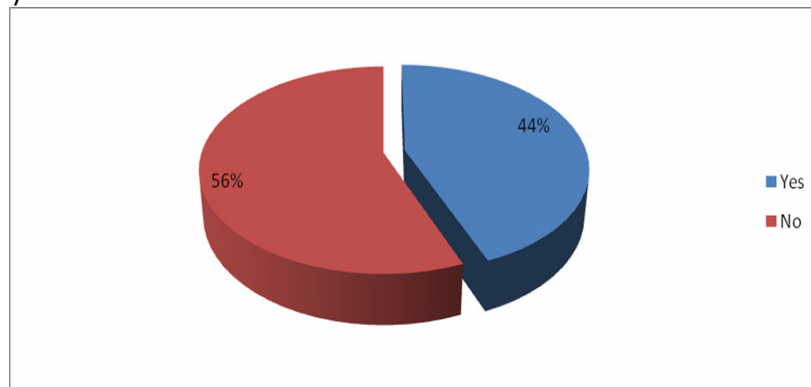


Figure 5. Proportion of Foreign Companies Importing raw materials
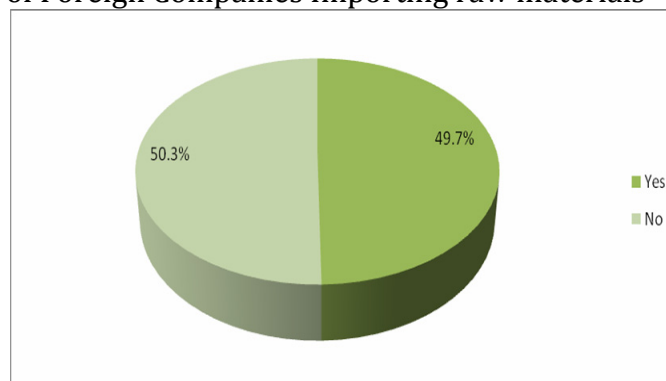
About 80% of the companies surveyed have plans to expand their investment in Ethiopia while only 4% have a plan to shrink. The rest 15.7%planned to operate at their current size.

Figure 6: Plan for expanding/shrinking investment in Ethiopia
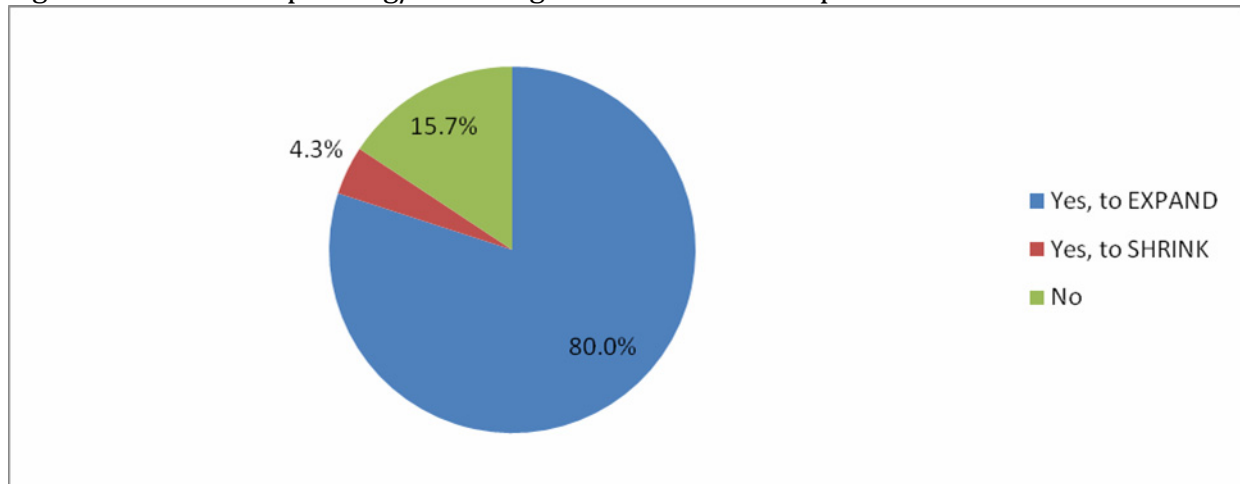


Source: Own Survey, November 2013

# *5.2 Rules and Regulation*

The questions under this section were related to respondents' opinion about rules and regulations of the country with respect to businesses in general and FDI in particular. During the survey sampled respondents were asked to report on the level of their agreement on 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 sampled 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*"
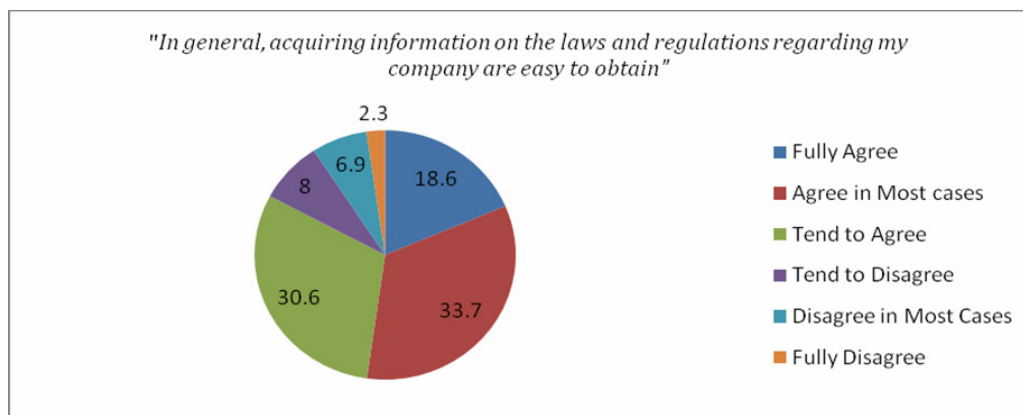


Similarly, sampled respondents were asked to give their opinion on the level of their agreement on the statement that:

"*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 response regarding the consistency and predictability of interpreting regulations is a little higher for the current period (77.7%) compared to the period three years back (72.5%). Particularly, for the current period 20.3% of the respondents fully agree, 27.7% agree in most cases, 29.7% tend to agree, 10.6% tend to disagree and 7.4% disagree in most cases and 4.3% reported that they fully disagree. For the period 3 years back, 9.1% of the 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: Perception of the sampled respondents on interpretation of regulations (%)

| Interpretation of regulations Affecting my company are CONSISTENT and PREDICTIBLE | 3 years back (%) | 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** |

Respondents were also requested to judge on a four point scale from 1 to 4 (no obstacle, minor obstacle, moderate obstacle, and major obstacle) how problematic are the 10 regulatory areas, namely; 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 company.  The proportion of the respondents that reported there is major obstacle among the indicated regulatory areas was the highest on foreign currency/exchange (26%) followed by land acquisition (23.4%) and customs/foreign trade (19.4%). Over 12% of the respondents reported there is major obstacle on tax regulations while this proportion was 11.7% for immigration/work permit, 9.7% for labor hiring/firing, 8.3% for quality and standards, 6.9% for business licensing, 4.6% for investment licensing, and 4% for environmental directives.

On the contrary, the proportion of the respondents that reported there is no obstacle was the highest on investment licensing (54%) followed by environment directives and quality and standards (36.6% each). Further, 33.7% of the respondents reported there is no obstacle on immigration/work permit while this proportion was 33.1% for business licensing, 22.3% for tax regulations, 20.9% for foreign currency/exchange, 18% for land acquisition and 16.9% for customs/foreign trade.

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%).

Table 8: Perception of the respondents on the difficulty of the 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 |

Sampled respondents were also requested to what extent they agree 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 reasonable party" comparing the current period with 3 years back.

The proportion of respondents that agree on the statement is by far higher than those that don't agree. For the current period, 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 in most cases, while 4.3% didn't respond. For the period 3 years back, 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, in most cases 2.9% fully disagree, and 12% didn't respond. This reveals that the proportion of respondents with affirmative response regarding the contract and property rights is higher for the current period (84.6%) as compared to the period three years back (76.6%).

Table 9: Summary of responses on the perception of the Ethiopian legal system comparing the current period with 3 years back

| 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 | 3 years back | 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 |
| didn't answer | 12.0 | 4.3 |
| **Total** | **100** | **100** |

Finally, sampled respondents were requested to express their perception regarding the country's legal framework in terms of its attractiveness for FDI rated as: very attractive, attractive, somehow attractive, not attractive and I don't know. Greater proportions of the respondents have affirmative responses. The data results indicated that 40.6% of the respondents reported that the country's legal framework is attractive, 11.4% reported very attractive and 32.6% reported somehow attractive while 12.9% reported not attractive and 2% reported don't know.

## *5.3 Bureaucratic Red Tape*

Respondents were requested to indicate the length of time required for registration process from beginning to end including document authentication, investment license, business license, etc. The results of the data analysis showed that the average number of days required is 7.8. Moreover, respondents were requested about their perception on the relative length of the time required for registration process during the current period as compared to the time when they registered their company. Accordingly about 41% of the respondents reported that it takes shorter time today while 23.1% reported it takes longer time and 33.1% reported don't know.

Data was collected on the perception of investors regarding government requirements that are considered as most difficult in operating business. Results of the data analysis showed that customs/foreign trade was indicated to be among the most difficult ones by 36.6% of the respondents, business licensing by 32.3% of the respondents, tax regulations by 28% of the respondents, foreign currency/exchange by 26.9% of the respondents, labour hiring/firing by 9.1% of the respondents, quality standards by 4.3% of the respondents, both construction standards and environmental directives by 3.7% of the respondents and others by 7.1% of the respondents.  These results are consistent with the findings of section "B" that identified customs/foreign trade, foreign currency/exchange and tax regulations are among the first four problematic regulatory areas for operating business in the country.
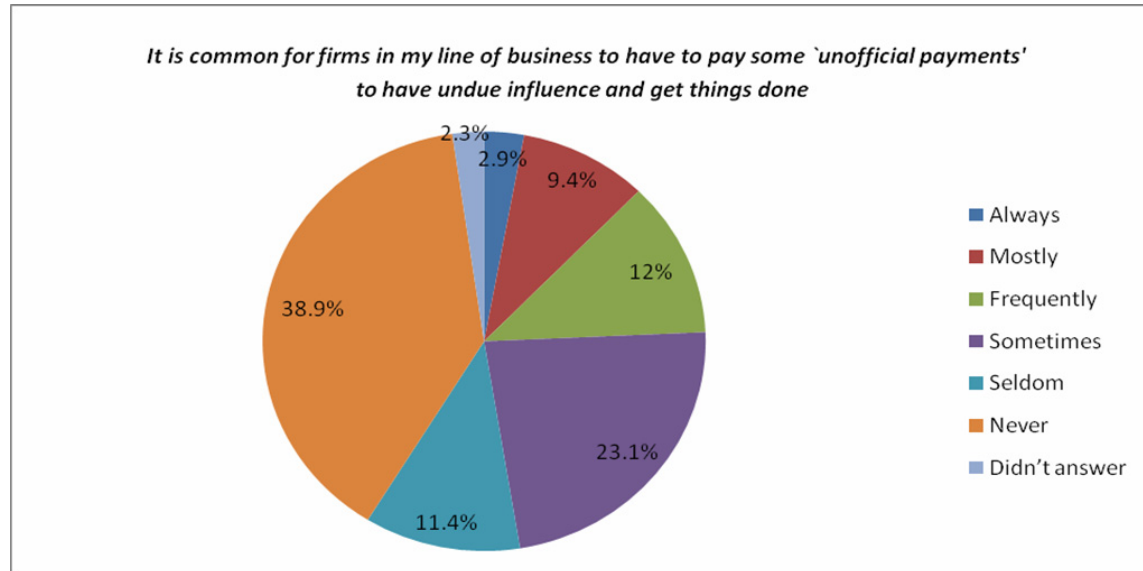
Sampled respondents were also requested to express their opinion on the statement that:

> "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".

