Addis Ababa University

College of Social Sciences

Faculty of Business & Economics

Master of Business Administration (Regular Program)

FDI Implementation Challenges: in case of Ethiopian manufacturing industry

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Art in Business Administration

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Declaration

I, the undersigned declare that this thesis entitled "FDI Implementation Challenges: in case of Ethiopian manufacturing industry" Is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

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This is to certify that **Genanaw Girma** has completed his thesis entitled "FDI Implementation Challenges: in case of Ethiopian manufacturing industry "is his original work and is submitted for examination with my approval as thesis.

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Acronyms

AACCSA	Addis Ababa Chamber of Commerce And Sectoral Associations
AGOA	African Growth Opportunity Act
ANOVA	Analysis of Variance
BOQ	Bill of Quantity
CBE	Commercial Bank of Ethiopia
CIA	Central Intelligent Agency
COC	Certificate of Competency
COMESA	Common Market for Eastern and Southern Africa
CSA	Central Statistics Agency
DBE	Development Bank of Ethiopia
EBA	Everything-But-Arms
EEU	Ethiopian Electric Utility
EFY	Ethiopian Fiscal Year
E.I.C	Ethiopian Investment Commission
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian Birr
EU	European Union
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic Of Ethiopia
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam
GNP	Gross National Product
GSP	Generalized System of Preference
ICT	Information and Communication Technology
IP	Industrial Park
IPDC	Industrial Park Development Corporation
KNBS	Kenya National Bureau of Statistics
MNC	Multi-National Companies
MNEs	Multinational enterprises
MOARD	Ministry of Agriculture & Rural Development
MOFED	Ministry of Finance and Economic Development
MOLSA	Ministry of Labor and Social Affairs
OSS	One-Stop Shop
SPSS	Statistical Package for Social Sciences
SZO	Special Zone of Oromia
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar

Abstract

The aim of this study was to investigate challenges facing foreign investors in implementing manufacturing FDI in Ethiopia. Descriptive research design was used. The target population comprised 493 foreign companies and 100 samples drawn. The non- probability sampling technique was used. The study used Questionnaires and interview to gather first-hand information from foreign investors, professional experts, and government officials. Accidental or convenience sampling technique was used to distribute questioners for foreign investors. In order to test the validity of the instrument, the pre-test was used. Data analysis and report of findings was done using descriptive statistics in the form of frequency tables, percentages, mean and standard deviation and the relationship of the elements was investigated using mean ranking. The findings of the study showed that fiscal policy, land related factors, market and product factors, and infrastructure factors are the major sources of challenges. The overall finding of this study suggests that implementation of manufacturing FDI have been very low. This may be due to poor coordination of governmental institutions for investment facilitation, poor provision of critical public utilities and services. The study concludes by providing certain necessary suggestions that may help in addressing implementation challenges.

The study recommends that There is a need for a much more specific, clear and transparent legal document especially the investment proclamations, regulations and directives need to be updated in line with technology changes, economic development, long term development planning. The Government through relevant ministries should further improve the country's infrastructures, provisions of loans and foreign currency and allocation of land for the manufacturing sector to reduce the cost of doing business thereby reducing challenges

Keywords: FDI; Manufacturing; Ethiopia; Implementation; Challenge

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture matter for attracting FDI to a larger number of developing countries and for reaping the full benefits of FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them. (OECD, 2002)

The overall benefits of FDI for developing country economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries. Moreover, beyond the strictly economic benefits, FDI may help improve environmental and social conditions in the host country by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies. (OECD, 2002)

According to Fredrik (2014) who done a research paper on the title Foreign direct investment in sub-Saharan Africa -Status and Perspective; Foreign direct investment (FDI) is defined as an investment to gain long-term influence in the management of enterprises who are located within any country despite the country the Headquarters of the own company has its residence in. FDI is one out of three types of transnational capital flows, next to portfolio investment and bank loans. Countries who receive foreign direct investment are named as "direct investment enterprises" and the investing Companies "direct investors". Foreign direct investment (FDI) as ''an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)''. (UNCTAD, 2016)

The degree of control over the invested capital determines whether the investment is direct or portfolio. In the latter case, the investor don't exercise any control over the use of that capital, rather he/she simply lends the capital in order to get a return on it (Sodersten & Reed, 1994).

Manufacturing industries are those that engage in the transformation of goods, materials or substances into new products. The transformational process can be physical, chemical or mechanical. Manufacturers often have plants, mills or factories that produce goods for public consumption. Machines and equipment's are typically used in the process of manufacturing. (Lavinson, 2018).

Foreign Direct Investment (FDI) is one of the most vital economic activities, which enhances the development of a country. Especially its benefit is significant for developing countries that are undergoing a market oriented economy. Ethiopia is one of the countries that move towards market oriented economy to reap the harvest of investment. The country is endowed with abundant and diversified natural resources and diverse climate. It has also several agro-ecological zones and sub-zones, each with its own physical and biological potentials. These and other factors make the country favorable for undertaking investment in various areas, which includes agriculture with Priority areas for investment such as Horticulture (flowers, fruits, vegetables and herbs), plantation of cotton, palm tree, rubber tree, coffee, tea, sugarcane, oilseeds, livestock, apiculture, and high-value crops such as barley for malting and manufacturing sector with Priority areas for investment such as Textile & apparel, leather & leather products, agro-processing, pharmaceuticals, chemical products, metal & engineering industry, electronics & electrical products, paper & paper products, and construction materials and service sector with priority areas such as Tourism, grade one tour operation, star designated hotels, lodges & restaurants, grade one construction, information & communications technology (ICT) and general & specialized hospitals and also other priority areas such as energy and mining (EIC, 2017).

In 1992, Ethiopia's economic liberalization started. Since then, the government has made a broad range of policy reforms including deregulation of domestic prices, devaluation of the national currency to reflect its market value, privatization of public enterprise, promulgation of the investment law for the promotion and encouragement of private investments, issuance of labor law, decentralization of economic and political power, and other related policies (UNCTAD/DITE, 2006)

The promotion and encouragement of private investors in general and FDI in particular were one of the economic reforms taken in 1992. As part of this reform, the Ethiopian Investment Commission (E.I.C) was established in 1992 under the Proclamation Number 15/1992. The investment policy, proclaimed in 1992 has been revised entry for eight times (Proclamation Number 15/1992,37/1996, 116/1998,168/1999, 280/2002, 375/2003, 769/2012, 849/2014)[1] and currently the governments of Ethiopia is on the process of privatizing some state owned institutions in full or in part, as a result of this the existing investment law and regulation need to be amended because the existing laws and regulation have certain restriction on areas which are not eligible for foreign companies. Furthermore, as its policy, the investment commission is following the principle of 'one-stop shop' and other incentives so as to facilitate the efficiency of FDI licensing, promotion and facilitation.

Manufacturing is an engine of sustainable growth and development for any nations especially developing countries. Countries able to generate sustainable income for their economic growth when they make structural adjustment on their economies by transforming from primary sector which is largely agriculture base to manufacturing base. The manufacturing sector in Ethiopia, which accounts for merely 22.9% of GDP in 2017 fiscal year, is dominated by food, beverage, textiles, hides and skins, and leather industries (Plecher , 2019).Manufacturing FDI also accounts 48.83% of FDI companies, 75% of capital and 42.97% of employment opportunities from total FDI inflow in the country since 1992 to 2018 (EIC, 2018).

