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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria
Tel: (+43-1) 26026-0 · www.unido.org · unido@unido.org

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Development of the People's
Democratic Republic of Ethiopia

Addis Ababa, November 1990

DOCUMENT ON THE ECONOMIC POLICY AND THE DEVELOPMENT STRATEGY OF THE PEOPLE'S DEMOCRATIC REPUBLIC OF ETHIOPIA*

prepared by

Anton Sârbu, UNIDO Expert

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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INTRODUCTORY NOTE

The present document tries to highlight the new economic policy and the development strategy of the People's Democratic Republic of Ethiopia. It is meant to provide the countries, organizations and institutions attending the Solidarity Ministerial Meeting for Co-operation in the Industrial Development of Ethiopia with background information on the country's present economic situation, the economic policy reform currently in process and its main objectives, including more favorable conditions for investment to be incorporated in the new investment regulations under final preparation during the writing of this report.

1. BACKGROUND INFORMATION

The People's Democratic Republic of Ethiopia is a typical least developed country. According to the economic indicators, Ethiopia's GDP per capita in 1987 reached the amount of $US 130 which qualifies this country as the last among the least developed. It breaks the record of all the usual obstacles to development faced by LDCs.

The unique scale of such obstacles - exceeding the country's presently available potential capacity to surpass them without considerable international assistance - makes Ethiopia a distinct case within the today's group of LDCs.

Its economic situation is different from that of the others not only in the nature and degree of the structural handicaps preventing its national efforts and capacity to adapt itself to the international economic environment, but also in the specific combination of the obstacles to development faced regularly by other LDCs.

The common denominator characterizing these countries is more acutely present in the case of Ethiopia: weakness of economic, institutional and, ultimately, human capacities. This weakness is aggravated by geophysical disadvantages and environmental degradation.

The insufficient infrastructure and development capacity are further complicated by one of the highest population growth rate in the world. All the above negative factors led to a stunting of economic growth and development process. They constrict the capacity of the Ethiopian economy to favourably respond to opportunities for beneficial participation in international economic relations.

Its increased vulnerability to natural disasters - often stern droughts combined with extremely serious soil erosion and deforestation - as well as to external economic shocks, accentuated by heavy dependence on just three items, mainly coffee, for more than 90 per cent of its export earnings, makes Ethiopia's situation even more difficult.

Since a tiny number of products - almost exclusively from agricultural production - make up the mainstay of the national economy, the Ethiopian exports have faced depressed markets and continuous deteriorating terms of trade, exposing the country's domestic and foreign economic relations to severe stress.

Under these rather adverse and unfair circumstances no wonder that even the best-laid economic policies could not have yet turning point results in the Government's commendable endeavours to put the country's economic house in order.

Ethiopia was confronted - more severely than any other LDC - with one of the most complicated combinations of the classical obstacles to development, e.g.:

- low productivity, particularly in agriculture, on the background of generally poor performance of this crucial sector of the entire economy;
- small and poor industrial base;
- weak physical and institutional infrastructure;
- weakly developed energy resources;

- inadequacy of domestic savings capacity, due especially to the extremely low per capita GDP level and very limited financial network;

- shortage of adequately trained personnel and skilled work-force, combined with unemployment and underemployment;

- reduced purchasing power of the domestic market;

- insufficient articulation between the national economy and its external sector;

- remoteness from major trade zones;

- insufficient local capacity and infrastructure to absorb external aid programmes.

All these adverse circumstances have been aggravated by unfortunate frequent severe droughts. Moreover, the Government policy had to take into account Ethiopia's completely unfavourable position in international economic relations, its marginal share in the world economy illustrated by very little participation in world trade and in total financial flows.

In conceiving and designing an efficient domestic policy to suit all requirements of the country's economy, the Ethiopian Government and its main institutions had to consider that, in the existing international division of labour, Ethiopia exports a very narrow range of traditional primary commodities, for which demand is inelastic and markets oftenly undermined by persistent over-supply conditions.

At the same time, with large sectors operating isolated and at near-subsistence level, the Ethiopian economy is increasingly dependent on imports of technology, manufactures and, what it makes it recently even more dramatic, food. Ethiopia's leverage to profitably negotiate technology contracts and to secure wide access to international capital markets is extremely limited. Therefore, it is for all these reasons that the case of Ethiopia represents an unparallel challenge which calls definitely for unrelenting commitment both on behalf of its own Government and people and of the international community.

It is this challenge that the Solidarity Ministerial Meeting organized by UNIDO in co-operation with the host Government is expected to respond to according to its potential.

2. PRELIMINARY SUMMARY AND BASIC CONCLUSIONS

The radical changes of the 1974 revolution n Ethiopia's political and socio-economic structure were aimed at guaranteeing the rights of all Ethiopians to a fair share in the nation's resources, productivity and aspirations by the implementation of economic development programmes to improve the general living standard and spread the benefits of education, literacy, health and social welfare to all sections of the population.

In spite of all consistent endeavours made towards reaching those objectives, the economic situation worsened, agricultural production declined, external debt increased and the country became confronted growingly with food security problems.

Thus, following several years of promising revival in the late 1970s and early 1980s, the economy entered a precipitous decline, experiencing an average low growth owing to unfortunately the worst combination ever of adverse factors, namely: poor economic performance and severe droughts of 1984 and 1987. In recent years, the Government seemed determined to cope with this difficult situation via new policy reform measures.

Consequently, although positive, the low overall economic growth - with an annual average rate of approx. 2 per cent - could not be sufficient to prevent deterioration in per capita terms under more disappointing circumstances of high population growth rate.

The stagnation of production in the agricultural sector was caused by various factors, like lack of incentives, inadequate pricing policy, drought influence, and so on, but also by the negative effects of an unsuitable institutional framework.

Despite of the fact that the food production has decreased and the country became gradually dependent of food imports, the agriculture continued to remain the main sector of the economy.

At the same time, the investment in the public sector has increased considerably - mainly the directly productive over infrastructural ones - bringing about consistent rapid growth in other sectors of the economy. However, it performed limited returns which could not prevent increasing foreign debt. One of the main factors contributing to poor export performance was the overvaluation of the exchange rate, which did not offer adequate stimulation for the private sector.

The public industrial sector tried to increase its output by substituting imported products and promoting exports thus saving foreign exchange earnings.

The annual growth rate of the manufacturing sector reached almost six per cent during the last decade facing clearly decreasing trend in the last years. New public sector enterprises have been established but the real potential of the private sector has been underutilized.

The national strategy of development encouraged the production of the public sector, yet the performance of services yielded better results than the commodity output.