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

Figure 8. Perception on relation of paying unofficial payment with getting things done



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

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

The data analysis results showed that 50% responded this is never true while only 1.4% responded this is always true (Figure 9).

Figure 9. Perception on relation of paying unofficial payment with getting things done
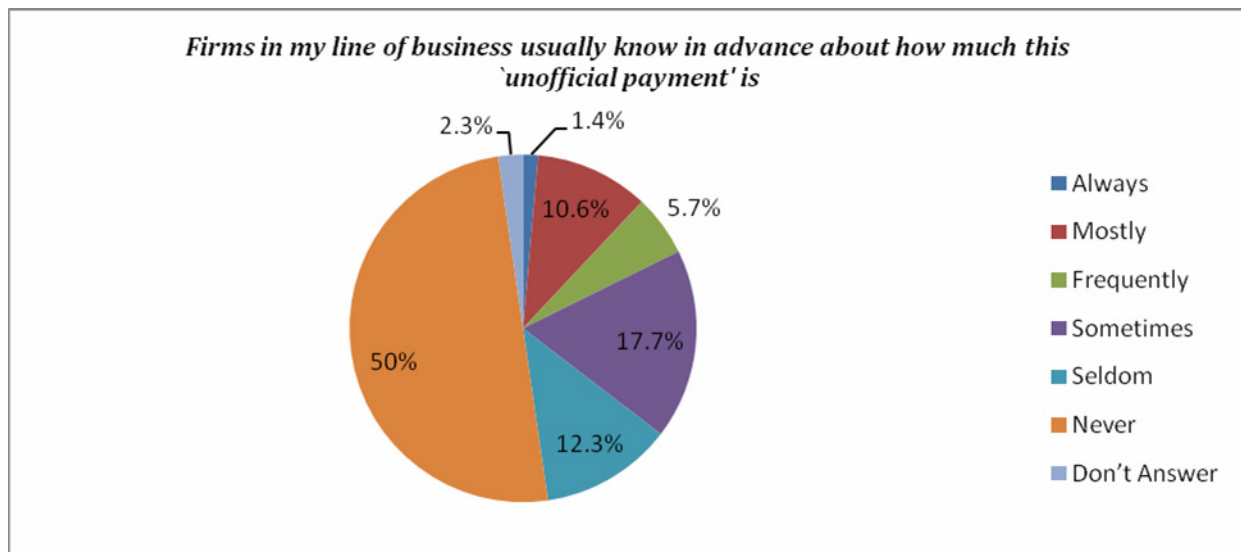
In a same way sampled respondents were requested about their opinion on the statement that

> "*if a firm pays the required unofficial payment the service is usually also delivered as agreed*".

Here too, greater proportion (36.9%) of the respondents responded that this is never true while the proportion of the respondents that responded this is true mostly, sometimes, seldom and frequently were 19.4%, 16.6%, 12.3% and 8% respectively (table 11).

Table 10: Perception on knowledge of amount of unofficial payments

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

Data on the mode of communication for initiating corruption was collected and out of the 350 sampled respondents 296 valid responses were obtained. Accordingly, hints provided by government agents were found the most common mode of communication that accounts for 63.9% of the respondents

Figure 10:  Common mode of communication for corruption
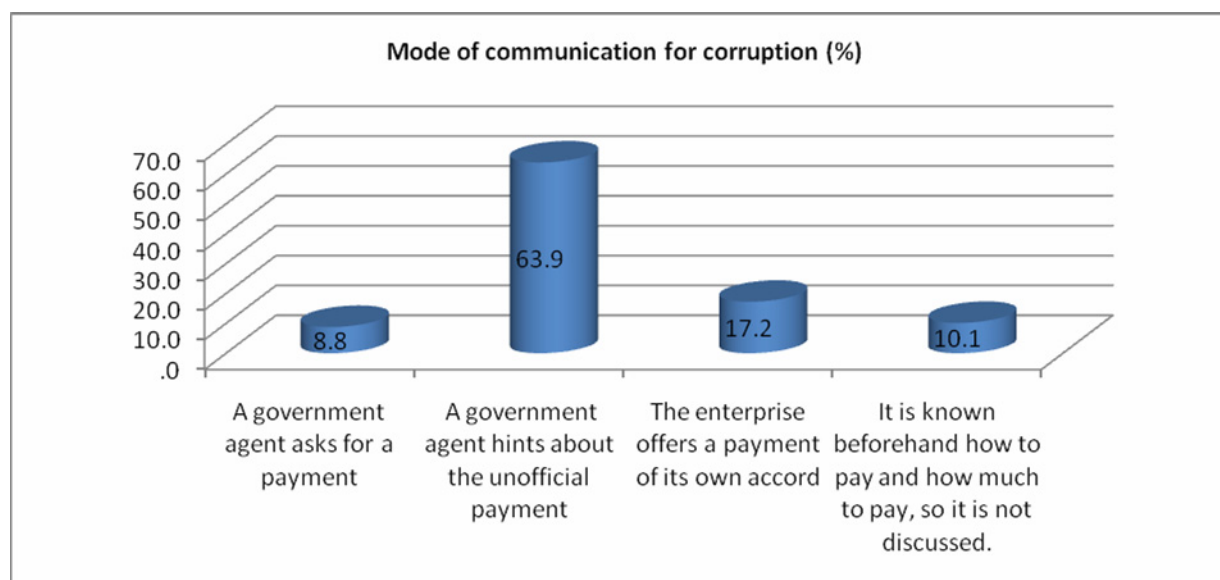
The sampled respondents were requested to respond how often it is true that if a government agent acts against the rules one can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments. Out of the total sampled respondents 337 of them gave valid responses and 26.1% responded mostly, 22.3% responded sometimes and 19.6% responded always (Figure 11).

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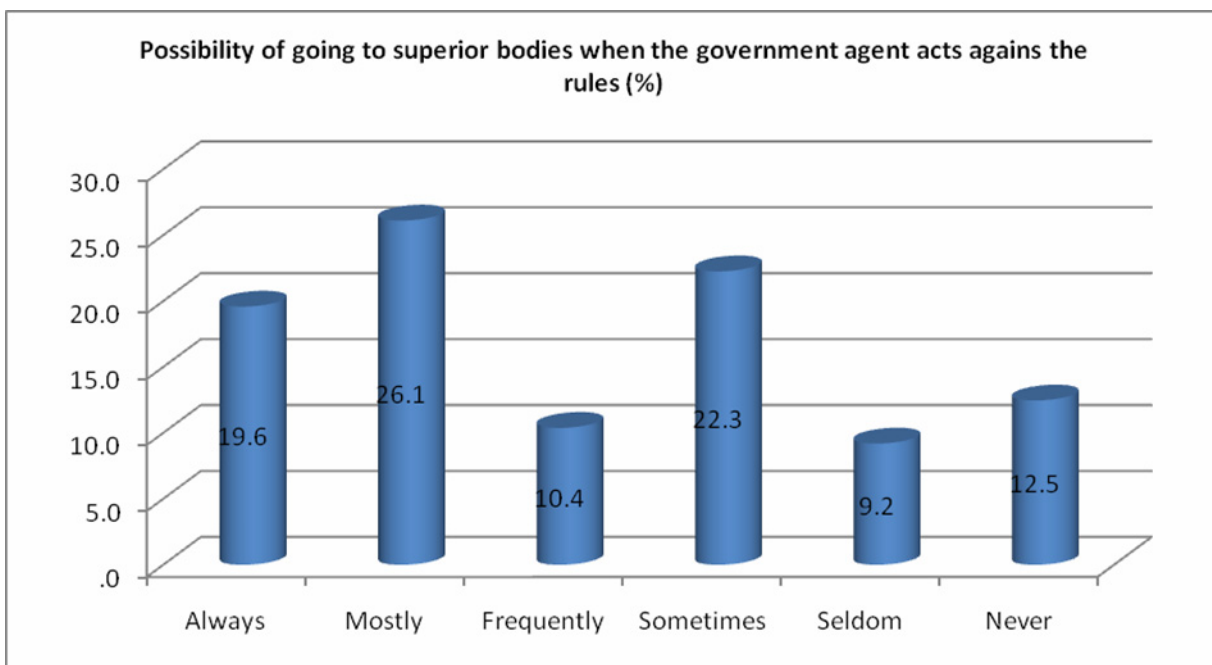


One of the issues raised during the survey was how frequently the foreign owned companies contacted (or sought the services of) about 15 key government agencies and their employees. Following this, they were asked if they had been requested or hinted for any unofficial payment to get the services from these agencies/employees and whether they paid or not any amount of money based on this request. The survey results revealed that EEPCo is the organization with the highest average number of foreign companies seeking its services. In fact, the data pattern shows that some companies had contacted EEPCo as much as 240 times while most of the respondents had to contact this agency about 12 times during the last 12 months. Ethiotelecom is the next agency that is contacted frequently with an average contact of about 10 times per year. The statistical mode, i.e., the number of contact mentioned more repeatedly by the respondents for EEPCOo, Ethiotelecom, the water/sewerage companies is 12 perhaps due to the fact that bills had to be paid monthly 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 for few of the respondents. The following table shows the details.

Table 11. Frequency of Contact of Foreign Companies and Government Agencies

| No. | Government Agencies/ Officials | % of Respondents | Average Contact With Agency | 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. | Gov. Company Selling inputs | 16.6 | 6.45 | 1 | 1 | 50 |
| 9. | Customs and trade license | 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 permit | 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 |

The response to the follow up question, i.e., whether they were asked for any unofficial payment also puts EEPCo employees as the frontrunners in this regard with an average of 10 bribe money requests per respondent. On the other hand, the traffic police are depicted as requesting most of the respondents for bribe money than any of the employees in the other institutions as confirmed by 16.6% of the respondents who reported a total count of 370 requests with an average of 6 bribe money demands per respondent. By the same token, the next agency is EEPCo whose staff asked about 6% of the respondents a total count of 213 times for bribe money. The Revenue and Customs Authority employees are also in the same line as confirmed by about 6% of the respondents who were asked as average twice for a total count of 54 times for customs/trade license and 49 times for tax inspection. Staff of the Federal/local police and employees involved in construction permit are next in line bothering 3.4% and 4% of the respondents, respectively. More detail on this is presented in the table below.

Table 12. Average number of times asked for bribe

| 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 payment to the employees in these institutions. The results reveal that employees in all agencies are being bribed albeit differences in the average amount of bribe money. Even though the traffic police is found by all measures to be the most corrupt as revealed by about 18% of the respondents, the most alarming cases are reported in the case of employees involved with Customs and trade license, Land Acquisition /Administration, Investment License Authorities, Tax Agency/ Inspectors and Government Procurement. The results reveal that employees in these agencies are collecting as average bribe money ranging from 5,000 to 7000 Birr. From the data one could also see that these employees can get paid a maximum amount of bribe money ranging from 20,000 to 50,000 Birr. The calculation of total sum of bribe money shows that customs people are the most corrupt by collecting during the last twelve months 121,660 Birr from the respondents, followed by employees working in approval of construction permit and as tax inspectors with a total bribe money payment amounting to Birr 43,400 and 41,900, respectively. On the other hand, the data pattern as revealed by the statistical mode as well as the minimum and maximum bribe payments suggests that what is more ubiquitous is petty corruption and not grand corruption as such.