Manufacturing industry in Ethiopia is started at small scale level with a simple processing technology that produced mainly semi-processed agricultural products. However, it is still at its infant stage of development and established at major cities and towns. Several factors are believed to prevent the emergence of a stronger manufacturing base in Ethiopia such as lack of management and technological capacity of some industries, insufficient supply of manufacturing inputs, quality problems with manufacturing inputs and delay in commissioning of several industries. However, the country has the

[1]Investment Proclamation, Negarit Gazette, Proclamation No. 15/1992, 37/1996, 116/1998, 168/1999, 280/2002, 375/2003, 769/2012 and 849/2014.

natural and physical resources to alter these bad factors. These resources are also the country's growth prospects and comparative advantages that are very important to the development of the sector such as cheap, trainable and inexpensive labor force, raw materials and supplies of basic utilities. Furthermore, the legal and policy framework creates conducive and attractive environment for the development of the sector. Moreover, it helps to increase the growth of manufacturing sector so as to benefit from vertical and horizontal linkages to the natural resource base of the country which is mostly agriculture and mineral resource. (AACCSA, 2014)

The two main approaches used in this study involve a review of existing theoretical and empirical literature on foreign direct investment and manufacturing and an empirical investigation and research studies that have investigate the challenges foreign direct investment, particularly the manufacturing sector. The focus of this study is to examine the implementation challenges that are confronted by foreign investors in Ethiopia, registered and licensed by the Ethiopian Investment Commission particularly the private manufacturing foreign companies that are investing in Ethiopia and to exploits ways in addressing these challenges in such a manner that does not negatively affect the country as well.

1.2 Statement of the Problem

Foreign direct investment is one of the primary engines of development in a country because it tackles the problem of unemployment and it provides tax revenue for the government. Beside these benefits manufacturing foreign direct investment is also one of the factors that can adjust the countries balance of payment by offsetting imports. These kinds of investment have also the advantage of bringing new technologies and R and D. (Teshome, 2010)

The Government of Ethiopia has liberalized the economy, has created an autonomous institution for the investment sector that has formulated its own investment code and had revised the investment proclamations several times and opened economic sectors to foreign investors with few restrictions. The government has also issued several investment incentives, including tax holidays, duty free import of capital goods and export tax exemption to encourage foreign investment. Furthermore, Ethiopia Investment Agency (EIA) the present Ethiopia Investment commission has been established to service investors and streamline the investment procedures.

The encouragement and expansion of investment, especially in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and thereby accelerate the economic development of the country and improve the living standards of the peoples of Ethiopia through the realization of sustainable economic and social development, create wide employment opportunities for Ethiopians and to foster the transfer of technical know-how, of managerial skills, and of technology required for the progress of the country (investment proclamation No 769/2012, 2012).Currently the country is undertaking the growth and transformation plan which is a robust plan requiring significant capital investment and technology transfer. However, due to the low saving of the country there is financial inadequacy constraining in achieving development goals. The government recognizes the role of private investment in particular foreign direct investment to fill the gap of the capital constraint and revised the investment proclamations several times.

Ethiopia ranks 159 (out of 190 economies) in World Bank's Doing Business ranking in 2019[2], with a score of 49.06 down by two positions compared to the previous year. Ethiopia's score is less than the two east African countries Rwanda and Kenya, northeast Egypt and even less than the regional average (Sub-Saharan Africa) countries and above Eritrea. This is a very poor performance for a country like Ethiopia that aspires to be the next China in Africa. Part of the reason for this poor ranking is the onerous state bureaucracy and archaic rules for starting and running business in Ethiopia. So far, the Ethiopian state has been more of a drag on business growth in Ethiopia than the accelerant that many people believe to be the case.

According to the report, the total number of registered manufacturing foreign direct investments in Ethiopia that took the license from 22 August 1992 to 4th December 2018is a total of 2582. With their proposed capital of 454,254,116,006 birr. The employment opportunity proposed was 607,762 including both permanent and temporary employment. However, there are only 1416(29.13%) FDI projects which started the operations and the total employments created by those projects are nearly up to 138,000[3] including both permanent and temporary employment. These facts reveal that FDI in Ethiopia is not only

[2]World Bank's Doing Business 2019

[3]www.ethiopianreporter.com/article/14360

constrained by smaller numbers but also with the failure to commence the operation, while 10.14% are under implementation, 13.84% are under pre- implementation and largest share which accounts 46.88% are cancelled (EIC, 2018).

In the past, many researches such as "FDI in Ethiopia: policy, trend and problems" (Tirfe, 2003),"FDI in Ethiopia: Policy, Flow and its contribution to employment" (Nebiha, 2003), and "Investment Climate and Manufacturing performance in Ethiopia" (Endale, 2011), "Opportunities, Challenges in the Manufacturing Sector". Have been conducted to show the importance of investment policy reforms. recently (Tekeba, 2018)on his title "Ethiopia's Manufacturing Industry Opportunities, Challenges and Way Forward" analyzed that The growth of the manufacturing sector within industry is essential to build national technological capacity, industrial capability and create broad based job opportunity and improve income. In addition to this, the development of the manufacturing industry helps to improve the total factor productivity and competitiveness of the overall economy and its trickledown effect to up and down the supply chain. Because of existence of a number of comparative advantages in the country and to strengthen its competitiveness the Government of Ethiopia offered multiple incentives for the growth of the manufacturing sector.

As a result of those studies, many investment policy measures have been taken. But, the expected outcome which is manufacturing FDI inflow in terms of employment creation, technology transfer, foreign exchange earnings etc. has not yet fully achieved. This indicates that there is a problem in actualizing the written policy we have. This leads us to the problem of Implementation. So the main purpose of this paper is to investigate what the real problems and their possible solutions are in co-ordination the resources our country has, in utilizing the economic liberalization and any other reforms made in order to come up with a fruitful result in having /attracting/ many investors to the country.

1.3. Research Questions

In order to make the research more visible, the following basic research questions were designed.

- What are the main challenges that hinder the proper implementation of manufacturing FDI in Ethiopia?
- What are the challenges in implementing manufacturing FDI in each stages of investment?

- What are the necessary measures needed to be taken so as to avoid or at least to reduce the Implementation challenges of manufacturing FDI?
- What should be done for future implementation of manufacturing FDI in Ethiopia?

1.4 Objectives

1.4.1 General Objective

The general objective of the study is to assess critical challenges in implementing manufacturing FDI in Ethiopia.

1.4.2 Specific Objectives

The specific objectives of this paper were

• To identify critical challenges that hinder proper implementation of manufacturing FDI.

• To examine challenges in implementing manufacturing FDI in each stages of investment.

• To suggest possible solutions for the main challenges that hinders implementation of manufacturing FDI.

1.5 Study Area

The study area of my thesis focused on Ethiopia. Ethiopia has a population which is the second in African continent and tenth in the world. The urbanization rate is 4.26% with the population growth rate is 2.6% among which the working group of the society is from 15-24 years: 20.11%, 25-54 years: 29.58% and 55-64 years: 3.91% more than 53.6% of the population is in working age. From the total population 26.7% is unemployed and the literacy rate is 49% Ethiopian economy now days have to give a permanent solution to the growing population and unemployment by increasing the contribution to the economy.[4]

Ethiopia has experienced double-digit economic growth, averaging 10.8% since 2005, which has mainly been underpinned by public-sector-led development. Real gross domestic product (GDP) is estimated to have grown by 10.2% in fiscal year 2014/15. The agriculture, services and industry sectors accounted

[4]CIA fact book 2017

for 38.8%, 46.6% and 15.2% of real GDP, respectively. Public investments are expected to continue driving growth in the short and medium term with huge investments in infrastructure and the development of industrial parks, prioritized to ease bottlenecks to structural transformation, which will still have to take shape with industry playing a significant role in the economy.[5] The current 2016-20 five-year plan, known as the Growth and Transformation Plan II, which emphasizes developing manufacturing in sectors where Ethiopia has a comparative advantage, such as textiles and garments, leather goods, and processed agricultural products. To support industrialization, Ethiopia plans to increase installed power generation capacity by 8,320 MW, up from a capacity of 2,000 MW, by building three more major dams and expanding to other sources of renewable energy. In 2017, the government devalued the birr by 15% to increase exports and alleviate a chronic foreign currency shortage in the country.