The great majority of exported products belong to the agricultural production which reached almost 85 per cent of export. However, export volume decreased in late 1980s.

In as far as the manufacturing sectors are concerned, only the leather industry exerted an important contribution to foreign currency earnings due to prohibition of raw skins exports.

Under services, transport performed mainly better than merchandise exports.

Ethiopian imports increased the national economy dependence on foreign financing, allowing the resource gap to raise from five to eleven per cent of GDP.

Foreign aid to overcome drought and famine was important while concessional development assistance from developed countries has been modest. Most of foreign loans granted for economic development of the public sector have been on semi-concessional or even non-concessional terms. External debt increased and export earnings stagnated or even decreased owing to regul·r payments of debt services obligations, avoiding rescheduling, but diminishing imports.

At the same time, the marginalization of Ethiopia along with other LDCs in the world economy has become more accentuated over time, with their share in world exports amounting to merely 0.3 per cent in 1988.

In brief, the 1980s can be considered as a period of setbacks and retrogression not only for Ethiopia but for all LDCs. In this context, the Ethiopian Government was obliged to cut imports, to redefine national development plans and switch to a process of forced adjustment with austerity trying hard to avoid the vicious circle created by poverty, population growth, natural disasters and environment degradation.

The poor results of the Ethiopian economy - within the generally gloomy record of LDCs during the last decade - could be explained largely by inadequate and insufficient international support measures. As a matter of fact, the foreign economic environment of 1980s, contrary to Ethiopia's requirements and expectations, has been detrimental to its economy in several ways. It suffered from a decreasing trend in world prices for primary commodities accompanied by a decline of more than a quarter of resource transfer in real terms. It had to bear high debt-service burden and face trade barriers affecting severely potential exports and discouraging their diversification.

Under these rather difficult circumstances, the Government of Ethiopia has started to apply, during the last several years, a programme of new policy measures and institutional reforms aiming at increasing the part played by the private sector in the national economy, rationalizing the public enterprises, improving their management and generally allowing promotion of market economy principles and mechanisms.

3. GENERAL INFORMATION

AREA: 1,223,000 km2

POPULATION: 47.88 million (United Nations estimation, 1988), 88 per cent in rural and 12 per cent in urban areas.

POPULATION GROWTH RATE: 2.9 per cent/year

POPULATION OF MAIN CITIES:

Addis Ababa	1,413,000
Asmara	275,000
Dire Dawa	98,000
Nazareth	76,000
Gondar	69,000

CLIMATE: Temperate in the highland regions and hot in lowland regions. There are two main seasons: rainy from June through October, relatively dry for the rest of the year.

REGIONS: Ethiopia is made up of 15 administrative regions: Arssi, Assale, Bale, Eritrea, Gamo Gofa, Gojjam, Gondar, Harerghe, Illubabor, Kaffa, Shoa, Sidamo, Tigray, Wollega and Wollo.

LANGUAGES: Amharic (in Addis Ababa and in the heartland), also Tigre, Tigrinya, Guraginya, Orominya, Afar, Somali and others. English is widely used, including in the administration. Also some Italian and Arabic.

RELIGIONS: Christian (approx. 50% of the total population), Muslem (approx. 35%) and the rest Animist and some Judaic (1984).

WEIGHTS AND MEASURES: Metric system; also 1 kend - o.5 m; 1 frasoulla - 17 kg; 1 gasha - 40 ha.

CURRENCY: The Birr; exchange rate Birr 2.07 - 1 $US (since 1974).

TIME: GMT + 3 hours.

CALENDAR: Julian calendar divided into 12 months of 30 days each and a 13th month of five or six days. Ethiopian calendar is seven years and eight months behind the Gregorian calendar currently used widely in the world.

PUBLIC HOLIDAYS: January 7 (Ethiopian Christmas), January 19 (Ethiopian Epiphany), March 2, April 6, May 1,Ethiopian Good Friday and Easter, Idd al Fitr (Ramadan), Idd al Adha, September 11 (Ethiopian New Year's Day), September 12 (revolution day), September 27 (Maskal), and Maulid.

EDUCATION: Adult literacy rate is 63 per cent. Primary school enrollment is 36 per cent of relevant age group. More than 60 per cent of the schools are government supported.

HEALTH: Population per health personnel is 2,800 inhabitants per 1 medical personnel and 77,356 inhabitants per physician.

COUNTRY DATA

Table 1

Economic Indicators:[a]	1985	1986	1987	1988	1989
GDP (at 1980/81 market prices)[b] Birr bn.	8.6	9.2	10.1	10.3	10.6
GDP growth % (at constant 1980/81 prices)[b]	-7.0	6.7	9.0	1.4	4.5
Consumer price inflation %	19.1	-9.8	-2.4	7.0	9.0[c]
Population (million)	43.35	44.93	46.18	47.88	-
Export FOB ($US mill.)	333.0	454.9	355.2	429.3	-
Import CIF ($US mill.)	993.4	1,101.6	1,065.6	1,128.6	-
Current account ($US mill.)	-3	-56	-256	-199	-
Total external debt ($US mill.)	1,869	2,215	2,708	2,978	-
Production of coffee[d] (tsd. bags)	3,100	3,100	2,883	3,000[c]	-
Rate of exchange (Birr/$US)	2.07	2.07	2.07	2.07	2.07

a) fiscal year ending July
b) World Bank figures
c) estimate
d) crop years (October - September) beginning in calendar years

Table 2 *)

Distribution of GDP (1988/89)	% of total	Content of GDP (1988/89)	% of total
Agriculture	43.1	Gross fixed investment	14.4
Industry (mining, construction, electricity and water)	16.8	Gross national savings	5.8
Services	40.1	Current account balance	0.6
GDP	100.0	Exports	11.7
		GDP at market prices incl. others	100.0

*) World Bank figures.

GNP per capita: 125 $US, calculated by the World Bank (according to the Atlas methodology).

Table 3

Main exports (1988/89)	$US million
Coffee	253.8
Hides, skins, leather	67.6
Oil seeds and pulses	24.2
Gold	12.0
Livestock	14.5
Sugar	8.8
Total	380.9

Table 4

Main imports (1988/89)	$US million
Capital goods	563.5
Food	177.3
Consumer goods	91.7
Intermediate goods	184.5
Petroleum (net)	116.3
Total	1,133.3

Table 5

Shares by principal countries (per cent of total/1988) *

Exports		Imports	
Federal Republic of Germany	17.6	Italy	16.4
Japan	12.5	USSR	16.2 **
USA	12.4	USA	12.3
Italy	6.0	Federal Republic of Germany	8.4

* According to partners' trade returns (with margin of error).
** Extrapolated.