Table 13. Percentage of respondents who have paid

| 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 |

# 5.4 Ease of Doing Business and Corrupt Practices

The answer given to the following question helps to best characterize the difference of perceptions by respondents.

> *To avoid having to visit the police office and pay a full fine, a traffic offender offered to pay Birr 300 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: % of respondents with differing perception on corruption
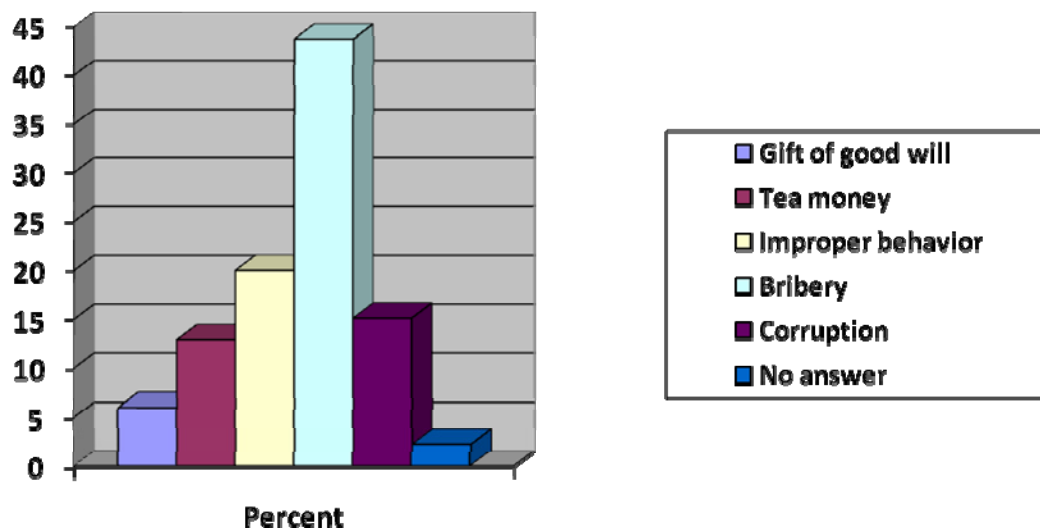


Similarly the answer given to the case stated below is another indicator for variations in the perception of corruption.
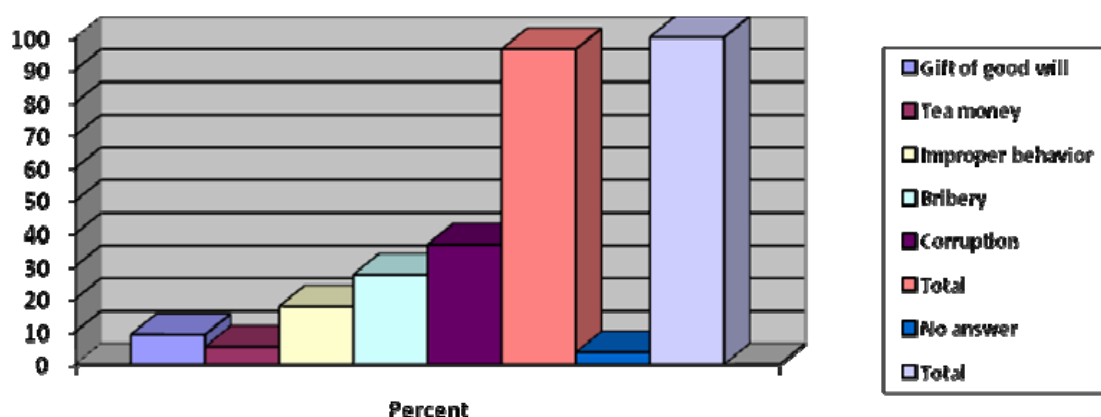
> *"Someone visits a government office and receives good assistance from the officer in charge. When the matter is concluded, he offers Birr10,000, which the official accepted."*

Accordingly, 36.6% perceived it as corruption and 27.4% as bribery.

Figure 13. Differences in perception of respondents on corruption



The above questions are further elaborated as follows. One should note that such survey questions can be interpreted 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 to cultural grounds of the home countries. Accordingly, a 300 Birr paid to a traffic police is regarded neither as a bribe nor a corruption relatively by high proportion of Pakistani (61.5%), German (55.6%), and Chinese (48.9%) respondents. Similarly, the offer of 10,000 Birr to a government officer is considered a corruption by a relatively small proportion of Pakistani (8.3%), Sudanese (23.1%), American-Ethiopian (28.6%), American (30.8%), Chinese (38.3%) and Dutch (35.7%) nationalities as compared to investors from other countries.

Table 14: Perception on offer of Birr 300 to a police officer by nationality for selected countries

| 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: Perception on offer of Birr 10,000 to government officer by nationality for selected countries

| Citizenship | Gift of good will | Tea money | Improper behavior | Bribery | Corruption |
|---|---|---|---|---|---|
| American | 3.8 | 7.7 | 26.9 | 30.8 | 30.8 |
| American Ethiopia | 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 |
| 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 |

The respondents of foreign companies covered by this survey were asked about the status of corruption in Ethiopia to capture their views on whether they feel that overall corruption levels have increased or decreased in the last three years. The answer will also enable to identify key institutions where corruption is perceived to be widely practiced. The answer is summarized in table 16 below.

Table 16. 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 | Don'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 LC | 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 |

| Corruption in the last 3 years | Changes in the status | | | | |
|---|---|---|---|---|---|
| | Less | Same | Greater | Don't know | Don't answer |
| 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 |

The majority of respondents do not generally know whether the level of corruption has been changed or remained the same. There are also significant proportions of people who responded as corruption has become less, remained the same and increased in the last three years as shown in table 17.

This finding is in line with the study conducted by Transparency International in 2011 regarding the level of corruption in the past three years, which indicated that 34% of the respondents perceived it has increased, 26% stated remained the same and 41% stated it has decreased.

Comparing with the situation three years ago the stated areas that corruption increased were customs/imports (26.3%), acquiring land, (25.1%), securing foreign currency (22.3%), deal with taxes and tax collection and getting connected to public services like Electricity and  Telecom (20.3%).

With regard to the sale of products/services to the State Sector by foreign companies operating in Ethiopia over the last 2 years the majority of the companies surveyed (66%) do not sell their products to the state sector. Either they export their products/services or sell to consumers other than the state. Only about 29% sell to the state sector as depicted in Figure 14.

Figure 14 : Sale of products/services to the State Sector by foreign companies operating in Ethiopia
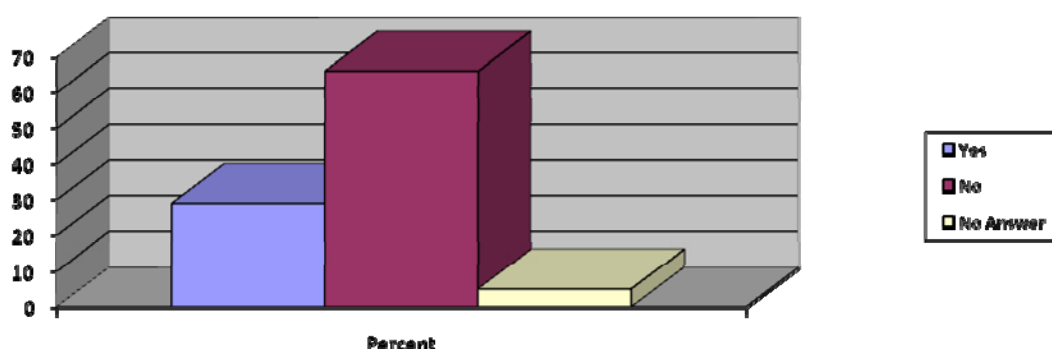


One of the areas in which corruption commonly observed is procurement. To assess the perceptions of the respondents on government's clear and efficient handling of procurement they were asked to give their opinion on the following statement.

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

Accordingly, 20.9% and 16.3% of respondents answered mostly and frequently true respectively while about 27% responded sometimes true and about 21% answered it is not true. Only 7.4% responded it is always true.

Figure 15. Government's clear and efficient handling of procurement
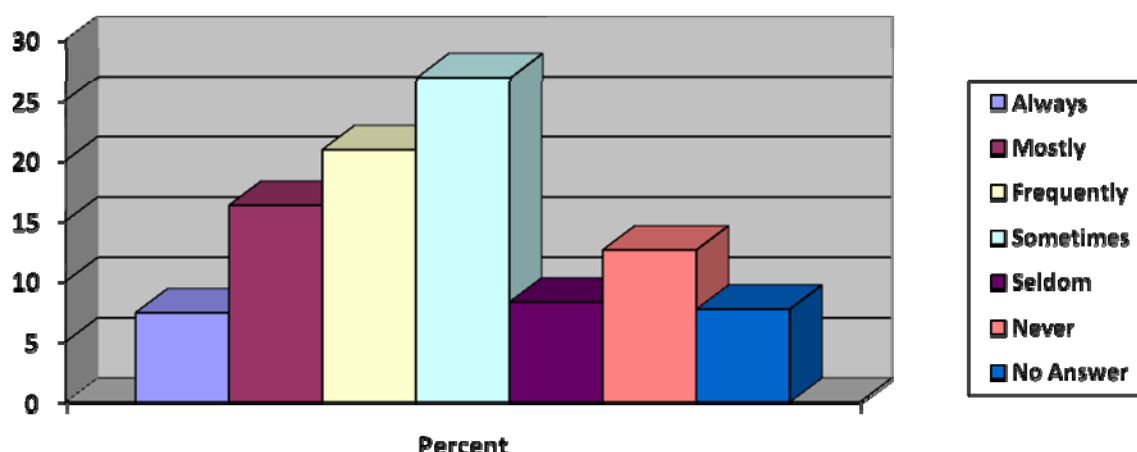


Table 17. Ease or difficulty of doing business in Ethiopia by major factors

| 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 |

The majority (an average of 71.5%) of respondents of companies surveyed indicated difficulty of doing business in the country. The major factors that make doing business difficult is existence of corrupt practices (76.6%) followed by too complex procurement process (72.9%), frequent and high unofficial payments (71.1%) and too much competition (65.2%).

Further, the degree of difficulty for doing business in Ethiopia is responded as major, moderate and minor problem by 12.9%, 20.7% and 10% of the respondents, respectively.

Table 18: % of respondents on the proportion of procurement contracts that involve any unofficial payment

| Proportion of contracts that involve unofficial payment in % | Percent of Responses |
|---|---|
| Upto 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 |
| | 100.0 |

From the total 350 respondents 20% have given their opinion regarding government procurement contracts that involve unofficial payment. Of these respondents, the majority (about 80%) of the respondents said government contracts involve unofficial payment ranging from 2% to 50% while few of them (19.7%) believe over 50% of contracts are awarded by involving some unofficial payment.