1.6 Scope of Study

Geographically the study is limited to Ethiopia but only investigating the foreign companies operating in the manufacturing sector which only registered from 22 January 1992 to 4th December 2018.Moreover the study is limited to critical challenges in implementing manufacturing FDI in Ethiopia.

1.7 Definition of Key Terms

Three different stages of investment projects (EIC, 2019)

Pre-implementation: -The stage of investment projects that have not yet start implementation of investment activities

Implementation: -stage of investment projects in which practical undertakings such as construction of civil works, provision of machinery and equipment, etc. are underway but not yet start production of goods

Operation: -the stage of investment projects in which they have either partially or fully start production.

[5]African economic outlook 2016

1.8 Significance of the Study

There were few researches so far done on implementation challenges of manufacturing FDI. Therefore**,** the study has the following significance:

- It used as input for government institutions as instrument to make amendment and measurements to increase the sector contribution to the economy
- It used as a major input to the Ethiopian investment office policy makers to make the necessary adjustments on policy papers
- It helps also the foreign investors interested to invest in Ethiopia as well as those who have invested in Ethiopia already.
- It helps to fill the literature gap that existed in implementing manufacturing FDI in Ethiopia.
- It may stimulate other researchers to undertake further studies and researches related to manufacturing FDI.
- This study also provides research findings that show critical challenges of manufacturing FDI in each stages of investment.

1.9 Organization of the study

This research paper consists five chapters. The first chapter includes background of the study, statement of the problem, research questions, and objective of the study, significant of the study, scope of the study, study area and organization of the study. The second chapter covers the review of related literatures. The third chapter is all about research design and methodology of the study. Results and discussion are discussed under chapter four. The last chapter is about summary of major findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents an overview of the literature that relates to the topic under investigation FDI Implementation Challenges in case of Ethiopian manufacturing industry. In this chapter theoretical and empirical concept of foreign direct investment and manufacturing, are included in detail.

2.1 Theoretical Literature Review

FDI Absorptive Capacity Theory

Inward FDI plays an important role in developing countries in creating job opportunities, as source of capital, high productivity, advanced technology, competitiveness, improved managerial skills, higher exports, access to international markets and international currencies. All these are benefits which inward FDI offers to host countries. However, all these benefits will not become developing countries spillovers. This is because the economies of developing nations need to have certain sound capacities. It is referred to as absorptive capacity of the host nation. They are the initial conditions needed to absorb the benefits which FDI offers. Developing countries need to attain a minimum level of economic development before attracting and promoting FDI. Otherwise, it is so difficult to absorb benefits from FDI. Thus; developing countries need to develop the capacity to absorb benefits which FDI provides. After attracting FDI, developing countries start to facilitate and support inward FDI so as to transform registered projects into realized projects and thereby to benefit from job opportunities and invested capital. Challenges attempted to emerge when projects started to transform during this stage of development. These challenges hinder the progress of project transformation and thereby affected the benefit to gain from project realization. At initial time, investors spend much of their time on mobilizing finance, accessing land, training labor and other FDI activities. However, implementation challenges hamper their progress and transformation. Not only project progress is hampered but also transformation of registered capital and employment into actualized capital and employment. It becomes so difficult for developing countries externalities to be converted into internalities as a result of absorptive capacity of the host nations. This shows that there is gap in FDI implementation. The gap in FDI implementation is reflected due to insufficient capacity in the economy of these countries. These are poor financial system, weak infrastructure and insufficient

skilled labor. The gap between registered FDI and actual FDI clearly depicts the absorptive capacity of developing countries. If developing countries have passed these implementation challenges, they start to reap the benefits from FDI attraction and entry. The absorbed FDI benefits translated not only in terms of actualized capital but also in terms of transfer of advanced technology, skill and knowledge. However, all developing countries are not expected to benefit from FDI entry as countries do not develop sufficient capacities as required and at the same level. Thus, developing countries can able to absorb the benefits of FDI if they successfully developed absorptive capacity (Nguyen, Duysters, Patterson, & Sander, 2009).

Photosynthesis Model

This is a model which argues that recipient developing countries can gain from benefits of FDI if they developed sufficient absorptive capacities relating with physical infrastructure, technological, institutional development, human capital, financial infrastructure, and capacity of domestic firms. (Nguyen, Duysters, Patterson, & Sander, 2009)

2.2 Empirical Literature Review

This part of the literature review is designed to present different researches and empirical studies that have investigated the challenges of foreign direct investment.

Amoako (2013) Analyzed challenges of foreign direct investment in Ghana by examining empirical evidences in Vodafone Ghana. His research objectives were to evaluate the key challenges of foreign direct investment in Ghana and to assess the critical role/benefits of foreign direct investment. He used descriptive survey and distributed questionnaires for respondents. His study focused on Vodafone Ghana, a leading telecommunication company in Ghana. The study used both primary and secondary data and taken a sample population of 50 respondents from Vodafone. His findings indicated that major challenges that impede FDI in Ghana from first to fifth rank were high level taxation, high utility price, depreciation of Cedi[6], access to credit and poor power supply. Access to land is also the most significant challenge that foreign investors face. His research results indicated that FDI benefits Ghana in

[6] Cedi is the official currency unit of Ghana

technology Transfer, job creation, and tax contribution to the Government inform of revenues for building public services such as hospitals, schools, roads and others. My critic here is that challenges of foreign direct investment in developing countries are many and need to assess those factors.

Hiten (2012) Analyzed challenges of FDI in Kenyan apparel manufacturing firms. His research problem was to investigate the challenges of foreign investors in Kenya. He used descriptive analysis method based on the primary data collected from fourteen FDI firms. The firms were involved in apparel manufacturing at the Kenya export processing zones. His findings indicated that the major challenge for FDI in apparel manufacturing industry in Kenya was fiscal factors. Then, infrastructure factors, custom regulation challenges and market related factors were also major challenges next to fiscal factors in their order of priority. Here, I criticize that a separate questionnaire is needed for professional experts to get their views on policy, legal, administrative and other related issues. AACCSA (2014) Analyzed challenges of manufacturing industry in Ethiopia. The main objectives of the survey was to analyze and determine the status of each manufacturing sectors to determine its current performance and constraints, review recent developments of the sectors, examine its potential and develop manufacturing sector status report. the methods employed for compiling the report include: Key stakeholders interview, In-depth review of pertinent existing literatures on the manufacturing sector from documentations from CSA, Growth and Transformation Plan (GTP) and Ministry of Industry, Analyzing data: both quantitative and qualitative data Validation workshop with key stakeholders.

Shiferaw (2014) analyzed FDI effectiveness in development, its challenges and prospects in Ethiopia especially in the case of Special Zone of Oromia (SZO)[7] which is found at the very vicinity of Addis Ababa city. His research objective is to assess the effectiveness of FDI in SZO and to identify challenges that hinder its effectiveness. His study used questionnaires and interview to gather primary data from experts, foreign investors and Government officials of SZO and Oromia regional investment Commission. He employed both qualitative and quantitative data for assessment. He randomly selected 80 respondents for analysis which includes 18 FDI owners, 60 experts from SZO, and two officials in SZO. His findings indicated that contributions of FDI to the development of SZO are low. The low

7 Special Zone of Oromia (SZO) is a special administrative district in Oromia Regional Government encompassing towns surrounding Ethiopian capital city, Addis Ababa.

contributions to development are manifested by low local employment opportunity, low revenue generation, weak linkage of FDI and domestic firms in terms of technology transfer, skill development and other positive spillover effects. Moreover, his findings indicated that lack of infrastructures, institutional bureaucracy, corruption, market inaccessibility, lack of skilled labor and land rent and lease price were identified as challenges that hinder the effectiveness of FDI in the SZO. My critic here is that challenges that hinder the effectiveness of FDI in the SZO will be better if the questioner forwarded to respondents include all categories of challenges.