Table 6 *

Total External Debt (as of 31 December 1988) was 2,82 $US billion.

Net Debt Service Ratio (for 1988/89): 39.5 %

* World Bank figures.

4. THE SITUATION VIS-A-VIS FOREIGN COUNTRIES

4.1 TRADE BALANCE AND STRUCTURE OF TRADE

Ethiopian foreign trade grew considerably after the 1974 Revolution. Exports increased rapidly exceeding in 1981 by approx. 50 per cent the volume reached in 1975. In the last decade, the general trend of exports was one of fluctuation but with a declining tendency of around one per cent. Ethiopia's foreign trade deficit increased over the last years. Earnings from exports fluctuated insignificantly during 1980 - 1985 and, in 1986, following the increase in coffee prices, started to raise a little. However, the volume index of exports reached in 1989 a level under three percent above that of 1979.

Table 7

Evolution of export volume index (1975 = 100) *

	1979	1985	1987	1988	1989
Total	149	141	149	134	152
Coffee	176	151	164	145	159
Leather	145	126	128	108	136

* World Bank figures.

The share of GDP exports decreased by more than two per cent in the last decade. A reverse trend was shown by imports which increased continuously.

Table 8

Major commodities traded (Birr million) *

Exports:	1979	1984	1988
Coffee	541.6	590.4	439.2
Hides and skins	107.1	93.4	133.0
Live animals	1.5	13.6	32.4
Petroleum products	28.2	74.2	36.0
Pulses	17.9	20.3	16.1
Sugar	0.3	10.1	16.4
Oil seeds	9.6	27.9	22.0
TOTAL	744.9	930.1	773.6
Agricultural (per cent of total)	92.8	85.5	87.7
Coffee	72.7	63.5	56.8
Hides and skins	14.4	9.0	17.2

Imports:	1979	1984	1988
Food and live animals	60.2	168.5	246.6
Petroleum and petroleum products	227.4	378.4	216.5
Machinery including aircraft	140.9	519.8	477.0
Road motor vehicles	184.6	210.6	389.9
Grain		114.6	177.5
Metal and metal manufactures	93.6	162.9	159.6
Chemicals	151.3	107.2	110.8
TOTAL imports CIF	1,220.1	2,125.0	2,274.6
Food, live animals and grain (per cent of total)	4.9	13.3	18.6

* World Bank figures.

4.1.1. Exports

As major export, coffee accounted regularly for more than 60 per cent of foreign exchange earnings, while hides and skins more than 15 per cent. Those two main exported products represent normally more than three quarters of total exports. The main characteristic of the Ethiopian exports is that only three items of them account usually for more than 80 per cent, sometimes exceeding even 90 per cent of the total of exports. In any case, the share of agricultural products in the total value of exports is normally nearing 90 per cent and sometimes even over it.

The most significant negative effect on the Ethiopian exports was exerted by the worsening of the terms of trade, which, due to suspension of quota restrictions in 1989, have fallen by 20 per cent.

In terms of export volume index, during the last fifteen years, important export growth accounted for coffee, hides and skins and livestock, with the most spectacular for sugar, while exports of pulses, oilseeds, meat and fruit decreased sharply.

4.1.2. Imports

In as far as imports are concerned, they have risen not only in value but also in share of GDP. The most of the increase has been accounted by capital goods, but what worried very much was the considerable increase of imports of food, live animals and grain which grew between 4 to 6 times in certain years in the last decade, as a consequence of severe drought in 1985.

4.1.3. Trade destination

As per geographical destination, the trade has shown much less change than might be expected from the political alignment.

Table 9

Geographical destination (per cent of total) *

Exports to:	1981	1986	Imports from:	1981	1986
Fed. Republic of Germany	9.2	29.1	USA	4.8	17.0
USA	19.7	12.8	USSR	25.0	16.1
Netherlands	1.4	8.8	Fed. Rep. of Germany	9.5	10.7
Japan	5.8	8.6	Italy	12.4	9.7

* National Bank of Ethiopia figures.

As the table shows, the principal markets for Ethiopian coffee are the Federal Republic of Germany and USA. The most important imports have been done from USSR and USA (with its share increasing).

4.2. TRADE BALANCE AND BALANCE OF PAYMENTS

Ethiopia's balance of trade has had a growing deficit for good many years. This continuous difficult situation seems to be alarming, since one of the main objectives of the last years economic policy reform was to diminish the deficit gradually and eventually equilibrate in the future the balance of trade, an aim not possible to achieve so far. However, this deficit has grown less than increasing imports and stagnant earnings from exports, due mainly to high level of exported services, among which those of Ethiopian Airlines and Ethiopian Shipping Lines both of which contribute to earning of foreign exchange. A consisting revenue came also from the expenditure incurred by the diplomatic community, and OAU.

Table 10

Trend of trade balance (Birr million) *

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Exports (FOB)	851.5	778.1	810.5	930.1	743.3	923.8	794.8	773.6	862.3
Imports (CIF)	1539.6	1756.6	1772.9	2125.0	2018.0	2250.9	2237.0	2274.6	2300.0
Trade balance	-688.1	-978.5	-962.4	-1194.9	-1274.7	-1327.1	-1442.2	-1501.0	-1437.7

* World Bank figures.

In spite of that, the dependency on external financing has grown, current account deficit remaining between 7 - 10 per cent of GDP, at the official rate of exchange, as the respective tables below show.

Table 11

Trade balance for 1986

Exports (FOB)	Birr million
Coffee	439.2
Other agricultural products	239.0
Petroleum products	36.0
Other exports	59.4
Total exports	773.6
Imports (CIF)	
Food and agricultural products	443.8
Other consumer goods	157.6
Petroleum and petroleum products	216.6.
Intermediate goods	306.0
Capital goods	1,081.2
Raw materials	59.0
Total imports	2,274.7
Trade balance	-1,501.1

In order to differentiate this analysis, it should be also mentioned that a major share of the imports of capital goods is financed from foreign sources and that the corresponding counterpart item comes under transfers. Furthermore, the imports of intermediate goods (building materials, raw materials for industrial and handicraft enterprises, spare parts, etc.) were preliminary necessary for the reactivation of economic activity.

The strong influence of the natural disaster effect on the Ethiopian economy and the relief supplied in the aftermath of the 1984/85 and 1987/88 drought are shown by the financing of the current account deficit in table 12 below.

Despite a sharp growth in grant assistance inflows, which improved the current account balance over 1981 - 1985 period, an acute deterioration took place in 1986. As a matter of fact, export earnings stagnated from 1979 to 1985 experiencing a sudden and considerable decrease of 20 per cent in 1985 due to the drought effect, which repeated itself again in 1987 when the decrease exceeded 22 per cent. Consequently, firm famine relief action was taken mobilizing significant transport means for the wide distribution of food aid.