Table 19: % of respondents on the proportion of contract values offered as unofficial payment to secure the contract

| Perception on unofficial payment out of total contract Price | Percent of Responses |
|---|---|
| Upto 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 |

Similarly out of the 56 respondents that gave valid responses, over 57.1% replied unofficial payments out of total contractual prices can range from 1% to 10% . About 7% of the respondents are of the opinion that 11-25% of the contract values are required to be paid in order to secure any contract while 21.4% of these respondents believed that it is in the range of 26 to 50%.

One of the areas covered by this survey is asking respondents on the motives behind corrupt practices. The result is summarized in table 20.

Table 20. Main Reasons for justifying corrupt practices/actions

| Reasons for justifying corrupt action | Count |
|---|---|
| There is no other way to get things done | 76 |
| To avoid punishment/sanctions | 117 |
| To avoid higher official payments | 63 |
| To speed up the processes/procedures | 208 |
| To be treated (served) appropriately | 66 |
| To get preferential treatment/privileges | 77 |
| To have alternative source of income | 87 |
| The practice of obligatory (illegal) "payments" to supervisors | 27 |
| Other | 4 |
| Don't know | 30 |
| Refused | 2 |

According to the respondents the three most common reasons people justify their corrupt actions are speeding up the processes/procedures, avoiding punishment/sanctions and to have alternative source of income. Significant number of respondents also viewed that people justify their corrupt actions as to get preferential treatment, there is no other way to get things done and to be treated/served appropriately.

Figure 16: Certainty of getting services or resolving a problem by giving bribe to government employees
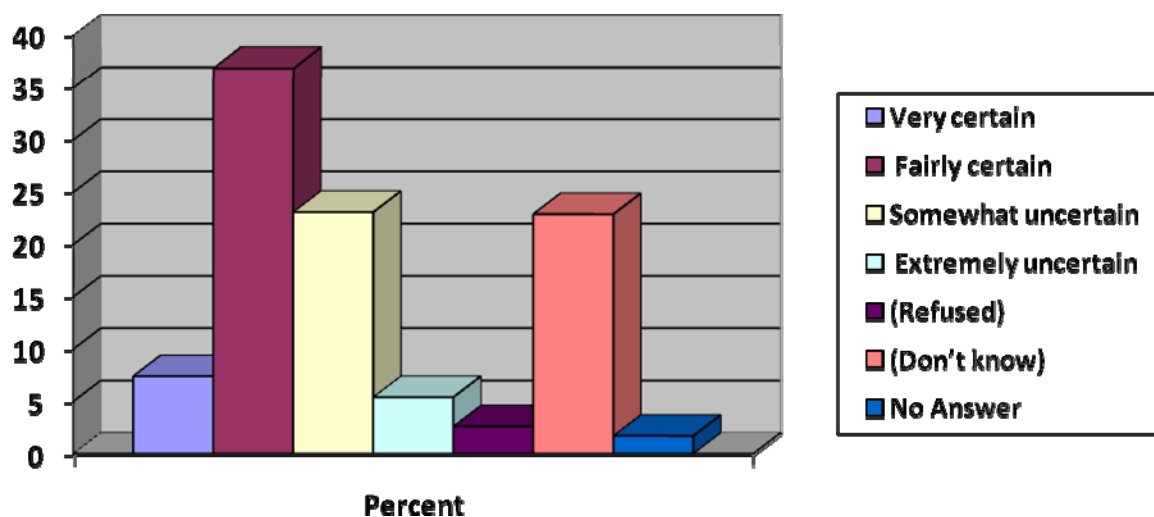


Regarding respondents' certainty of getting services or resolving a problem by giving bribe to government officials/employees, the survey result indicated that 67.4% are certain that the services will be given or problems resolved. Only 5.4% are extremely uncertain that

giving bribe to government officials/employees will resolve the problem or guarantee getting the service.

The survey also asked opinions of respondents on how they react when asked to give a bribe for an exchange of favour or service. They were then asked if they had paid a bribe or not. Furthermore, those that had paid a bribe were asked why they had paid the bribe, and those who have not paid why they had not. The survey result is summarized as depicted in Figure 15.

Figure 17: Reaction of respondents when asked to give a bribe
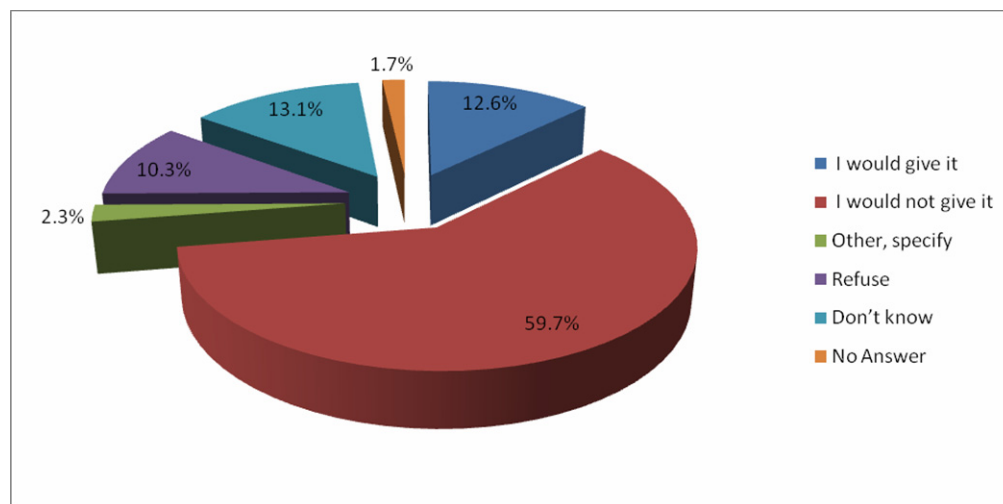


From the total respondents about 70% replied they will not give and even refuse to the request to give a bribe to get a service or resolve a problem while 12.6% will give a bribe when asked. The respondents who are willing to give a bribe justify their actions as to speed up the process (6.6%) and because there is no other way they can obtain the services or resolve the problem (5.4%).

Table 21. Reasons for giving bribe when asked to give

| 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 replied "I will not give it" justify their reaction as: it is unacceptable for them (40.3%) and opt to resolve the issue through legal means (15.7%).

Table 22. Reasons for not giving bribe money

| 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** |

Regarding getting information from acquaintances or others on corruption, about 30% of respondents have heard of foreign firms paying bribes to obtain a public service in the last 12 months.

Figure18. % of respondents of who heard of paying bribes by foreign investors to get a public service during the past 12 months
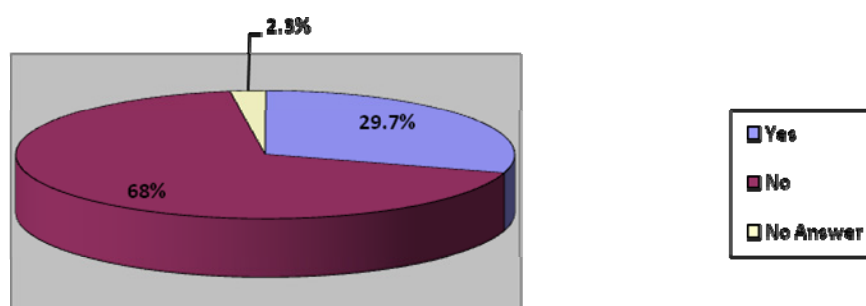


The sampled respondents were requested to express their opinion on:

> *Whenever you have contacted officials in the public sector, how often did the following 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 21.

Table 23. Responses for 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 |
| You use personal connections to get preferential treatment | 2.0 | 8.3 | 19.1 | 44.3 | 9.7 | 13.1 | 3.4 |

The survey result indicated that 8.6% of the respondents replied officials often directly demand cash, gift or favour whenever they are contacted and 26% of interviewees responded officials don't directly demand but hints them for cash, gift or favour. On the other hand, 20.3% respondents give cash, a gift or favour without being directly or indirectly asked by the officials. It was highlighted under section "C" that hints by government agents and offers by foreign companies based on their own accord are the top two common modes of communication when unofficial payments are involved which is in conformity with the above finding.

During the survey the perception of the respondents regarding reasons for not reporting corruption to the relevant authorities has been assessed. From analysis of the survey result the top 3 reasons emerged are: due to lack of evidence, lack of actions against those that commit corruption and lack of clarity about corruption proceedings, which is responded by 46.3%, 42.9% and 41.7% of the respondents, respectively (See Table 24).

Table 24: Perception of the sampled respondents 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 |
|---|---|---|---|---|---|
| Those who report corruption will be subject to retaliation | 38 | 22.3 | 33.1 | 3.1 | 3.4 |
| No actions will be taken even if corruption is reported. | 42.9 | 20.3 | 32.6 | 2 | 2.3 |
| It is not worth reporting corruption if I am not personally hurt. | 19.1 | 50.3 | 23.4 | 3.7 | 3.4 |
| Most people who commit corruption only do so because of economic hardship. | 26 | 38.3 | 28.9 | 3.7 | 3.1 |
| The society does not reward those who report corruption. | 37.4 | 22.9 | 33.4 | 2.6 | 3.7 |
| No Whistle blower protection | 39.7 | 18.9 | 34.6 | 2.9 | 4 |
| Lack of evidence to prove the corrupt practices | 46.3 | 21.1 | 27.4 | 2.9 | 2.3 |
| Lack of clarity about corruption proceedings | 41.7 | 23.1 | 29.1 | 2.3 | 3.7 |
| Don't know the relevant institution responsible for corruption cases. | 20.3 | 42.3 | 28.9 | 4.9 | 3.7 |