Folajimi & adenike (2012) Analyzed challenges of manufacturing industry in Nigeria. Their research objective is to examine challenges of manufacturing industry in Nigeria. Two sets of questionnaires were distributed to respondents in the manufacturing industry and banking sector to assess the challenges. The researcher with analysis of variance (ANOVA) tested five hypotheses to show the accuracy of the discoveries of the research. The findings indicated that challenges of manufacturing industry Nigeria were weak demand for products, high cost of production, frequent electric interruption, high competition, higher interest rates in banks and poor performing Nigerian economy. Because of these challenges, banks consider the manufacturing industry as a high risk sector for lending. My critic here is that some sort of problems was identified to be major challenges but there are a lot of problems affecting the manufacturing sector beside the indicated ones.

Recently Tekeba (2018) on his title "Ethiopia's Manufacturing Industry Opportunities, Challenges and Way Forward" analyzed that the growth of the manufacturing sector within industry is essential to build national technological capacity, industrial capability and create broad based job opportunity and improve income. In addition to this, the development of the manufacturing industry helps to improve the total factor productivity and competitiveness of the overall economy and its trickledown effect to up and down the supply chain. Because of existence of a number of comparative advantages in the country and to strengthen its competitiveness the Government of Ethiopia offered multiple incentives for the growth of the manufacturing sector. Though the manufacturing sector is a way out for sustainable economic development its growth is not without challenges. The major ones include unskilled labor forces with limited experience; limited infrastructure; external pressure from global market, shallow industrial research and development activities, underdeveloped market information system, problems related to trade logistics and limited promotion made on the resources and other opportunities

In general, challenges of FDI in host countries especially in developing countries are believed to be many. However, the above literatures discuss specific challenges of FDI or specific categories of FDI and attempted to analyze that specific challenge based on primary and secondary data collected. Most literatures didn't discuss all implementation challenges in detail and lacks to be updated in line with technology changes, economic development and other parameters. There is literature gap in implementation challenges of manufacturing FDI in Africa in general and Ethiopia in particular. Thus, such situation and literature gap initiates the researcher to do a research on this title in order to add contribution to narrow and address the gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

In this chapter the research methodology which is used for this study were discussed. Topics of coverage in this chapter include research design, population and data type source, sampling design, and data collection method, data collection instruments, data analysis and presentation method, finally validity and reliability are included.

3.1 Research Design

From different classification schemes research design the researcher used descriptive studies of research design with the purpose of assessing the implementation challenges of manufacturing FDI in Ethiopia from the perspectives of foreign companies' leaders/ key decision makers in the implementation challenges of manufacturing FDI in Ethiopia, and also the policy makers of the Ethiopian investment commission.

3.2. Data Types and Sources

There are two sources of data; these are primary source of Data and Secondary Source of Data. In order to undertake this thesis, both primary and secondary data were used. The primary data was obtained through self-administered questionnaires, semi-structured in depth interview and observations. Secondary data was collected from different literatures like books, different researchers conducted in the specific research areas.

3.3. Population and Sampling Design

3.3.1 Population of the Study

The population of the study includes all foreign manufacturing companies operating in Ethiopia.

3.3.2 Sampling Technique

The thesis used non-probability sampling technique as a major sampling method. Incidental or convenience sampling technique used to distribute questioners for foreign investors. Incidental samples

are usually used for selecting elements or individuals who are conveniently available. The researcher selected this sampling technique because the researcher wanted to know the opinion and complaints of some selected investors about the implementation challenges of manufacturing FDI. Purposive sampling technique was employed to distribute questioners for professional experts. Professional experts were selected based on the relevance to the purpose of the study. This is because the researcher selected professional expert respondents based on their specific knowledge to each type of manufacturing FDI. (Kothari, 1990)

3.3.3 Sample Size

In case of survey research we can take 20% of the total population as per Alidelice educational science: theory and practice 2001-2018. (Ali, 2010).There are a total of 493 manufacturing FDI projects those are under implementation so the sample for the study was100 .For the purpose of these research 73 manufacturing foreign direct investments projects was considered to be the representative samples. The other samples for the research were officials and experts from Ethiopian investment commission and stakeholders of manufacturing FDI such as banks (development bank of Ethiopia), IPDC (Industrial Park Development Corporation), EEU (Ethiopian Electric Utility), and Regional government bureau. Accordingly 27 experts were selected purposely with the intention of obtaining the expert that can provide more information about implementation challenges of manufacturing FDI in Ethiopia.

3.3.4 Sampling Procedure

Semi-structured in depth interview and self-administered questioner were conducted with each participant.

3.4. Data Collection Method

Questionnaires, interviews, and observations were used as primary methods of data collection for this research paper. Primary data was collected by distributing questioner to foreign investors and professional experts, conducting interviews with officials. Secondary methods of data collection were document inspections (such as published and unpublished) are used. The details of each instruments presented below.

Questionnaires

One method of primary data collection for this thesis was questionnaires. These questionnaires were formulated in such a way that enables to receive an independent response from both foreign investors and professional experts. Two types of questionnaires were used. The first type of questionnaire was for foreign investors. The foreign investors questionnaire consisted of three parts, part one focused on general information of the foreign investors, part two dealt why foreign investors/companies chose to invest in manufacturing industry in Ethiopia and part three was on challenges faced by manufacturing FDI. The second type of questionnaires was for professional experts who work at manufacturing investment facilitation services and other experts from E.I.C stakeholders. Professional experts' questionnaire consisted of two parts, part one focused on background information of the experts and part two was on investment facilitation services. The questionnaire consisted of both open and closed ended questions which was prepared and distributed to selected respondents.

Interviews

Participants for interviews were mainly governmental officials from E.I.C and its stakeholders. They were selected based on the availability and relevance to the purpose of the study. These participants were expected to know the main problem of investment implementation and policy related issues.

Document Inspection

Document inspection method was implemented for secondary data which would be published and unpublished. These types of data were gathered from different books, magazines, journals, investment proclamations, investment regulations, investment guide and brochures of E.I.C, statistics on investment and different publications.

Focus Group Discussion

Focus group discussions were conducted by staff members of Ethiopian Investment Commission (E.I.C) at the premises of the Commission. Foreign investors participated in the focus group discussion were identified by respective leather and leather products, agro-processing, chemical and pharmaceutical products, metal and engineering, textile and garment and other manufacturing facilitation and aftercare teams. Focus groups discussion was conducted together with foreign investors and experts in each team.

The initial plan was to have 18 foreign investors participate in each of the six focus group sessions. 12 foreign investors actually participated in the focus group discussions, two investors from each six teams.

The objective of the focus group discussion was:

- To identify factors that may positively/negatively influence their manufacturing FDI operation;
- To understand foreign investors perception about implementation challenges in specific sectors of manufacturing FDI;
- To understand how foreign investors perceive investment services rendered by E.I.C, industrial parks and other stakeholder offices;
- To gather information so as to develop a questionnaire for foreign investors and professional experts.

The focus group participants' especially foreign investors did not view regional government bodies as being helpful in terms of supporting their investment operation while many view E.I.C as very committed institution in supporting and managing manufacturing FDI businesses from the very beginning to the end. They raised lack of cooperation in some government sectors at the federal level and were frustrated to mention them. The participants also mentioned poor quality of service provided by government bodies and participants also felt that stakeholders need to be more service or business-oriented. Based on that, questionnaires for foreign investors and professional experts were designed to collect data related to implementation challenges of manufacturing FDI. A copy of questionnaire for foreign investors and professional experts were included in appendix I and II.

3.5. Method of Data Analysis and Presentation

The data was coded and summarized using frequency distribution tables. It was then presented in tabular form and analyzed using descriptive statistics which included measures of central tendency to explain the main characteristics of the population.SPSS statistics 20 was for employed to enter data. After the completion of data entry, data cleaning was performed by checking each variable's frequency distribution. Obvious coding errors were corrected by checking the original questionnaire or re-coding. Data analysis and report of findings was done using descriptive statistics in the form of frequency tables, percentages, mean and standard deviation. The relationship of the elements was investigated using mean ranking. Interview responses described and combined with the questionnaire response descriptions. Data presentation techniques used depending on the nature of the data. The data presented by using table, graphs, charts, and textually in a narrative descriptions form.