Yet, the foreign financing has also increased in other types of grants and loans, besides those of relief nature. Thus, important such inflows came especially from Italy, Common Market and member countries of the Council of Mutual Economic Assistance, as well as from other international institutions.

For all that, in spite of the fact that Ethiopia is the least developed country in terms of its lowest GDP per capita, the official development assistance received in 1974 - 1984 was modest, less by 2.5 times per capita as compared to the average received by other low income sub-Saharan countries.

While the donations of food aid through 1986, 1987 and 1988 were substantial, the development assistance decreased by 10 per cent in 1986 and 21 per cent in 1987, motivated as a pressure on the Government to introduce economic reforms.

Though the agricultural marketing reform was introduced in December 1987 and further radical economic policy measures were initiated through 1988 and 1989, the amount of development assistance remained at a relatively low level and with a decreasing trend over the last years.

Table 12

Official development assistance (ODA) *

($US million)	1982	1983	1984	1985	1986	1987
BILATERAL:	82.0	169.4	195.3	434.0	405.9	320.1
Italy	11.8	16.1	45.9	83.0	152.9	128.9
Sweden	17.8	15.5	17.9	24.6	35.2	35.1
Fed. Rep. of Germany	12.5	11.3	29.5	26.6	27.2	27.9
Canada	8.2	16.7	20.8	34.7	19.1	25.9
USA	3.0	8.0	21.0	146.0	94.0	8.0
MULTILATERAL:	123.7	177.4	177.5	292.0	244.3	327.0
Common Market	26.9	47.4	57.9	103.3	85.7	96.0
IDA	26.6	42.3	41.1	50.3	38.4	85.1
WFP	29.3	33.1	27.8	47.1	30.3	31.1
UNDP	13.9	8.3	10.6	19.4	23.2	28.8
UNHCR	4.9	10.7	13.4	20.7	21.8	27.9
TOTAL	205.7	346.8	372.7	726.0	650.2	647.1
of which grants	159.8	213.1	286.0	618.7	562.7	452.2

* OECD source.

That is why Ethiopia did not request foreign financing under the form of cash loans from the international financial institutions to cover its balance of payments. However, the foreign currency reserves formed by considerable receipt of relief aid were shortly used up and their level decreased to the lowest import coverage last year.

Table 13

Balance of payments ($US million) *

	1981	1985	1986	1987	1988	1989 **
Merchandise exports (FOB)	411	359	446	384	374	417
Merchandise imports (CIF)	669	855	1068	1081	1099	1111
Trade balance	-258	-496	-622	-697	-725	-694
Non-factor services (net)	41	83	92	96	95	109
Resource balance	-291	-533	-549	-601	-623	-585
Net interest	-7	-33	-29	-37	-59	-76
Private transfers (net)	25	145	209	148	118	145
Balance of current account	-274	-421	-369	-477	-563	-516

Financed by:						
Official grants	60	298	293	212	188	231
Net MLT loans	162	162	277	181	281	201
- disbursements	184	255	401	325	446	401
- amortization	-22	-93	-124	-143	-165	-200
Short-term capital	-6	42	-13	10	5	5
Change in reserves	92	-48	-165	20	185	-23
Errors and omissions	34	33	23	-54	96	102
Current account (% of GDP)	6.4	8.8	7.0	8.8	10.1	8.6
Net foreign exchange reserves	118.4	112.4	277.6	257.8	68.0	96.4

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* World Bank figures.
** Estimate.

Credits from Eastern European countries including USSR amounted to almost 30 per cent of gross loan disbursement.

The difficulties referred to aim establishing a reliable balance of trade apply also to the balance of payments. The table shows a growing trend of the balance of payment current account from 1981 through 1989, while the percentage of it as a share of GDP remains below 10 per cent.

The trade balance, which in itself is in deficit, did not provide sufficient resources to cover the large financial costs, the most important of which is the high service of the national debt (net interest and amortization). By comparison, public transfers (contributions of donors in the form of grants) and net contributions of private capital proved to be distinctly inadequate.

4.3. EXTERNAL INDEBTEDNESS

The foreign trade balance over the last ten years reflects the foreign debt situation. According to the World Bank's debt reporting the obligations increased four times from 1980 to 1988, amounting to $US 2.8 bn, a manageable level until recently.

In 1987, the total public foreign debt grew to a share of approx. 50 per cent of GNP and servicing obligations amounted to about 30 per cent of export earnings, exerting a heavy pressure on the economy. Total debt service obligations were expected to increase in the recent years reaching likely an estimate of $US 315 in 1989 and decrease thereafter to around $US 260 million this year and under $US 200 next year.

Since the foreign debt service performance was very good, Ethiopia managed to remain credit worthy and there has been no need for formal rescheduling of bilateral or commercial debt from western countries. The high credit rating of the country is owing to its rather conservative fiscal administration, a reputed efficient debt management and timely debt payments, encouraging creditors to extend loans. However, the situation is likely to have deteriorated last year, debt servicing increasing and net transfers decreasing.

The military debt reached in 1988 almost $US 4 bn, owed mostly to USSR, but the arrangements with Eastern European creditors are not known.

Although the technical assistance received from abroad was substantial, the greatest part of foreign official development finance has been for projects on capital goods.

The request of new non-concessionary loans rests with ministries and public companies responsible for the implementation of plan projects under the control of the National Bank of Ethiopia and Finance Ministry.

The present structure of long-term debt shows that 80 per cent of the outstanding debt is concessionary. The share of multilateral financing institutions, including World Bank as prominent, is almost 36 per cent of outstanding and disbursed debt, most of which concessionary, while 47 per cent belongs to bilateral creditors, among which USSR, USA and Libya are leading. The annual debt service payment ratio to exports of merchandise and non-factor services increased from 7 per cent in 1981 to 39 per cent last year.

Most of Ethiopia's foreign debt is medium or long-term. The share of private creditors increased from almost 9 pe cent in 1983 to approx. 17 per cent in 1987. An improvement in the average terms of new commitments is encouraging, the grant element increasing from nearly 39 per cent in 1987 to almost 52 per cent in 1988.

In another good development, Japan has cancelled a debt of $US 1.2 mill. which the Government should have repaid in 1988.

Late last year, the Federal Republic of Germany agreed to resume its non-relief assistance after more than a decade, to offer funding in afforestation, environment protection, water resources development, health services and transport and communications.