Owing to the above perception, during the last 12 months 6.3% of the respondents or anyone in their company reported a corrupt act to a public official, 92.3% of the respondents responded that they didn't report during that period while the rest 1.4% didn't respond (Figure 19).
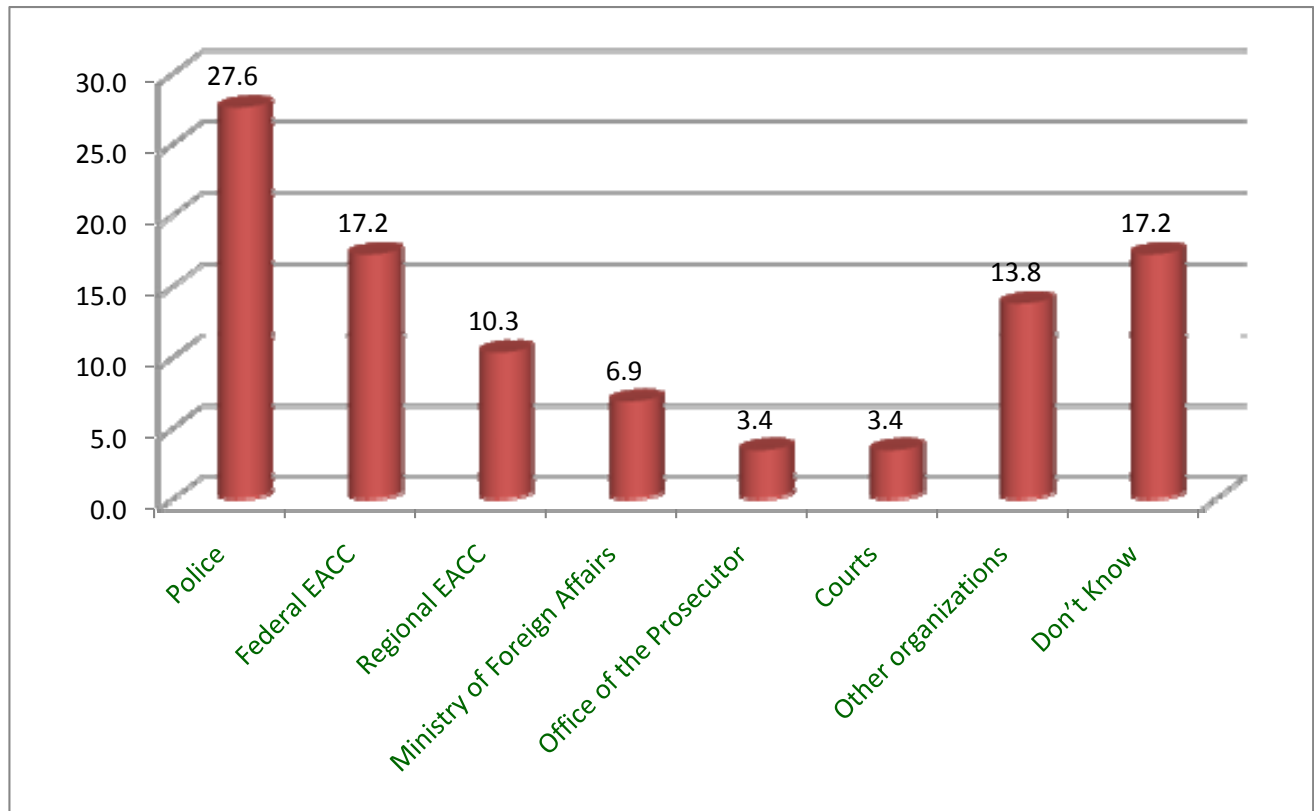
Figure 19. Proportion of the who reported corrupt acts over the last 12 months
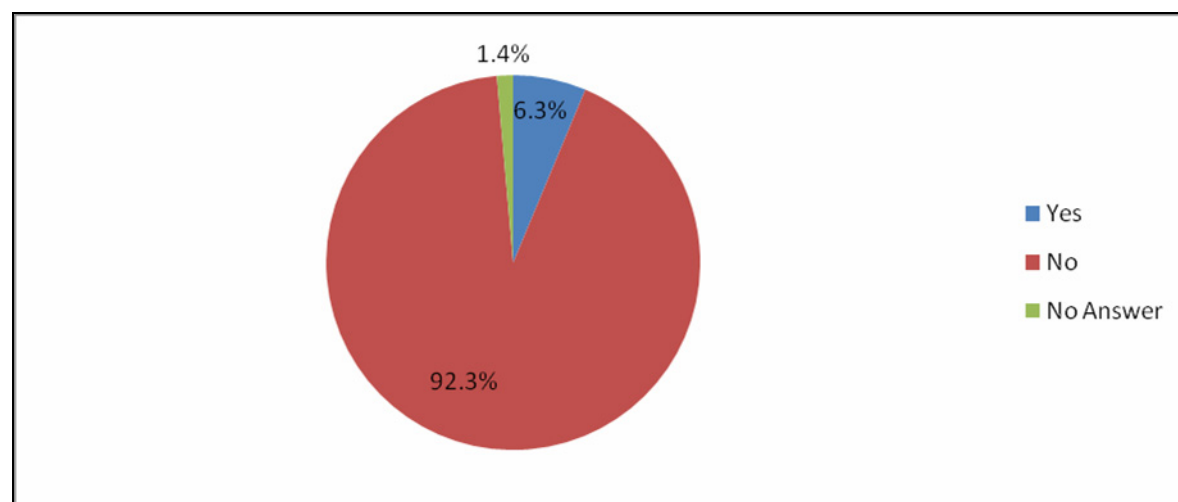
Most of the corrupt acts are reported to the police. As shown in Figure 20, the organizations to which most of the report or compliant was forwarded were the Police, Federal EACC and Regional EACC. Few of the respondents have also reported corruption cases to the Ministry of Foreign Affairs, the Office of the prosecutor and Courts. Other organization that have received corruption reports include the Revenue and Customs Authority, EEPCo and the traffic police.

Figure 25. Organization to which corruption act was reported (%)



Of those who reported corrupt acts, greater proportions perceive that the process of corruption reporting is easy. Specifically, 25.8% responded that the process is somewhat easy, 12.9% responded very easy, 9.7% responded easy while 16.1% responded that the process is extremely difficult.

Figure 21: Perception on ease of corruption reporting (%)
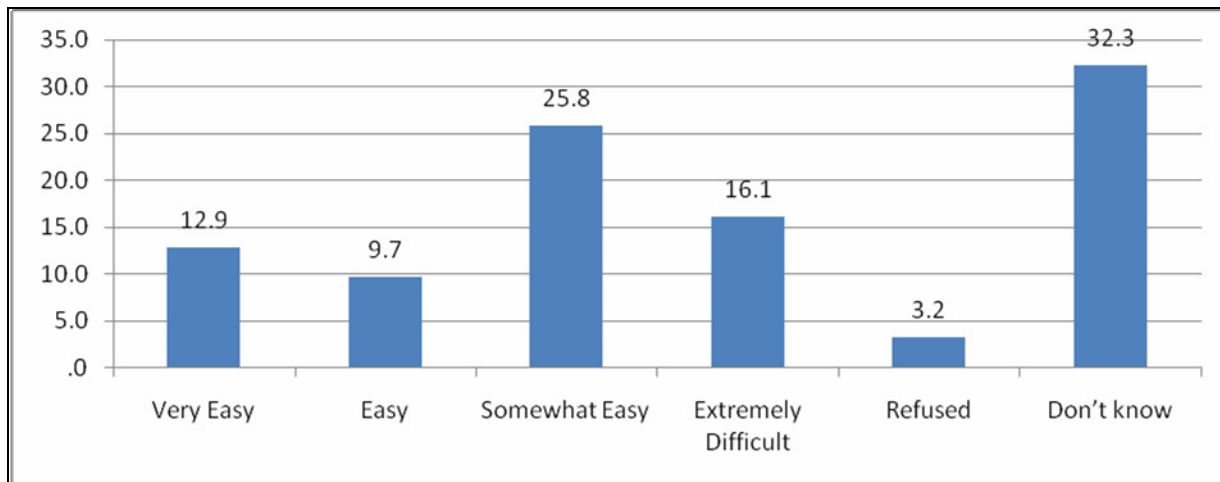


Most of the respondents that report corrupt practices perceived that they are not protected from potential harassment. Accordingly, on a statement *"do you agree or disagree that as a reporter of corruption, you felt protected from potential harassment?"* aggregately about 42% responded somewhat disagree and strongly disagree while 32.3% responded somewhat agree.

Figure 22: Perception on protection of corrupt act reporters from potential harassment (%)
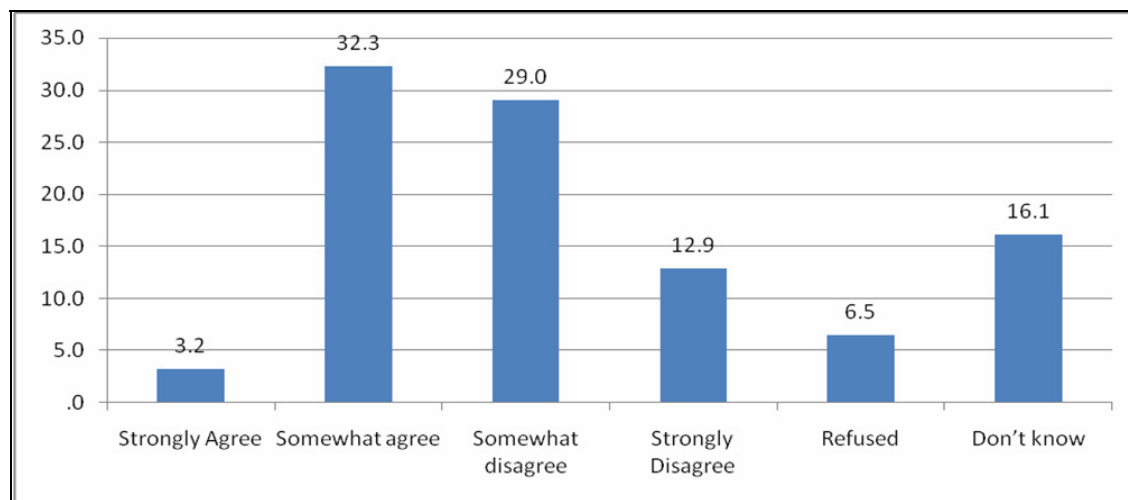


Although the majority of the respondents who report corrupt practices stated that they get satisfied with the feedback they are getting as a result of their corruption report, still there are significant numbers of corruption reporters that are not satisfied with the feedback they are getting. For the question forwarded to rate level of satisfaction with the feedback they received as a result of their corruption report; 21.9% indicated somewhat satisfied, 15.6% very satisfied, 15.6% strongly dissatisfied, and 12.5% somewhat dissatisfied (Figure 23).

Figure 23: **Level of satisfaction with the feedback received as a result of corruption reporting (%)**
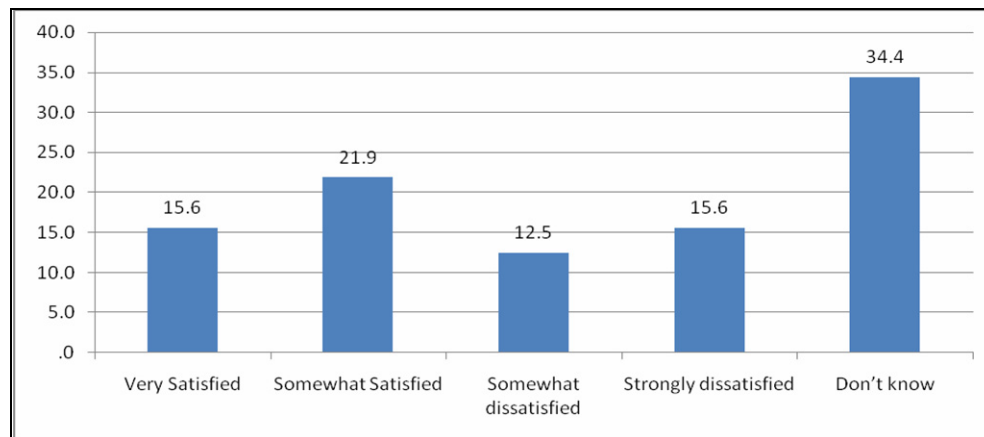


Regarding awareness on corruption measures, the great majority of respondents responded that they are aware of anti-corruption measures being taken by the Government of Ethiopia. As shown in Figure 22, 76.9% of the respondents are aware of the anti-corruption measures while 21.4% are not aware of any anti-corruption measures, which imply that there is still a need to carryout awareness raising interventions by the government to bridge the gap.