3.6 Validity Test

3.6.1 Pre-Test

The aim of the pre-test was to make the questionnaire clear and complete. The respondents provided relevant ideas and suggested comments on the format of the questionnaire. They commented on each part of the foreign investors and professional experts' questionnaires. They forwarded ideas on which part of the questionnaire to be added, removed or developed for both foreign investors and professional expert questionnaires.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

This chapter deals with detail of data presentation and analysis on the response of foreign investors. The challenges in implementing manufacturing FDI in Ethiopia have been observed through the information obtained from foreign investors. The information available for this purpose was collected using different techniques such as questionnaires, interview, and different secondary sources (both published and unpublished) were accessed. After the data presentation in tabular form, analysis was made based on the responses of foreign investors engaged in manufacturing FDI.

4.1 Response Rate for Questionnaires Provided for Foreign investors

In this study the researcher selected 75 respondents for questionnaires who were foreign investors engaged in manufacturing FDI. A group of foreign investors selected from all sectors of manufacturing industries, i.e., textile and garment, leather and leather products, agro processing, chemical and pharmaceutical products, metal and engineering, and other manufacturing industries were provided with questionnaires. Regarding the interview, 15 government officials were selected from E.I.C and different stakeholders were properly responded to the interview questions. The response rate was, therefore, 97.3% since from the total 75 respondents two foreign investors were failed to respond. The response rate for questionnaires provided for foreign investors were summarized in Table 4-1.

Table 4. 1 Response Rates for Questionnaires Provided for Foreign investors

Questionnaires	Disseminated	Completed	Response rate (%)
Foreign Investors Questionnaires	75	73	97.3

(Source: Survey Questionnaire, 2019)

The data gathered from questionnaires and secondary sources are analyzed and presented below in the following parts.

4.2 Demographic Characteristics of Foreign Investors

Demographic characteristics of foreign investors were analyzed based on the foreign investor's company characteristics.

Table 4. 2 Respondents background

Background		frequency	Percentage
Ownership Structure of Respondents	Wholly Foreign Owned	50	68
	Joint Venture with Locals	23	32
Respondents by Country of Origin (Top 3)	China	26	35.6
	India	9	12.3
	china/Ethiopia	7	9.6
Respondents by Capital Investment	1-10 million	13	18
	11-50 million	28	38
	51-100 million	9	12
	greater than 100 million	23	32
Respondents by Regional Location	Oromia	35	48
	Benishangul Gumuz	1	2
	Harari	1	1.4
	Addis Ababa	16	22
	Amhara	10	14
	Dire Dawa	3	4
	SNNPR	2	3
	Tigray	1	1
	Afar	1	1
	Gambella	1	1
	Ethiopian Somali	2	3
Respondents by Manufacturing Sub-Sectors	Others Manufacturing	18	25
	Agro Processing	18	25
	Textile And Garment	10	14
	Metal And Engineering	10	14

	Chemical and Pharmaceuticals	9	12
	Leather And Leather Products	8	11
Respondents by Years of Establishment	0-5 Years	32	44
	6-10 Years	18	25
	11-15 Years	8	11
	Greater Than 15 Years	15	20
Respondents by Number of Employees	1-49 employees	10	14
	50-100 employees	20	27
	101-500 employees	28	38
	greater than 500 employees	15	21
Respondents by Status of their Manufacturing Industry Activity	Pre-Implementation	11	15.1
	Implementation	51	69.9
	Operation	11	15.1
TOTAL		**73**	**100%**

Similarly, Data compiled by Ethiopian Investment Commission (E.I.C) shows that from August 1992 to November 2018, a total of 4861 investors and companies got licenses on manufacturing FDI. Out of which, 3531(72.65%) are wholly foreign owned while only 1329(27.35%) are joint venture with locals (EIC, 2018)

Table 4. 3 Ownership Structure of Manufacturing FDI in Ethiopia

Ownership	Number of Investors	Percentage
Wholly Foreign Owned	3531	73
Joint Venture with Locals	1329	27
Total	4860	100

(Source: (EIC, 2018)

Wholly foreign owned manufacturing industries have large share (73%) in Ethiopia as compared with joint venture with locals (27%). This is because foreign investors are well equipped with advanced technologies, management skill and knowledge than domestic investors. Since domestic investors lack the required finance, management skill, and technological potential in manufacturing industries, their interest to joint venture partnership is minimum despite foreign investors need the partnership of local ones.

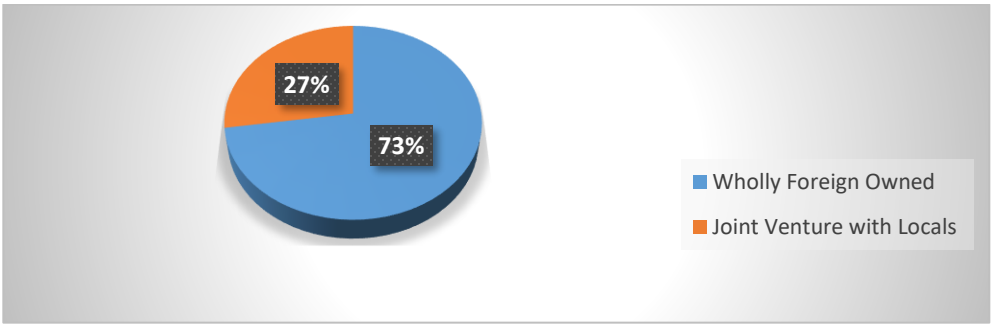

Figure 4. 1Ownership Structure of Manufacturing FDI in Ethiopia

The major manufacturing FDI source countries to Ethiopia in terms of number of companies are: China, Sudan, India, Turkey, and USA to list some of them and as shown in the Table 4-4. Manufacturing FDI inflows to the country were hugely dominated by China in the number of companies (1374). China took 28 percent of the total manufacturing FDI by number of companies in Ethiopia. China and Sudan took 35 percent of the total manufacturing FDI by number of companies in Ethiopia from fiscal year1992 to 2018 (EIC, 2018).

Table 4. 4 Summary of Major Licensed Manufacturing FDI by Country of Origin

Country of Origin	Number of Companies	Percentage
China	1374	28%
Sudan	345	7%
India	343	7%
Turkey	172	4%
USA	145	3%
Yemen	87	2%
Britain	78	2%
Pakistan	60	1%
Saudi Arabia	55	1%
Italy	48	1%

(Source: (EIC, 2018))

Chinese manufacturing FDI in Ethiopia has grown rapidly and becomes the top leading country as shown in Table 4-4. What makes the China FDI in Ethiopia unique is that 68.72% of these investments are concentrated in the manufacturing sector which is different from what happened in other African countries where the Chinese FDI is pretty much resource seeking such as mining and oil. According to the Ethiopian Ministry of Industry, the types of Chinese manufacturing industries currently operating in Ethiopia mainly are cement factories, metal and plastic factories, textile factories, glass factories, steel factories, chemical factories and car assembling factories. Even if Chinese FDI in manufacturing sector is primarily in labor intensive activities such as textiles, garments, leather and leather products dominate but there are also small scale manufacturing enterprise investments which have a more substantial socioeconomic impact. (Kaplinsky & Morris, 2009)

Why Chinese and other manufacturers head to invest in Ethiopia? The reason is that the country is one of the best places for doing business and has attractive investment climate particularly in manufacturing industries. These include: large trainable labor force, inexpensive labor cost, numerous natural resources and raw materials, lowest energy cost, government incentives, industrial parks development, and others. (Yarns and Fibers News Bureau, 2017)