Table 14

Medium- and long-term debt (in $US million) *

	1984	1985	1986	1987	1988
Public and publicly guaranteed MLT	1359	1721	2059	2539	2717
Official creditors	1149	1441	1745	2130	2317
Multilateral	503	602	689	863	933
IBRD	44	49	54	57	42
IDA	379	437	486	601	658
Bilateral	646	839	1056	1267	1384
Private creditors	210	280	314	409	400
Total MLT (excl. IMF)	1359	1721	2059	2539	2717
IMF credit	134	111	129	127	104
TOTAL MLT (incl. IMF)	1493	1832	2188	2666	2821

* World Bank figures.

5. EXCHANGE, TRADE AND INVESTMENT POLICY

The Government exerts strict control on foreign exchange, applying currency restrictions and sparing allocation of import licenses. The official rate of exchange of Birr 2.07 to $US 1 is the same from 1974. However, it is considered overvalued and, due to a modest rate of inflation, the real effective rate increased until 1985 when accounted for double of the mid 1970s level, and then decreased reaching almost 50 per cent above that level.

Following the austerity measures of 1985, introduced after severe drought, later on the Government relaxed restrictions by the end of that year. In June 1988 further relaxation was introduced allowing private businessmen some access to foreign exchange for importing machinery and equipment as well as foreign partners to maintain representatives in the country.

The investment code of 1983 was revised in 1984, introducing tax exemption and removing all restrictions on repatriation of profit, but was not enough to encourage foreign investment.

For all that, the setting up of a joint venture between a public enterprise and four Western oil companies in 1988 showed clearly that the Government is firmly decided to allow real business opportunities for foreign investors and guarantee their right of profit repatriation.

The policy reform measures introduced last March - described in the next chapter, translated further into corresponding legal regulations, will change significantly and favourably domestic environment enabling economic development and growth.

6. RESTRUCTURING THE NATIONAL ECONOMY

It is the grave difficulties and adverse circumstances Ethiopia is confronted with that determined finally the country's political authorities and Government to seriously consider which would be the best tailored economic policy measures to effectively help the Ethiopian gifted and industrious people to strive for entering the well-deserved age of economic development and growth.

In doing so, they had to carefully and responsibly select among the available and really viable solution to cope successfully with present specific conditions the Ethiopian economy is facing.

In applying the classical structural adjustment programmes highly recommended by many specialists in world economics and authoritative international financing institutions conditioning the donors' assistance needed, the Government is fully aware of the dilemma generated by the poor performance of such measures experienced by many other LDCs.

Amongst the major standard recommendations promoted by such programmes, severe reduction in the social expenditure is to be applied i.e. health, education, basic food subsidies, water supplies and other social services aimed at improving the much difficult status of the poor sections of the population. In such a case, it would be really the poor who would pay a painful price for the Ethiopian development.

Similarly, the devaluation of the national currency exchange rate could turn out to be incompatible - as it did in many cases in other LDCs - with even the very target it was conceived to reach, namely to ameliorate the balance of payments by promoting exports and making them more competitive and imports more expensive. But the protectionist policies of the developed countries are, in fact, one reason for that, while the other being the Ethiopia's weak marketing performance. Concomitantly, an exclusive export promotion policy in agriculture could degenerate in favouring only export production and neglecting the basic food for internal market consumption which would, in turn, require food imports.

Consequently, only adjustment measures to primarily increase food production and save foreign currency could be an appropriate solution for the development of the Ethiopian economy in the future, taking into account the high population growth rate.

Besides, the devaluation diminishing effect on imports will adversely affect both agricultural and industrial production, since the two sectors of the Ethiopian economy rely very much on imports for meeting their needs in fertilizers, machinery, equipment and technology. This refers to many industries such as brewery, chemical, textile, metal works and leather and shoes as well as other agro-based industries of Ethiopia.

Finally, by discouraging imports the government revenue policy will be negatively affected, diminishing its income from custom duties.

That is why, the government believes that it is so much the more crucial for Ethiopia to fully and effectively mobilize all its domestic potential and efforts for the development of the national economy. At the same time, the international community has to create a supportive external environment to exert a complementary effect both by direct assistance from various foreign countries and improvement of international conditions in which Ethiopia as well as other LDCs are to develop their economic relations within the world economy and trade.

A careful and impartial analysis of the present status of the Ethiopian economy reveals that only well coordinated national efforts and concerted foreign assistance could stimulate the necessary process of economic development and growth of the country.

Thus, turning back to the domestic scene, efficient action in restructuring public sector of the economy could exert definitely an important supportive function for the entire economy of Ethiopia. And here, the measures taken or planned to be taken in the near future by the Government are undoubtedly positive and timely.

Consequently, according to recent or contemplated legislative measures taken on the basis of the new policy reform, all state enterprises starting with those operating in strategic key sectors of the Ethiopian economy, are to be drastically scrutinized in order to make them perform efficiently, on their own budget, removing any burden on the economy. The proposals made are very energetic and aiming at making these units profitable by way of rehabilitation, privatization or even closing down. However, the Government is fully aware that even in this sector structural adjustment measures should be carefully applied avoiding unemployment and other social difficulties.

Here, the Ethiopian authorities are also taking into account the limited absorption capacity of the domestic business and private sector to manage or buy the public enterprises, and therefore a step by step policy is to be followed accompanied by incentives and training action to provide the necessary domestic or expatriate personnel qualified to run the enterprises.

So, in a wise manner, the Ethiopian authorities are decided to go ahead with a restructuring policy but only bearing well and permanently in mind all factors out of their control. Usually, these factors are not taken into account properly by widely recommended structural adjustment pattern, which assumes that all social shocks are to be suffered by the population of the respective country applying that pattern.

The Government of Ethiopia, while convinced that adequate foreign aid is really necessary to help the country buffer such ill effects, knows for sure that any viable solution for the development and growth of the Ethiopian economy lies finally on their own efforts. This can be only internally generated according to locally prevailing conditions and on a long-term basis.

That is why the reform policy promoted by the Government is meant to release the domestic market forces, stimulate the initiative and develop the necessary means to enable the country's economy to advance firmly towards a developed status.

7. THE MAJOR LINES OF THE NEW ECONOMIC POLICY

The new economic policy measures currently in the process of legal adoption provide for improving internal market function towards mixed economy, encouraging the development of the private sector along with a decentralized public sector.

A detailed report to the 11th Plenum of the Central Committee of the ruling party in March 1990 has drawn conclusions laying down new economic measures with far-reaching impact on country's future development.

On the proposed major changes of the Ethiopian economic structure, the report presented at the above mentioned meeting underscored the urgent need for a mixed economy built on state, private and cooperative ownership. The basic change will be made in the work and management of state enterprises which will rely on competition. Those that fail to show improvement through managerial measures will be turned over to cooperatives, private concerns or individuals on contractual, lease or sales arrangements.