Figure 24: Proportion of respondents that are aware on government anti-corruption measures
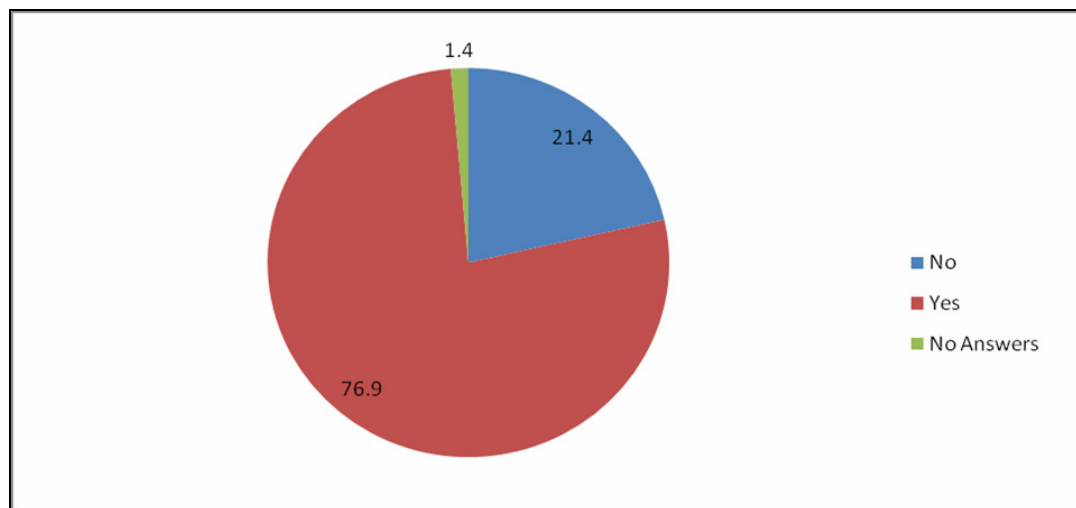


Sampled respondents were requested regarding their perception on the government's anti-corruption efforts in the country. The data analysis results revealed that the great majority of respondents perceived the government's effort is effective. As shown in Figure 23, 38.6% of the respondents stated that the efforts are somewhat effective, 7.4% stated very effective, 21.7% not very effective, and only 5.1% reported not effective.

Figure 25: Perception on effectiveness of the Government's Anti-corruption efforts (%)
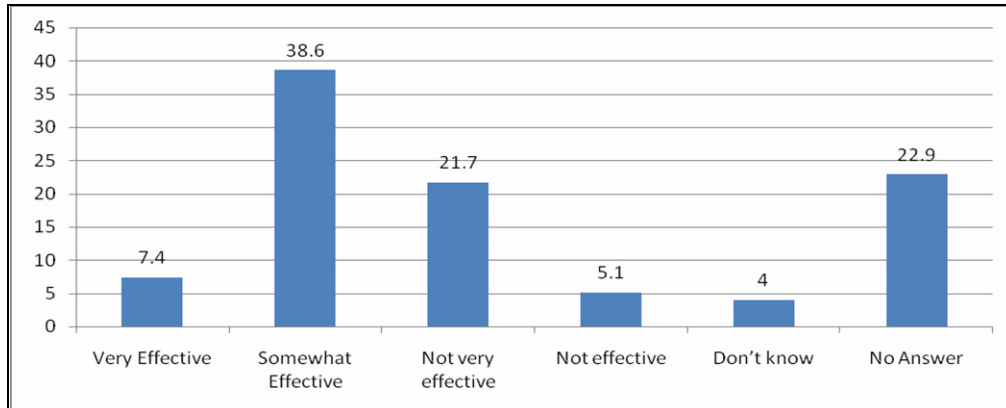


Similarly, data have been collected and analyzed on the perceptions of the respondents regarding the government's commitment and will to combat corruption. Of the total respondents; 49.7% somewhat agree that the government has a "sincere commitment and will to combat corruption" and 21.4% strongly agree. On the other hand, 2.9% of the respondents strongly disagree with the statement and another 17.4% somewhat disagree.

Figure 26: Perception on commitment of the government to combat corruption (%)
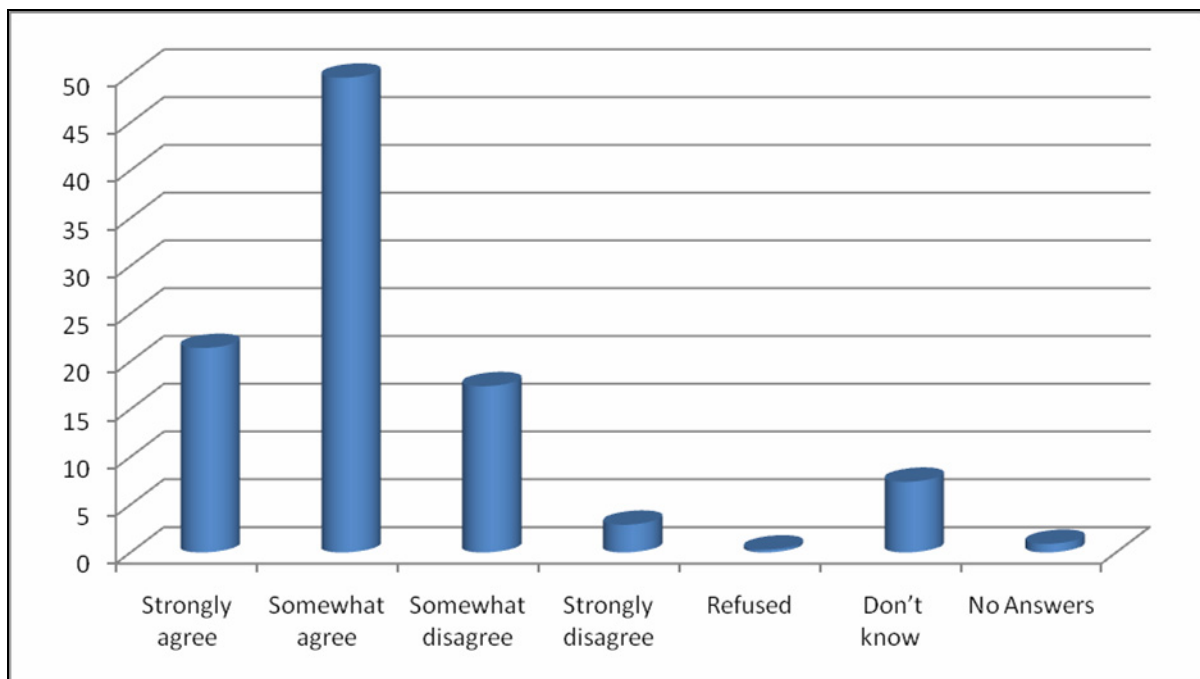


The respondents were requested to compare the status of corruption in Ethiopia with respect to similar developing countries and the data analysis results indicated that 54.6% of the respondents perceived that it is lesser, 26% it is similar and 14% it is bigger (Figure 27).

Figure 27: Perception on the status of corruption (%)
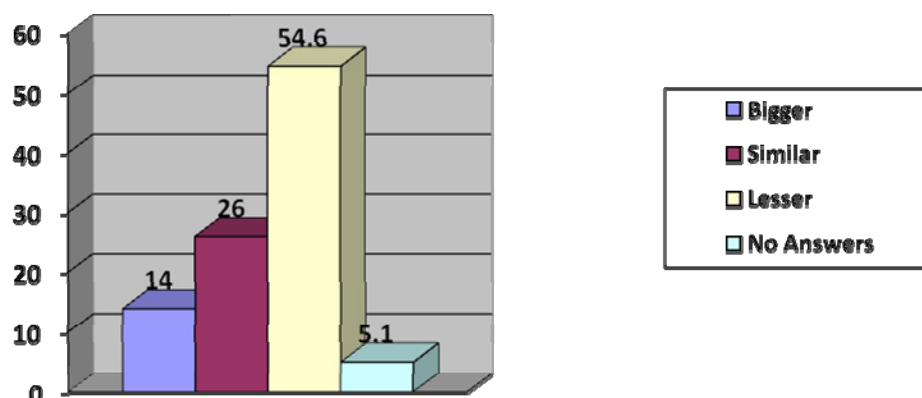


During the survey respondents were requested to indicate which information sources do they base their assessment of the level of corruption in the country. As per the data results personal experience (26.6%), talk with friends and acquaintances (23.1%), talk with relatives or family (17.1%) and information provided by the media (14.9%) were indicated to be the major sources.

Table 25: Information sources to base respondents' assessment 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 relatives or family | 17.1 |
| Talk with friends and acquaintances | 23.1 |
| Information about corruption given by Organizations (corruption awareness) | 8 |
| Information provided by the media (TV, radio, newspapers, internet, etc...) | 14.9 |
| other | 0.3 |
| Don't know | 4.3 |
| Refused | 0.9 |
| No Answers | 4.9 |
| **Total** | **100** |

Although the majority of the sampled respondents (68%) responded that they are aware of the existence of the Federal and Regional level anti-corruption commissions, sizeable proportion of the respondents (26.6%) do not know this fact. Lack of information about the relevant institutions responsible for corruption cases is thus one of the hindrances for not reporting corruption and thus this needs to be addressed.

Figure 28: Awareness on the existence of Federal and Regional Anti-Corruption Commissions (%)
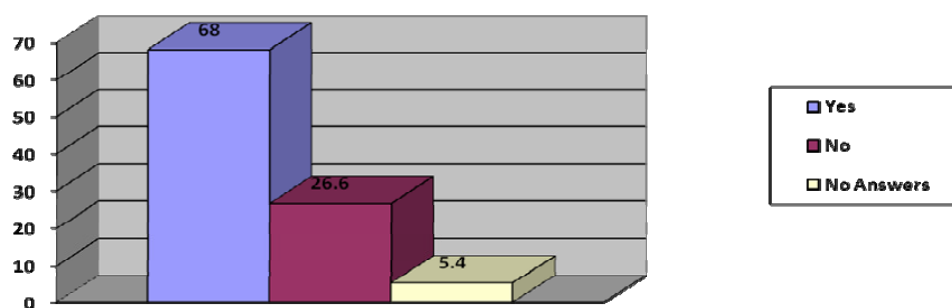


Moreover, as shown in Table 24, there is also a gap on information about foreign investors' rights/obligation in the area of corruption, anticorruption legislation and institutions where one may complain about officials' corrupt behavior. These call for appropriate awareness raising interventions as well as the required assistance by the federal or regional anti-corruption commissions. Moreover, the respondents seek assistance from the Federal and Regional anti-corruption commissions with regard to rights/obligations of foreign investors (19.2%), anti-corruption legislation (17.7%) and institutions they may complain about officials' corrupt behavior (15.8%). In addition, 11.1% need free legal advice to formulate their corruption complaints, 8.6% seek assistance on free legal support for collecting information and evidence related to corruption cases and 10.8% anti-corruption awareness activities.

Table 26: Types of assistance foreign investors are seeking from 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 |
| 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 |
| Anticorruption awareness activities | 10.8 |
| Anticorruption education activities | 7.7 |
| If other, please specify | 0.4 |
| Don't know | 0.8 |

Data were also collected on the opinions of the sampled foreign investors on possible measures that they can personally do to reduce corruption. The data analysis outputs revealed that the first 5 top measures proposed are abstain from paying bribes for public services (24.1%), refuse to make favors to officials or to their relatives related with investors' job (14.8%), report corrupt officials behavior to competent authorities (13.6%), participate in awareness campaigns against corruption (12.2%), and report corruption in the press (11.5%).

**Table 27: Measures proposed by foreign investors to reduce corruption**

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

The sampled respondents were requested to mention the three most corrupt service providing sectors in a rank order. The data analysis results showed that among the service providers identified as the first most corrupt 18.9% of the respondents responded Ethiopian Revenues & Customs Authority, 8.3% responded Transport Authority, 7.4% responded land administration, 6.9% responded tax regulation, and 6.5% responded ELEPA (EEPCO). These findings are consistent with the discussion that was presented previously under this section regarding in comparison three years back the areas that corruption increased are found to be customs/imports, acquiring land, securing foreign currency, deal with taxes and tax collection and getting connected to public services like Electricity and Telecom.