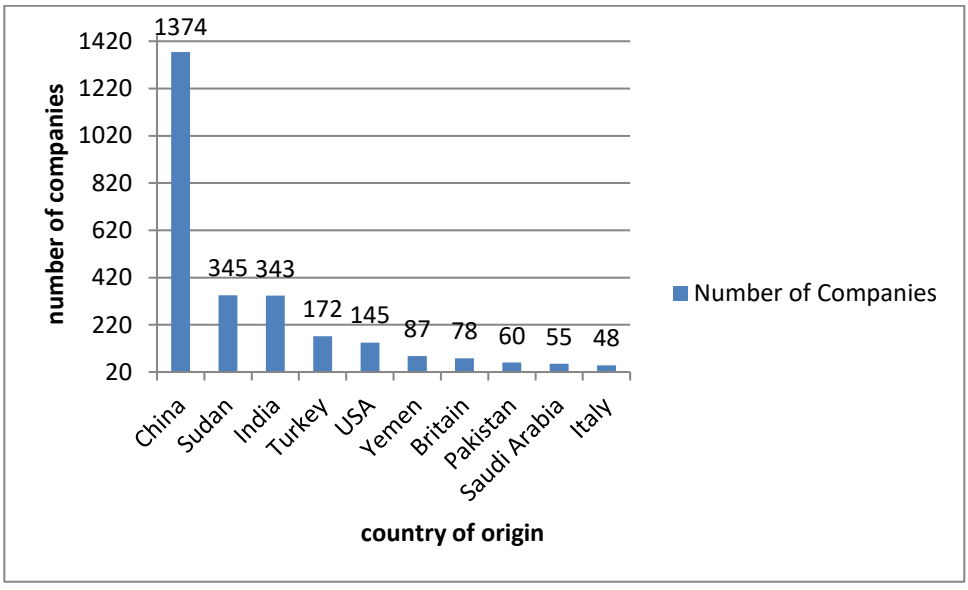

Figure 4. 2 Major Manufacturing FDI Distributions by Country of Origin

The major manufacturing FDI source countries to Ethiopia in terms of capital investment are: China, India, and USA to list some of them and as shown in the Table 4-5. Manufacturing FDI inflows to the

country were hugely dominated by India in terms of capital investment, i.e., ETB 129,397,959.51. India took 29percent of the total manufacturing FDI by capital registered in Ethiopia. China, India, USA, and Turkey took 46percent of the total manufacturing FDI capital registered in Ethiopia from fiscal year 1992 to 2018(Statistics in FDI by E.I.C, 2018).Indian manufacturing FDI in Ethiopia by capital investment is the top from the rest of countries as their investments were mostly in capital intensive industries such as metal factories, textile and garment factories, steel factories and chemical factories，

Table 4. 5 Summary of Major Licensed Manufacturing FDI by Capital Investment

Country of Origin	Capital in '000' ETB	Percentage
India	129,397,959.51	29%
China	42,822,539.16	9%
Turkey	22,151,752.03	5%
Ethiopian/china	16,570,691.65	4%
USA	13,439,753.33	3%
Saudi Arabia	13,417,229.44	3%
USA/Ethiopian	10,059,108.99	2%
Turkey/Ethiopian	5,273,579.77	1%
Sudan	4,740,714.34	1%
Germany/Ethiopian	4,690,256.18	1%

(Source: (EIC, 2018))

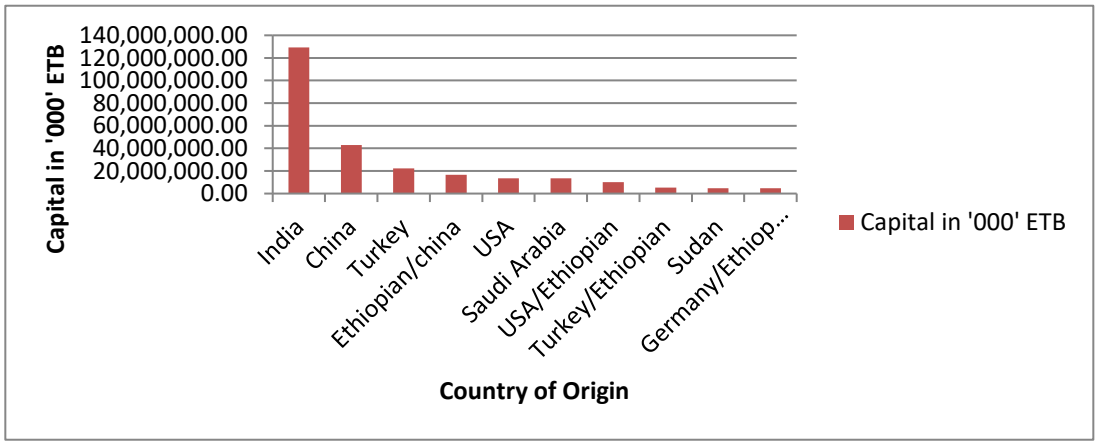

Figure 4. 3 Manufacturing FDI Distributions by Capital Investment

According to data compiled by Ethiopian Investment Commission, Oromia regional state took the largest share of manufacturing FDI both in the number of companies 1115 (43.18%) and capital investment ETB 162,359,066.17 (35.74%) followed by Addis Ababa city with 1017companies (39.39%) (EIC, 2018)

Manufacturing FDI in Ethiopia is distributed across all regional states but both Oromia region and Addis Ababa city controlled 82.57% of the companies and 71.39% of the registered capital in the country. Foreign manufacturing industries were largely clustered around Oromia region and Addis Ababa city mainly due to proximity to the international airport for export of products, relative presence of infrastructure facilities especially asphalted roads, electricity supply, water supply, and internet and telecom services. Moreover, Addis Ababa was the capital of the country and Oromia region located next to the city, foreign investors can easily access services offered by national and international institutions based on the city. However, the rest regions and cities lagged behind due to distance from the capital city and insufficient supply of the above-mentioned services and facilities.

Here follows Table 4-6 that illustrates manufacturing FDI distribution in Ethiopia by regions/cities.

Table 4. 6 Regional Distribution of Manufacturing FDI in Ethiopia

Region/City	Companies		Registered Capital	
	Number of Companies	Percentage	Capital in '000' ETB	Percentage
Oromia	1115	43.18%	162,359,066.17	35.74%
Addis Ababa	1017	39.39%	161,924,945.98	35.65%
Amhara	166	6.43%	60,002,425.80	13.21%
Multiregional	103	3.99%	4,315,289.90	0.95%
SNNPR	59	2.29%	6,721,288.57	1.48%
Tigray	51	1.98%	9,963,669.20	2.19%
Dire Dawa	39	1.51%	24,941,733.21	5.49%
Afar	13	0.50%	2,745,015.60	0.60%
Ethiopian Somali	5	0.19%	19,858,530.00	4.37%
Harari	5	0.19%	1,179,377.29	0.26%
Benishangul Gumuz	5	0.19%	95,273.00	0.02%
Gambella	4	0.15%	147,501.29	0.03%
Total	2582	100%	454,254,116.01	100%

(Source: (EIC, 2018)