One of the major aims of the proposed new economic policy is to assist and promote small-scale producers and encourage and strengthen the private sector. According to this policy, any Ethiopian national will thus be able to participate, without any capital limitation, in any field privately, in partnerships or through share companies.

Any private entrepreneur will therefore work side by side with state enterprises and cooperatives in the industrial, agricultural, mining, transport, trade and other fields.

State management of land will be continued and individual use of land will be defined by law. Individual peasants may now start to employ workers on their farms and may also transfer land ownership title deeds to their legal heirs or to other owners through judicial authorization of their own free will.

Other feature of private capital participation in the agricultural sector will be the appearance of private investors with the privilege to establish large modern farms on concessionary contracts of land not under peasant holding.

Consequently, the Government is currently introducing new policies - translated into legal framework - to encourage food production in the private sector through price incentives, land tenure, liberalization of marketing and technical improvement and conservation assistance. Thus, the situation of the agricultural production and primarily of the food will be a major preoccupation of the Government along with improved coordination of international relief assistance. Drought preparedness will be considerably improved and based both on long and short-term strengthened food security measures. So, the agricultural sector will continue to play a dominant role in Ethiopia's future development. However, the Government became increasingly confident that the mineral and manufacturing sectors should definitely increase their share in the economic development.

In the trade sector of the economy, private entrepreneurs will be able to compete with state-run trade enterprises in agricultural or industrial commodities as well as in import-export trade.

In the area of trade in grain products in particular, trade exchange will henceforth be conducted on the basis of free market pricing while grain control stations and quota system will cease to exist.

In the housing sector, individuals may, without any limitation on capital investment, build, rent, sell or give in contract residential houses, production and service, giving facilities or offices. A special decree was already issued in March this year on the construction and use of urban houses, providing the increase in the allotment of land for house buildings accounting to five categories of cities and towns on the basis of a master plan and the financial capacity of the home builder enabling to carry out a major programme of housing construction. Appropriate arrangements have also been made to enable the people to obtain loans to finance the construction works on favourable terms and to have access to the materials needed, thus facilitating the construction of residential buildings.

According to the Government, this new economic policy came as a result of the necessary review of Ethiopia's development strategy based on the incorporation of the interests of entire people in line with the specific objective conditions of the country and the major changes in the international situation.

Consequently, a broad policy reform agenda was adopted and necessary legal instruments to implement it are currently being introduced.

These measures, accompanied by improved economic action in all sectors of Ethiopian economy will assert the part to be played by the peasant agriculture and the private sector - alongside the state and public sectors - in increasing the production, in general, and the supply of exports in particular, as well as in meeting fundamental necessities for the domestic market.

In preparing for these major changes in the country's economic policy, previous measures have been taken during the last two years. Thus, a start was made in January 1988, when official procurement prices for field crops were raised and regulatory restraints on private grain trade were removed. Similar changes took place in coffee procurement prices and marketing margins and regulations followed, increasing the procurement for exports. Later on, in July 1989, three special decrees were issued raising substantially the previous ceilings on private investment in small-scale industrial projects and hotel services, improving considerably the incentives for foreign investments and encouraging them to participate in new projects under the new joint venture code.

Other measures are currently under preparation allowing private investment in commercial agriculture for the first time since the 1974 revolution.

Additionally, further legislative instruments put into practice the principles and guidelines stated in the political report of the March Plenum of the party, granting peasant households stability of land tenure, amending labour and employment regulations, setting up a decentralized framework for public sector management, improving the tax reform for the domestic private sector and introducing higher incentives for export production.

Therefore, the recent and latest positive endeavours made by the Government to apply new policies and measures under the new economic reform programme represent a concrete and significant departure from previous policy in key sectors of the national economy.

Thus, the Ethiopian authorities are firmly engaged in conducting major changes to relieve the country's economy from rigid administrative measures of the past practice enabling it to evolve along with market principles. All present and further measures are meant to revive and strengthen the confidence of the private sector, integrate markets and provide rigorous incentives for agricultural growth and exports.

Throughout this important structural process, the Government wants to persist in removing infrastructural, environmental and institutional constraints.

Under these new favourable circumstances and assuming the maintaining of a relative stability of the country - including the continuation of the revived negotiation process for a peaceful settlement of internal conflicts - the Ethiopian economy could recover and accelerate its growth achieving probably higher steady rate of GDP growth estimated at five per cent according to well known specialists' forecasts. The highest rate will definitely be foreseen in both mining and industrial sectors of the economy.

Consequently, if the new programme of profound economic policy reform is rigorously implemented, the Ethiopian economy will certainly experience a sustainable rate of growth reflected in an increasing income per capita, provided that all necessary conditions are met to enable stable increase in exports.

8. RESTRUCTURING POLICY PROSPECTS FOR EXPORT DEVELOPMENT

The new economic reform initiated by the Government contains policies and action to promote primarily industrial and agro-based industry exports, encourages an increased contribution of the private sector to the economic development and improves considerably the efficiency of the public enterprises constituting the great majority of the industrial sector of the national economy. Such policies and action are followed by appropriate legislative measures to establish the necessary legal framework to apply the new economic reform.

While preparing this report, new policy measures have been taken by the Ethiopian authorities to adopt special decisions on investment and income tax. These new regulations came timely and provided both practical and legal support for the private sector to stimulate potential investors participation in the application of the administrative strategy devised to implement the new economic reform.

Exchange rate revision, price liberalization and change of the present trade regime accompanied by financial action are among the most important measures to be expected to help increase exports in agricultural and industrial production - key factors in raising the growth rate of the economy and stimulate GDP. In this connection, significant potential have agro-based or related industries while the manufacturing sector both public and private show very good prospects due to their low labour cost and availability of local raw materials.

Considerable potential to increase export production have the leather and shoe subsector on the basis of the increased quantities of hides and skins produced by the eight existing tanning facilities, the high quality of sheep skins and relatively easy access to foreign outlets for marketing the leather products - ready made leather uppers, shoes and gloves.

Their competitivity could be raised involving technologies for upgrading leather quality and improved training for skilled labour.

Another highly potential subsector would be textile and clothing industries which could use both imported and local raw materials. Their development related to export promotion zone would increase export production.

An increasing potential is identified in the field of chemical products owing to raw materials available in large quantities but also to domestic demand partly satisfied at present. The expansion of this subsector is to cover both the internal consumption as well as the export production for which marketing does not present problems since the requirements even in the neighbouring African countries are high.

Food processing industries have also good prospects for cane sugar and spices, but less for brewery, conditioned by improved quality control, modern technologies and better marketing.