Table 28: Proportion of respondents and sectors/service identified as the first most corrupt

| Sectors/service providers | Percent |
|---|---|
| Banks | 1.7 |
| Business Licensing | 0.9 |
| Construction Permit Office | 3.7 |
| Courts | 1.1 |
| EEPCO | 8.3 |
| ETC | 1.7 |
| Ethiopian revenues & customs Authority | 18.9 |
| Foreign Currency Exchange | 0.3 |
| Investment Agency | 2.9 |
| Land Administrations | 7.4 |
| Ministry of Mining | 0.3 |
| Police Authority | 1.7 |
| Procurement Agency | 3.1 |
| Revenue & Customs | 2.9 |
| Road Authority | 0.9 |
| Sub City Administration | 4.0 |
| Tax Regulation | 6.9 |
| Trade Authority | 2.3 |
| Transport Authority | 8.3 |
| Urban Development | 0.3 |
| Water Authority | 0.6 |
| Woreda Officers | 2.0 |
| **Total** | **100** |

# 5.5 General Comments of Respondents

During the survey the views and recommendations of the respondents have been captured focusing on increasing FDI, combating corruption and other general remarks. The summary of the recommendations given by the respondents is presented hereunder.

The respondents have shared their views on what the Ethiopian Government should do to Increase the flow of FDI. In line with this, the response rate was over 90% and the main recommendations in this regard can be summarized as follows:

   ☑ Work permit norms for essential foreign employees assigned in key positions should be eased.

- ☑ Reduce bureaucratic red tape in all relevant government agencies by rationalizing work processes
- ☑ Agencies involved with foreign investors should have a more synchronized work relationship. In fact, many respondents have suggested the practice of "one window shopping" for licensing, customs clearing, land acquisition, getting electric power & other utilities, etc.
- ☑ An Annual or Bi-annual consultation forum between the Ethiopian Government and all foreign investors would assist to remove many of the bottlenecks faced
- ☑ Adopt best international practices by imitating exemplary countries such as Malaysia, Dubai, Hong, Kong, Singapore by adopting fair, smooth and soft regulations to attract foreign investors. This is what the abovementioned countries did to get sky rocketed from very humble beginnings.
- ☑ Make easier the access to bank loans
- ☑ Do not change regulations so often and if you do so all foreign companies should be communicated on time.
- ☑ Government Agencies that deal with FDI should have staff that is qualified for the job, trained properly and having decent salary as well as a promise of promotion especially if they are involved in sensitive decision making areas.
- ☑ The process of Business license renewal is tedious for investors. It is like opening the business every year.
- ☑ Strengthening the work relationship of Federal and Regional Agencies to have a smooth flow of investment
- ☑ Provision of long tax breaks and banning foreign currency restrictions to repatriate profits
- ☑ Improve infrastructure such telecom, transport, etc. Currently, to do internet based business in Ethiopia is practically impossible due to the problems of the telecom company.
- ☑ Use international media such as the BBC, CNN, Al-Jazera to attract FDI. Advertise the good things that Ethiopia has.
- ☑ Even though the country is preparing for Entry into WTO, following WTO-like procedure would allow attracting more FDI.

The survey respondents have also been asked to give their general recommendations to the Ethiopian government to effectively combat corruption. Accordingly they forwarded the following recommendations:

- ☑ Focus on attitudinal change by all concerned towards combating corruption at all levels through continuous awareness creation and provide adequate sensitization and awareness for the business community on their rights and obligations
- ☑ Streamlining the duties and responsibilities of officials and experts
- ☑ Enforcing accountability and transparency at all levels
- ☑ Taking appropriate and timely measures on persons practicing corruption and announcing the measures publicly.
- ☑ Strengthening internal control system of government at all levels.
- ☑ Improving the salary and benefits of civil servants.

☑ Including corruption in the education system/curriculum.
☑ Strengthen the media towards combating corruption.
☑ Encouraging and rewarding people who combat corruption and give them adequate protection against vengeance.
☑ Improving efficiency of service delivery by making rules and procedures clear, short and straight forward for foreign investors and the public, automating all government offices and carrying out routine checks, making most of the requirements to be completed on line, improving the working environment for the business community/private sector; and working on human skill development.
☑ Undertaking experience sharing from other countries.
☑ Reducing poverty in general and controlling inflation in particular.

They were finally asked about any other comments and recommendations and the summary of the responses are presented below.

☑ In some developing economies bureaucrats receive wages that are so low that may lead to corrupt behavior. Therefore, the government should work hard to alleviate poverty and increase wages.
☑ The government needs to discuss with foreign investors to find solutions in combating petty and grand corruption
☑ There is need to make periodical assessments of the circumstances that foreign investors are facing to provide appropriate and timely solutions
☑ There is need to assess the problems faced with regard to transit and custom to provide appropriate solutions
☑ It is good to privatize some key sectors such as TELECOM to allow competition and hence improve the services so as to allow FDI
☑ There is need to raise awareness of the public on the government efforts and measures to combat corruption and the on-going anti-corruption activities by the government need to be strengthened
☑ The government needs to be more aggressive to show investment opportunities that the country has
☑ The legislation system, the rules and regulations set by the country's constitution are more supportive than the implementation
☑ Small and minor mistakes in business should be handled smoothly and logically without harassing the foreign investors
☑ The government should knock every door of the higher officials to assess the circumstances going on around them
☑ The government should work to make the citizens fell responsibility and ownership of the institutions so that they can report freely about corruption
☑ It would be good to open an FDI office and make a website available to put issues and concerns of investors anytime
☑ As corruption is related to lack of transparency and good governance, ethical behaviors need to be thought at schools from primary to university levels

# 6. Conclusions and Recommendations

Governments are generally concerned with corruption and its corrosive effects on their development. Various empirical studies confirmed that corruption significant impacts on foreign direct investment, private sector development and good governance. It is also associated with organized crime. As a result various anti-corruption measures are being taken. The Ethiopian government is taking bold steps towards that end. This survey is conducted to give an input for identifying gaps to revise policies and working procedures that will help to increase FDI. Hence the survey targeted foreign companies operating in Ethiopia and aims at capturing their perceptions and attitudes as well as their experiences with corruption in this country.

The survey has been all inclusive in terms of geographic representation, sectors, position of respondents, years of operation in the country, legal forms and ownership of companies. Therefore, the survey is believed to have generated realistic results that help to arrive at the following conclusions.

☑ The respondents' opinion on the rules and regulations of the country with respect to FDI is generally positive. The consistency and predictability has shown improvement. It was also learnt from the survey that the legal system of the country and legal framework with regard to contract and property rights has won the trust of the foreign companies and said to be attractive for FDI.

☑ The regulatory areas that are leveled problematic are foreign exchange acquisition, land acquisition and customs/foreign trade. These areas were recommended to be improved. Furthermore, government requirements that are considered as most difficult in operating business in Ethiopia are customs/foreign trade (the most difficult one) followed by business licensing, tax regulations and foreign currency/exchange, which calls for improvement. So the government should give due attention for these areas to attract FDI into the country.

☑ Investment licensing, environmental directives and quality and standards were taken as areas with no or minor obstacles for foreign companies in the opinion of respondents. However, this has to be cautiously taken and further investigation is required as the activities of foreign companies may compromise environmental impacts and quality and standards of the country unless close follow up and monitoring is instituted.

☑ The length of time required for registration process from beginning to end (document authentication, investment license, business license, etc) has been found lengthy and has not shown significant improvement in the last three years. Hence this calls for streamlining government requirements and working procedures to cut down lengthy processes and procedures.

☑ Unofficial payment to government officials and employees is being practiced to have undue influence and get things done. But it is not at a scale of becoming a routine practice since it not been deep rooted in the country and hence easily controllable if appropriate measures are taken timely. This has been further verified by the result that most of the government officials have not directly request for payment, gift or favour in exchange for services or problems solved. In most cases foreign firms themselves give unofficial payment without being asked or hinted.

☑ According to the survey result corruption in Ethiopia has generally decreased but in some/institutions like customs/imports, foreign currency, taxes and tax collection, acquire land for business purposes to get connected to public services (electricity and telecom) it has shown increment. Thus these areas/institutions should be the focus of the government before it becomes widespread to other institutions/areas.

☑ The survey result revealed that government contracts still needs to be further improved as some respondents perceived that at least half of the government contracts involve unofficial payment averaging 24% of the value of contracts.

☑ The motives behind corrupt practices is time taking and lengthy processes/procedures and low income of government officials and employees, which implies that the government still needs to work on the reform processes and reviewing the salary of civil servants.

☑ The survey result indicated that most of the foreign companies will not give and even refuse the request to give a bribe to get a service or resolve a problem. Coupled with the practice of reporting to higher level there is a good opportunity to combat corruption.

☑ The survey result further showed that lack of evidence, actions against those that commit corruption and clarity about corruption proceedings are the three top reasons for not reporting corruption to the relevant authorities. This calls for the government to work on these top three reasons to fight corruption. Specifically, making corruption reporting easy, protection of those reporting corruption, taking prompt measures on corrupt practices and announcing publicly, awareness creation, providing assistance for foreign investors' on their rights/obligations (in the area of corruption, anti-corruption legislation and institutions where one may complain about officials' corrupt behavior, free legal support for collecting information and evidence related to corruption cases, free legal advice to formulate their corruption complaints) are appropriate measures to combat corruption and attract FDI.

☑ The survey result indicated that The Ethiopian Government has sincere commitment and will to combat corruption as perceived by foreign companies operating in the country.

☑ Moreover, on the status of corruption in Ethiopia compared to similar developing countries, the result indicated that corruption is less in Ethiopia as perceived by foreign companies, which is a good opportunity to strengthen the fight against corruption and attract FDI. This was further verified by the result that about 80% if the foreign companies covered by the survey indicated their plans to expand their investment in Ethiopia.

☑ Generally the survey result has not supported the practice of grand corruption in the country.

Based on the conclusions made above the study team has forwarded following recommendations to combat corruption.

- ☑ Further actions are required by the Ethiopian government to review the government requirements, rules and regulations of the country and the regulatory areas/institutions that are leveled problematic and most corrupt to make it more clear, favourable and transparent. Moreover, the length of time required for registration process from beginning to end (document authentication, investment license, business license, etc) has been found lengthy and has not shown significant improvement in the last three years. Hence this calls for streamlining government requirements and working procedures to cut down lengthy processes and procedures.
- ☑ Continuous awareness creation should be conducted at all levels
- ☑ Institutions that are considered most corrupt should be further strengthened and their operations should be closely monitored by the government using appropriate mechanisms
- ☑ Government procurement process still needs further improvement.
- ☑ The government should consider working on making corruption reporting easy, protection of those reporting corruption, taking prompt measures on corrupt practices and announcing publicly, awareness creation, providing assistance for foreign investors' on their rights/obligations (in the area of corruption, anti-corruption legislation and institutions where one may complain about officials' corrupt behavior, free legal support for collecting information and evidence related to corruption cases, free legal advice to formulate their corruption complaints) to combat corruption and attract FDI.
- ☑ Generally there a need to aggressively work on combating grand corruption in the country before it gets ground in the country.
- ☑ Corruption should be included in the education system.
- ☑ Organize periodic consultation forums between the Ethiopian Government and all foreign investors to remove the bottlenecks being faced
- ☑ Adopt best international practices by imitating exemplary countries such as Malaysia, Dubai, Hongkong, Singapore by adopting fair, smooth and soft regulations to attract foreign investors.
- ☑ Assign qualified staff in the institutions that have contacts with foreign firms.
- ☑ Improve infrastructure such telecom, transport, etc. Currently, to do internet based business in Ethiopia is practically impossible due to the problems of the telecom company.
- ☑ Focus on attitudinal change by all concerned towards combating corruption at all levels through continuous awareness creation and provide adequate sensitization and awareness for the business community on their rights and obligations.
- ☑ Strengthen the media towards combating corruption.
- ☑ Encouraging and rewarding people who combat corruption and give them adequate protection against vengeance.