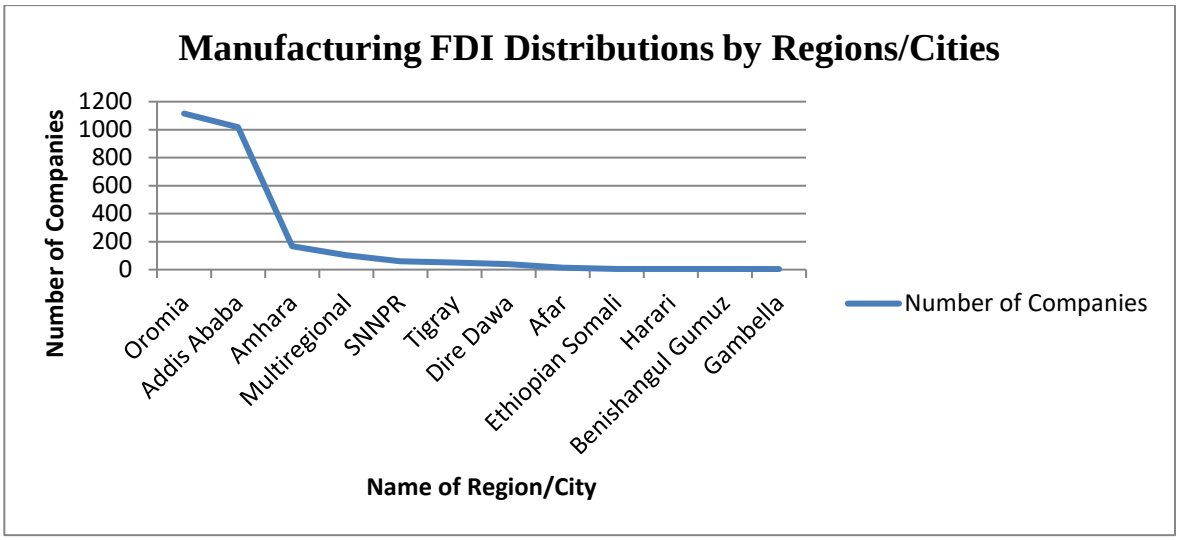

Figure 4. 4 Manufacturing FDI Distributions by Regions/Cities

Manufacturing was identified by Ethiopian government as one of the priority areas for investment. Because of priority sector, all sub-sectors of manufacturing are enjoying investment incentives provided by government regulation such as duty free importation of machineries and plants, tax holiday (exemption from income tax),and other incentives (EIC, 2017)

Data compiled by Ethiopian Investment Commission (E.I.C) shows that Chemical and Pharmaceutical Products industry accounts largest share in the number of companies (24%) and in terms of capital investment Agro Processing accounts (42%). In terms of number of companies, Other manufacturing industries, Agro Processing, metal and engineering, textile and garment, and leather and leather products took 23%, 19%, 18%, 13%, and 3% respectively. In terms of capital investment, Other manufacturing industries, textile and garment, chemical and pharmaceutical products, metal and engineering, and leather and leather products took 21%,16%, 11%,9%, and 1 % respectively (EIC, 2018)

Table 4. 7 Sectorial Distribution of Manufacturing FDI in Ethiopia

Manufacturing Sub Sectors	Companies		Registered Capital	
	Number of Companies	Percentage	Capital in '000' ETB	Percentage
Other Manufacturing Industry	596	23	94,634,383.95	21
Chemical and Pharmaceutical Products	615	24	48,259,680.50	11
Agro Processing	481	19	192,937,992.32	42
Metal and Engineering	466	18	39,804,620.29	9
Textile and Garment	337	13	72,758,315.90	16
Leather & Leather Products	87	3	5,859,123.05	1
Total	**2582**	**100**	**454,254,116.01**	**100**

(Source: (EIC, 2018)

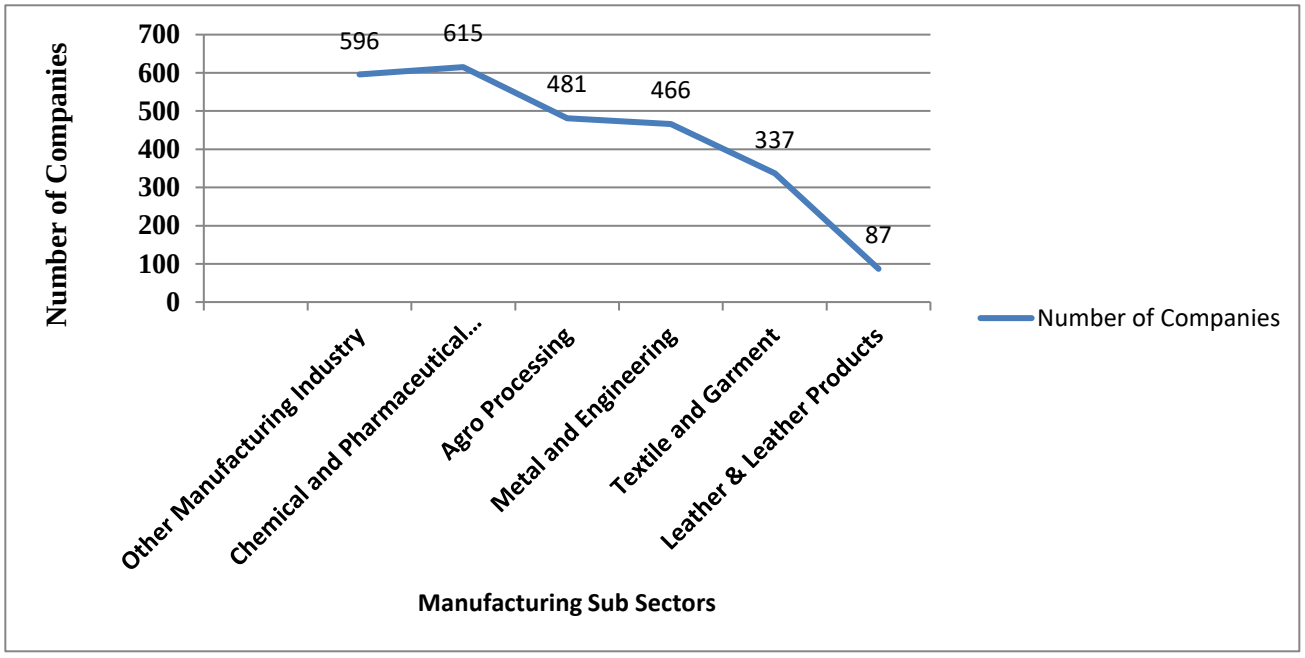

Figure 4. 5 Sectorial Distribution of Manufacturing FDI in Ethiopia

Data obtained from Ethiopian Investment Commission (E.I.C) indicated that manufacturing FDI shows growth every year. However, rapid growth in the manufacturing FDI inflow registered starting from year 2002 onwards. From year 2002-2018, 2505 (97%) companies entered the country (EIC, 2018)

The main reason for increased inflow is attributed to the targeted investment promotion abroad by government investment delegation and Ethiopian embassies across different countries. Moreover, manufacturing is categorized under the priority areas of investment by government and special incentives

such as tax exemption, duty free exemption for machineries, industrial park development and other incentives are provided for foreign investors interested to invest in manufacturing sector. Furthermore, different investment opportunities such as large work force, cheap labor cost, availability of raw materials, etc., also contributed their own role.

Table 4. 8 Manufacturing FDI Distributions by Year of Establishment

Year	Companies		Registered Capital	
	Number of Companies	Percentage	Capital in '000' ETB	Percentage
1992	2	0.08%	8,976.10	0.002%
1993	1	0.04%	44,452.60	0.010%
1994	2	0.08%	202,399.40	0.045%
1995	4	0.15%	146,100.03	0.032%
1996	14	0.54%	369,028.72	0.081%
1997	17	0.66%	840,249.79	0.185%
1998	7	0.27%	407,377.70	0.090%
1999	7	0.27%	341,790.40	0.075%
2000	11	0.43%	172,773.30	0.038%
2001	12	0.46%	1,858,188.12	0.409%
2002	11	0.43%	196,436.90	0.043%
2003	54	2.09%	1,162,938.94	0.256%
2004	69	2.67%	1,862,957.53	0.410%
2005	78	3.02%	2,722,547.00	0.599%
2006	114	4.42%	31,291,072.05	6.888%
2007	136	5.27%	8,276,483.89	1.822%
2008	161	6.24%	15,429,322.46	3.397%
2009	140	5.42%	22,206,852.61	4.889%
2010	136	5.27%	13,619,004.56	2.998%
2011	118	4.57%	14,471,325.21	3.186%
2012	218	8.44%	23,358,758.97	5.142%
2013	261	10.11%	17,769,027.36	3.912%
2014	190	7.36%	20,639,669.63	4.544%
2015	246	9.53%	35,890,021.34	7.901%
2016	217	8.40%	48,496,719.75	10.676%
2017	191	7.40%	171,464,377.94	37.746%
2018	165	6.39%	21,005,263.71	4.624%
Total	2582	100.00%	454,254,116.01	100.000%