Less prospects are identified in metal works where in spite of a high domestic demand export production could not be secured due to lack of technology, low quality of products and difficulties in marketing.

In all the above industrial subsectors, their preliminary estimated prospects are to be confirmed only if definite measures are taken to attract foreign investment, encourage the private sector activity, improve management, raise productivity and increase promotional services adequately.

9. INVESTMENT POLICIES AND PROCEDURES

In this chapter a review is made of the laws and procedures in force in April 1990 that govern and influence foreign investment in Ethiopia.

The Council of State adopted a Special Decree No. 9 of 5th July 1989, on small-scale industries now in force. Another similar Decree No. 10 of 5th July 1989 was issued on Hotel Services Development. Both decrees were later on approved by the country's Parliament or the National Shenga as laws under the name of Proclamation No. 30/1989 and No. 31/1989, respectively.

However, while writing this report, new action was taken to translate into legal framework previously announced policy measures within the new economic reform. Consequently, by the end of last April it was announced that new decisions were adopted on investment policy and income tax system to further liberalize the regime of investment by providing additional areas of activity in which private investors could invest with no capital ceiling. As regards fiscal regime, a new regulation was issued revising the proclamation on taxing all sources of income and providing concrete stipulations to encourage private investors by giving them greater opportunity to participate in all activities contributing to economic development.

9.1. MAJOR OBJECTIVES OF RECENT REGULATIONS

The new regulations introduced on small-scale industry and hotel services are meant to stimulate the contribution of the private sector to the production of consumer goods, generation of jobs opportunity, earning or saving of foreign exchange and promotion of regional development. To this purpose the new laws allow for expansion of the small-scale industry and hotel services and encourage the participation of cooperatives and private investors in the two sectors.

The previous unlimited liability of the partners or proprietors engaged in small-scale industries was also abolished. Under new regulations ownership with only limited liability and the setting up of share enterprises are allowed.

According to these regulations the previous restrictions have been lifted and all commercial business organizations are entitled to set up small-scale industries in all industrial sectors now in Ethiopia, with no limitation on the number of such organizations in which an investor can participate.

Other incentives are provided for potential foreign investors and expatriates living abroad who could not get license before, now can invest in small-scale industries. Foreign investment has to either produce for export or import substitution purposes, or facilitate technology transfer to the respective small-scale industry, while the law does not impose any condition on the expatriates.

9.2. CAPITAL INVESTMENT CEILING REMOVED

By the time of writing the report, the previous low ceiling of capital invested (buildings and land improvement excluded) was raised - by the new proclamation mentioned above - four times to Birr 2.0 million for an individual private investor to set up a new small-scale industry or Birr 4.0 million either to expand or reconstruct the same industry or to cover various small-scale industries, including the right to open branches.

Capital investment ceiling for business organizations or cooperatives was raised to Birr 4.0 million for an individual small-scale industry and Birr 8.0 million to expand or reconstruct an existing industry or establish various small-scale industries within the amount of Birr 8.0 million.

At the same time, the new regulations in force since 5th July 1989 do not impose any capital limitation on cooperatives to expand or reconstruct a small-scale industry or limitation of the number of new set-up ones, as it used to be prior to that date. The only ceiling of Birr 4.0 million was provided for an initial investment.

As to the tourism activities, the private sector investment is allowed - under the respective regulation in force from 5th July 1989 - up to a capital ceiling of Birr 3.0 million per individual investor or Birr 6.0 million per partnership arrangement or company.

Therefore, those new regulations were much more flexible and increased considerably the investment ceiling for individual private investors and removed the ceiling on co-operatives thus allowing private sector to participate in various small-scale industries and hotel services.

During the writing of this report, concrete steps were reviewed and new action taken to further implement the policy decisions to apply the new economic reform in process. Appropriate directives were then given to pay particular attention to making continuous preparation towards giving legal status to those decisions.

Consequently, new policy measures have been taken by the end of April to adopt special decrees on investment and taxation system.

Thus, a Special Decree of the Council of State on investment issued early in May elaborated the areas of activity in which the capital ceiling was removed for private investors allowing them to participate without limitation.

9.3. PRIVILEGED REGIMES

For new small-scale industries important customs duty exemption on initially imported machinery and equipment is provided by regulation in force for foreign investors as well as income tax exemption for the first four years of the production on condition that the exports exceed 10 per cent of the annual sales. When the new set-up small-scale industries are located in particular sites established by the Government, the income tax exemption is extended by another full year, that is five years in all.

Joint ventures are given important exemption from customs duties on machinery, equipment and first round of spare parts imported prior to the commencement of operation which will apply also for major expansions. Exported goods of the joint ventures companies enjoy also custom duty and transaction tax exemption. Similarly, raw materials and goods imported as inputs for services and products are exempted from custom duties and taxes.

As far as the income tax is concerned, a joint venture is granted exemption of it for five years in case of new projects and three years for major expansion of existing projects.

Dividends reinvested in Ethiopia are income tax exempted while those remitted abroad are taxed 10 per cent of the amount remitted.

Salaries and allowances of expatriate personnel not residents of Ethiopia are exempted of income tax.

Remittance of proceeds of liquidation and payments from sale or transfer of shares are effected with no tax.

The income tax payable after the period of exemption is rated 40 per cent annually.

Joint ventures are allowed to carry forward losses for three consecutive years.

Private enterprises in hotel services enjoy also import duties exemption on capital goods and building materials as well as income tax exemption.

The high interest in these new regulations was proved by the sudden substantial increase in the number of applications which exceeded more than ten times the previous monthly rate. In this respect, HASIDA role in promoting small-scale industrial projects in the private sector is expected to be considerably derestricted and substantially expanded to encourage private investment in both import substitution and export oriented industries.

9.4. NEW JOINT VENTURE POLICY

Previous restrictions on joint venture arrangements contained in the 1983 Proclamation are also lifted by the Proclamation No. 32/1989 approving in Parliament the Council of State Special Decree No. 11 of 5th July 1989 on joint ventures. The new regulations permit private Ethiopian investors and cooperative organizations to hold shares with no limitation in joint venture companies and set up such companies together with any foreign investor in all industrial sectors, providing that a minimal participation of the Government is secured.

Yet, such joint venture arrangements in sectors of special national interest for the state, namely electricity and power, water supply, banking and insurance business, retail trade, transport and communications are allowed only with a prior approval of the Government.

9.5. NEW HOUSING REGULATIONS

New regulatory form was introduced early this year to govern construction and use of urban houses. This new law provides for increased land allotment for house builders and enables application of a new housing, building and town planning policy.