# Annexes

*Annex I – Survey Questionnaire*

*Annex II – Bibliography*

*Annex III – Nationality of Respondents*

# Annex II – Bibliography

Ades, A. and Di Tella, R. (1997). The new economics of corruption: A survey and some new results. *Political Studies* 45: 496–515.

Agosin, M. and Machado, R. (2005) Foreign investment in developing countries: does it crowd in domestic investment ? *Oxford development studies, Taylor and Francis Journals,*Vol. 33(2), pp. 149-162.

Aidt, T. S. (2003) Economic Analysis of Corruption: A Survey. *The Economic Journal.* Vol.113, pp. 632–652.

Al-Sadig, A (2009) The effects of corruption on FDI inflows. Cato Journal. Volume 29, No. 2, pp. 270-283.

Arvind, K. J. (2011) Corruption: Theory, Evidence and Policy. *CESifoDice Report 2,* Forum Concordia University, Montreal, pp. 5-8.

Alesina, A. and B. Weder (1999), "Do Corrupt Governments Receive Less Foreign Aid?," NBER Working Paper 7108, Cambridge, MA.

Bailey, D.H. (1966). The effects of corruption in a developing nation. *Western Political Quarterly* 19: 719–732. Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds.), *Political corruption: A handbook*, 934–952 (1989). Oxford: Transaction Books.

Bardhan, P. (1997). Corruption and development: A review of issues. *Journal of Economic Literature* 35: 1320–1346.

Barro, R.J. (1991). Economic growth in a cross section of countries. *Quarterly Journal of Economics* 106: 407–443.

Beck, P.J. and Maher, M.W. (1986). A comparison of bribery and bidding in thin markets. *Economics Letters* 20: 1–5.

Benhabib, J. and Spiegel, M. (1994). The role of human capital in economic development: Evidence from aggregate cross-country data. *Journal of Monetary Economics* 34: 143–173.

Brunetti, A. (1997). Political variables in cross-country growth analysis. *Journal of Economic Survey* 11: 163–190.

Brunetti, A. and Weder, B. (1998). Investment and institutional uncertainty: A comparative study of different uncertainty measures. *Weltwirtschaftliches Archiv* 134: 513–533.

Campos, J.E., Lien, D. and Pradhan, S. (1999). The impact of corruption on investment: Predictability matters. *World Development* 27: 1059–1067.

Chakrabarti, A. (2001). The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regressions. Kyklos, Vol. 54, Issue 1, pages 89-113.

Control Risks and Simmons & Simmons, (2006), *International Business Attitudes to Corruption: Survey 2006.* Control Risks and Simmons & Simmons.

Devarajan, S., Swaroop, V. and Zou, H. (1996) The Composition of Public Expenditure and Economic Growth. *Journal of Monetary Economics.* Vol. 37, pp. 313–344.

Easterly, W., Kremer, M., Pritchett, L. and Summers, L. (1993). Good policy or good luck? Country growth performance and temporary shocks, *Journal of Monetary Economics* 32: 459–483.

Egger, P., and Winner, H. (2005) Evidence on Corruption as an Incentive for Foreign Direct Investment. *European Journal of Political Economy*. Volume 21, pp. 932–952.

FDRE – FEACC – Ethiopia- Second Corruption Perception Survey, Final Report by Kilimanjaro International Corporation, April 2012.

Ghosh, S., and Gregoriou, A. (2008) The Composition of Government Spending and Growth: Is Current or Capital Spending Better? *Oxford Economic Papers.* Vol. 60, pp. 484-516.

Gupta, S., Clements, B., Baldacci, E. And Mulas-Granados, C. (2005) Fiscal Policy, Expenditure Composition, and Growth in Low-Income Countries. *Journal of International Money and*

Habib, M. and L. Zurawicki (2001), "Country-Level Investments and the Effect of Corruption: Some Empirical Evidence," International Business Review, Vol. 10 (6): 687–700.

Habib, M. and Zurawicki, L. (2002) Corruption and Foreign Direct Investment. *Journal of International Business Studies*. Vol. 33, No. 2 (2nd Qtr., 2002), pp. 291-307.

Hakkala, K. N., P.-J. Norb¨ack and H. Svaleryd, (2008), Asymmetric Effects of Corruption on FDI: Evidence from Swedish Multinational Firms. The Review of Economics and Statistics, Vol. 90, pp. 627-642.

Horvat, J., Marković, S. and Šegota, A. (2009) *The use of statistics in economics, University of Rijeka*. Vol. 2, pp. 115-132.

Huntington, S.P. (1968). *Political order in changing societies*. New Haven: Yale University Press.

Jain, A.K. (2001). Corruption: A review. *Journal of Economic Surveys* 15: 71–121.

Johnson, S., Kaufmann, D. and Zoido-Lobaton, P. (1998). Regulatory discretion and the unofficial economy. *American Economic Review* 88: 387–392.

Kaufmann, D. and Wei, S.-J. (2000). Does 'grease money' speed up the wheels of commerce? International Monetary Fund Policy Working Paper, WP/00/64.

Kaufmann, D., Kraay, A. and Zoido-Lobaton, P. (1999). Aggregating governance indicators. World Bank, Working Paper, # 2195, 1999a. Governance matters, World Bank, Working Paper, # 2196, 1999b.

Kormendi, R.C. and Meguire, P.G. (1985). Macroeconomic determinants of growth: Crosscountry evidence. *Journal of Monetary Economics* 16: 141–163.

Kurer, O. (1993). Clientelism, corruption and the allocation of resources. *Public Choice* 77: 259–273.

Lambsdorff, J.G. (1999). The transparency international corruption perceptions index 1999.  Framework Document, Transparency International web site, October 1999. Corruption  in empirical research – a review, 9th International Anti-corruption Conference, Durban, 10–15 December.

Lambsdorff, J. Graf and P. Cornelius (2000), "Corruption, Foreign Investment and Growth," The Africa Competitiveness Report 2000/ 2001, ed. by K. Schwab, L. Cook, P. Cornelius, J. D. Sachs, S. Sievers, and A. Warner joint publication of the World Economic Forum and the Institute for International Development, (Cambridge, MA: Harvard University and Oxford: Oxford University Press: 70–78.

Lambsdorff, J. Graf (2002), "Corruption and Rent-Seeking," Public Choice, Vol. 113 (1/2): 97–125.

Lambsdorff, J.G. (2003). How corruption affects persistent capital flows. *Economics of Governance* 4: 229–243.

Leff, N.H. (1964). Economic development through bureaucratic corruption. *American Behavioral Scientist* 8: 8–14. Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds.),*Political corruption: A handbook*, 389–403, 1989. Oxford, Transaction Books.

Levine, R. and Renelt, D. (1992). A sensitivity analysis of cross-country growth regressions. *American Economic Review* 82: 942–963.

Leys, C. (1965). What is the problem about corruption? *Journal of Modern African Studies* 3: 215–230. Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds.), *Political corruption: A handbook*, 51–66, 1989. Oxford: Transaction Books.

Lien, D.H.D. (1986). A note on competitive bribery games. *Economics Letters* 22: 337–341. Lui, F.T. (1985). An equilibrium queuing model of bribery. *Journal of Political Economy* 93: 760–781.

Lui, Francis T. "An Equilibrium Queuing Model of Bribery." Journal of Political Economy.P.E. 93 (August 1985): 760 -785

Mankiw, G. and Whinston, M. (1986). Free entry and social inefficiency. *Rand Journal of Economics* 17: 48–58.

Mankiw, N.G., Romer, D. and Weil, D.N. (1992). A contribution to the empirics of economic growth. *Quarterly Journal of Economics* 107: 407–437.

Mauro, P. (1995). Corruption and growth. *Quarterly Journal of Economics* 110: 681–712.

Mauro, P. (1998). Corruption and the composition of government expenditure. *Journal of Public Economics* 69: 263–279.

Mo, P.H. (2001). Corruption and economic growth. *Journal of Comparative Economics* 29: 66–79.

Myrdal, G. (1968). *Asian drama: An enquiry into the poverty of nations*, vol 2. New York: The Twentieth Century Fund. Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds.), *Political corruption: A*

*handbook*, 953–961, 1989. Oxford: Transaction Books.

Nye, N.S. (1967). Corruption and political development: A cost-benefit analysis. *American Political Science Review* 61: 417–427. Reprint in A.J. Heidenheimer, M. Johnston and V.T. LeVine (Eds.), *Political corruption: A handbook*, 963–984, 1989. Oxford, Transaction Books.

Paldam, M. (2002). The cross-country pattern of corruption: Economics, culture and the seesaw dynamics. *European Journal of Political Economy* 18: 215–240.

Rose-Ackerman, R. (1997). The political economy of corruption. In K.A. Elliott (Ed.), *Corruption and the global economy*, 31–60. Washington DC: Institute for International Economics.

Shleifer, A. (1998) The Grabbing Hand, Government Pathologies and Their Cures. *Cambridge, MA, Harvard University Press.* 47 (3),pp.555-600.

Shleifer, A. and Vishny, R.W. (1993). Corruption. *Quarterly Journal of Economics* 108: 599–617.

Smarzynska B.K S.J Wei (2000)  Corruption and Composition of Foreign Direct Investment: Firm-Level Evidence, NBER Working Paper No. 7969, Issued in October 2000, National Bureau of Economic Research (NBER), Massachusetts, US.

Svensson, J. (2005) Eight Questions about Corruption. *Journal of Economic Perspectives.* Vol.3, pp. 19–42.

Tanzi, V. (1998) Corruption around the world-causes, Consequences, Scope, and Cures. *IMF Staff Papers.* Vol.45, No.4.

Tanzi, V. and Davoodi, H. (1997) Corruption, public investment and Growth. *IMF Working Paper.* No. WP/97/139.

Varese, F. (1997) The Transition to the Market and Corruption in Postsocialist Russia. *Political Studies.* Vol. 45, pp. 579–596.

Wei, S.-J. (2000). Local corruption and global capital flows. *Brookings Papers on Economic Activity* 2: 303–346

Wei, S.-J. and Y. Wu (2001), "Negative Alchemy? Corruption, Composition of Capital Flows, and Currency Crises," NBER Working Paper 8187, March.

World Bank (1998) Ethiopia Anti Corruption Report by the Poverty Reduction and Social Development Unit, Africa Region

World Bank  (2012). Diagnosing Corruption in Ethiopia: Perceptions, Realities, and the Way Forward for Key Sectors, Janelle Plummer(Ed.)

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 |

| No. | Nationality | Count | Percent |
|-----|-------------|-------|---------|
| 41 | United Arab Emirates | 1 | 0.3 |
| 42 | Yemeni | 5 | 1.4 |
| | **Total** | **350** | **100.0** |

Source: Own Survey, November 2013