As regards the financial aspects, the new regulations offer the possibility of obtaining loans to cover the cost of construction works on favourable terms. Easier access to building materials was also provided.

9.6. OTHER CONTEMPLATED LEGISLATION

Other regulations are currently in final stage of preparation to cover other sectors of the economy. In agricultural sector, for instance, the legislation is expected to allow private local investors to possess and cultivate land for commercializing the production.

The new economic reform underway is generating a new legal framework not only in industry and agriculture but practically in all economic and social sectors.

9.7. LICENSING AND REGISTRATION PROCEDURES

The industrial license and registration procedures now in force are included in the Proclamation No. 30/1989 on the establishment of small-scale industries in Ethiopia.

In accordance with these stipulations, any person desiring to establish or operate small-scale industry under this law most obtain industrial license from the appropriate authority through submission of an application accompanied by the relevant techno-economic feasibility study, statements from the concerned government offices regarding health and sanitary conditions, environmental protection and safety measures as well as any other details required by regulations issued for the implementation of this law. The appropriate authority means the Ministry of Industry or the Executive Committee of an Autonomous Region or Administrative Region which has been authorized by the Council of Ministers (Government) to give industrial license. For the obtaining and renewal of an industrial license a license fee must be paid determined by the regulations.

After reviewing the application, the appropriate authority shall issue the applicant with a permanent industrial license which is to be renewed yearly. A temporary license up to one year is also provided until the necessary relevant particulars are fully furnished, but otherwise is cancelled. However, no production for sale or rendering of engineering services may be undertaken on the basis of a temporary license. Any license can be transferred to another person upon approval from the appropriate authority. In case of reconstruction or expansion of existing small-scale industries a preliminary written permit has to be obtained from the appropriate authority.

The licenses may by suspended until defects are corrected (breaching of sanitary standards, safety measures, technical and product quality level violations, insufficient supply of necessary information, wrong use of raw materials and foreign exchange, etc.). They may be also revoked in case of false information, repeated violations mentioned above, ceasing of operation, etc.

Registration of the small-scale industry is done, on the basis of the license, in the Industrial Register kept by the appropriate authority, which confers legal personality. In order to commercialize his products, a person issued with a permanent industrial license needs a trade license.

Annual information shall be submitted to the appropriate authority on the general status and activity of the industry and its plans. Inspection, administrative measures and penalties are also provided by law. In hotel services sector any person establishing a hotel needs a license and the person operating hotel services shall register.

In the case of joint ventures, the procedures for establishment include an application, other relevant documents and information on which basis an •establishment certificate is issued. A joint venture agreement shall be the instrument of formation of a joint venture, and it shall contain all necessary relevant information, including purpose, share capital, contribution in kind and in cash, duration, distribution of profits, privileges, etc.

The operation commences only upon registration with the Ministry of Domestic Trade on the basis of the joint venture agreement, certificate attesting the payment of 25 per cent of the capital contribution and certificate of approval of the establishment of the joint venture.

The registration confers legal personality to the joint venture which shall be granted manufacturing, business or other license or permit. The liability is extended only to the value of the joint venture assets or the respective shareholding.

Protection of rights, remittance of funds and transfer of shares are also provided by the respective law mentioned above. Thus, a foreign investor may remit in freely convertible currency incomes obtained as dividend from activities, proceeds from liquidation, payments from sale or transfer of shares. A joint venture may transfer in freely convertible currency payments of debt services for a foreign loan, fees or royalties of technology transfer. Transfer of shares is also permitted to any acceptable third party, domestic or foreign.

An Office concerning Joint Ventures is set up for the promotion and follow-up of joint ventures. It supervises a Joint Venture Committee in charge of investment application, drafting of joint venture agreements, etc. Detail management regulations are also included by the law as well as concrete activities for procurement, marketing and acquisition of the technologies.

Provisions for incentives, financing and foreign exchange regulations are accordingly stipulated. The privileged regime has been described in a previous paragraph above.

10. OTHER REGULATIONS AND PROCEDURES

10.1. FISCAL SYSTEM

The Ethiopian taxation regime is governed at present by the Income Tax Regulations No. 258/1962, providing heavy rates of personal taxation for private entrepreneurs (89 per cent for owners and 85 per cent for employees) applied on annual revenues exceeding Birr 36,000.

In order to stimulate small-scale industries, hotel services and joint ventures, special laws were issued (Proclamation No. 30, 31 and 32 of 1989) providing preferential treatment to such activities, customs duty and income tax exemption as well as other incentives as mentioned in a previous chapter on privileged regime. As regards other types of business, since the present taxes are extremely high, the Government was expected to revise the fiscal code to make them consistent with the new policy reform measures. Otherwise the regular income tax on profits is made at the rate of 50 per cent.

At the end of April, a new taxation code was announced encouraging private investors and offering them grater opportunity in business activity.

10.2. EMPLOYMENT CODE

It was regarded as highly probably that in the application of the economic reform measures the public sector would be reviewed in the course of 1990, with the understanding that appropriate action was to be taken to draft the necessary legislative framework for a new wage and employment code.

In this connection, it was expected that the way of establishing wages would be modified, linking earnings closer to production output, observing of technical standards and quality level. To this aim, incentives would be provided to stimulate increased productivity and improve overall profitability of the public enterprises. A better and more stimulative procedure was to be sought to determine salary scale on various professional levels correlated with seniority but also with personal initiative and own performance in the work process. Special stimulants were to be considered for managerial posts and responsible administrative functions. Proper attention was to be paid to secure minimal wages and other social services (pension, mother and child social protection, medical and social insurance, etc.). The Government is conscious that it has to make efforts to preserve the important social gains and schemes which political system managed to provide for the public civil servants, low income population and marginal wage labour force. In this respect, a possibility of an employment special fund could be considered to buffer - along with other concerted socially aimed measures - severe potential social shocks due to the restructuring policies in the economic sectors, mainly to counterbalance possible future unemployment.

In keeping with the expected changes announced in agricultural sector - tenure title deeds, right to use employed labour, etc. - official introduction of wages for rural workers is also contemplated.

One of the main objectives of the new wage and employment law would be to entitle rights and provide protection both for employers and employees according to more or less generally accepted standards in developing countries with market system economies, with due attention paid to protection of interests of disadvantaged groups and to maintaining internal stability.

The first definite signs of such future improved employment legislation were noticed in the regulatory form of the Proclamation No. 30, 31 and 32/1989 referring to certain wage and employment new procedure introduced in the small-scale industries, hotel services and joint venture companies governed by the respective above mentioned laws. More such regulations were to be adopted in the gradual process of adjusting social aspects to the new economic policy reform under way in Ethiopia.