(Source: (EIC, 2018)

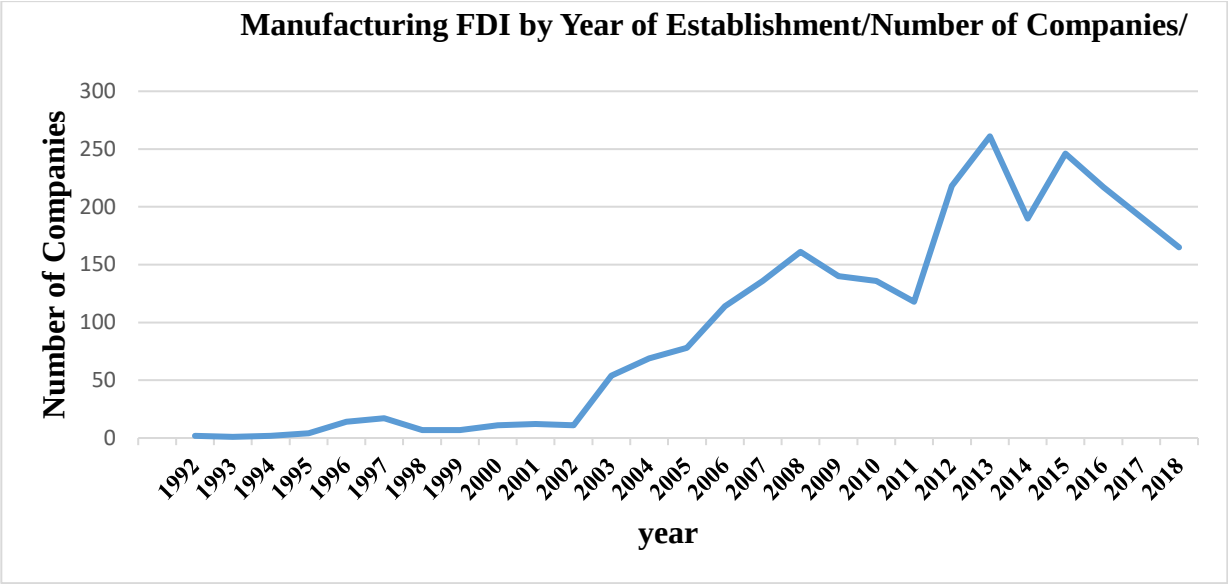

Figure 4. 6 Manufacturing FDI by Year of Establishment/Capital in '000' ETB/

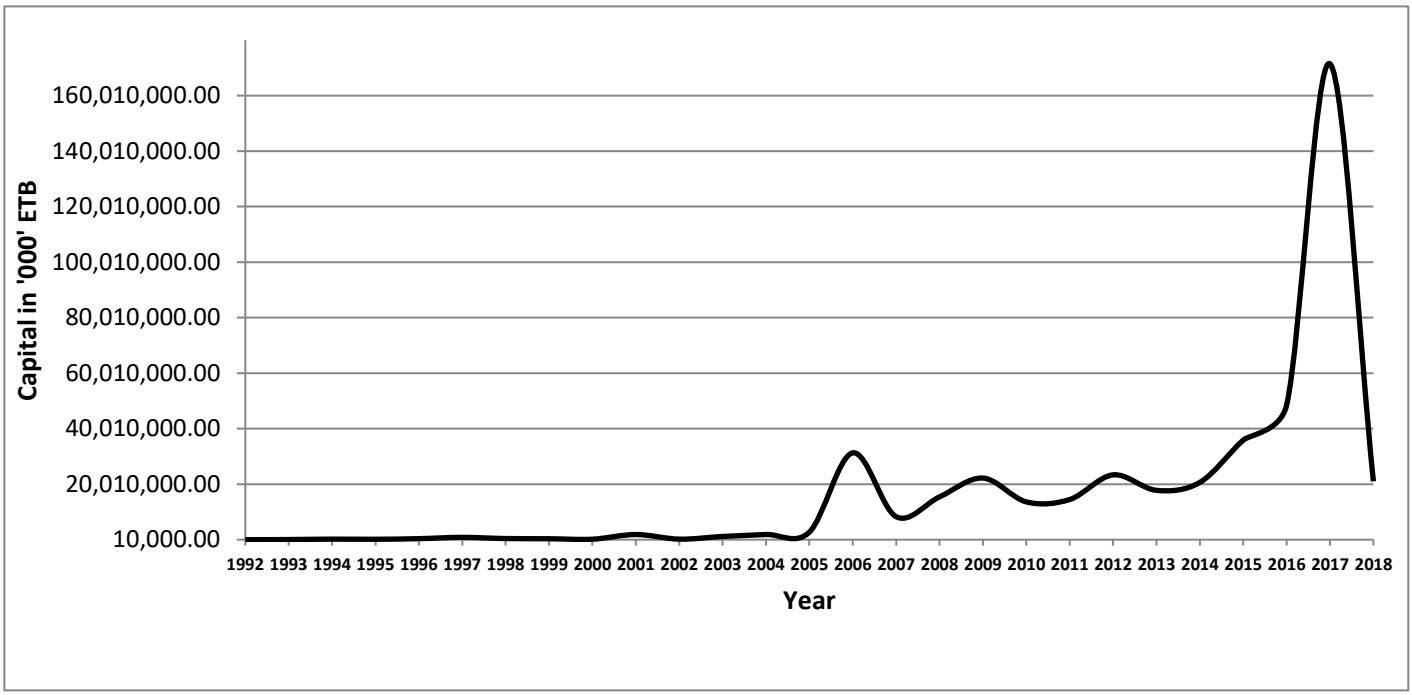

Figure 4. 7 Manufacturing FDI Distributions by Year of Establishment/Capital Investment

One of the direct benefits of manufacturing FDI in Ethiopia has been employment generation. According to Trading Economics global macro models and analysts, in the year 2018 Ethiopia‘s adult unemployment rate is 19.10% and the literacy rate is equally abysmal at 49.1 %. Under such

circumstances, the employment provided by these manufacturing enterprises is highly welcome and it helps in decreasing inequality through increased relative demand for unskilled workers, creating further capital, reduce crimes, and bolster social stability.

Data obtained from Ethiopian Investment Commission (EIC, 2018) show that manufacturing FDI planned to create 607,762 employments for local citizens, out of which 381,356 (62.7%) are permanent jobs while the rest of them are seasonal jobs but the employment created FDI projects which started the operations and the total employments created by those projects are nearly up to 138,000 Including both permanent and temporary employment.

Table 4. 9 Manufacturing FDI Distributions by Number of Employees

Manufacturing Sub Sectors	Number of Employees			
	Permanent	Temporary	Total	Percentage
Other Manufacturing Industry	88,848	40,829	129,677	21
Chemical & Pharmaceutical Products	61,115	62,065	123,180	20
Agro Processing	52,594	43,164	95,758	16
Metal & Engineering	35,730	23,092	58,822	10
Textile & Garment	124,540	47,482	172,022	28
Leather & Leather Products	18,529	9,774	28,303	5
Total	381,356	226,406	607,762	100

(Source: Statistics in FDI by E.I.C, 2018)

As it is shown in the above Table 4-9, The lion ‘s share of employment is taken up by labor jobs requiring work at textile and garment industry which accounts 28% of the total employment created by all sectors of manufacturing in Ethiopia. This is because textile and garment industry is labor intensive among all sectors and is known in absorbing large labor force. Other manufacturing industry took 21%, followed by chemical and pharmaceutical products with 20%. Agro-processing is fourth sub-sector which accounts 16% in employment creation followed by metal and engineering 10% and leather and leather products with 5%.

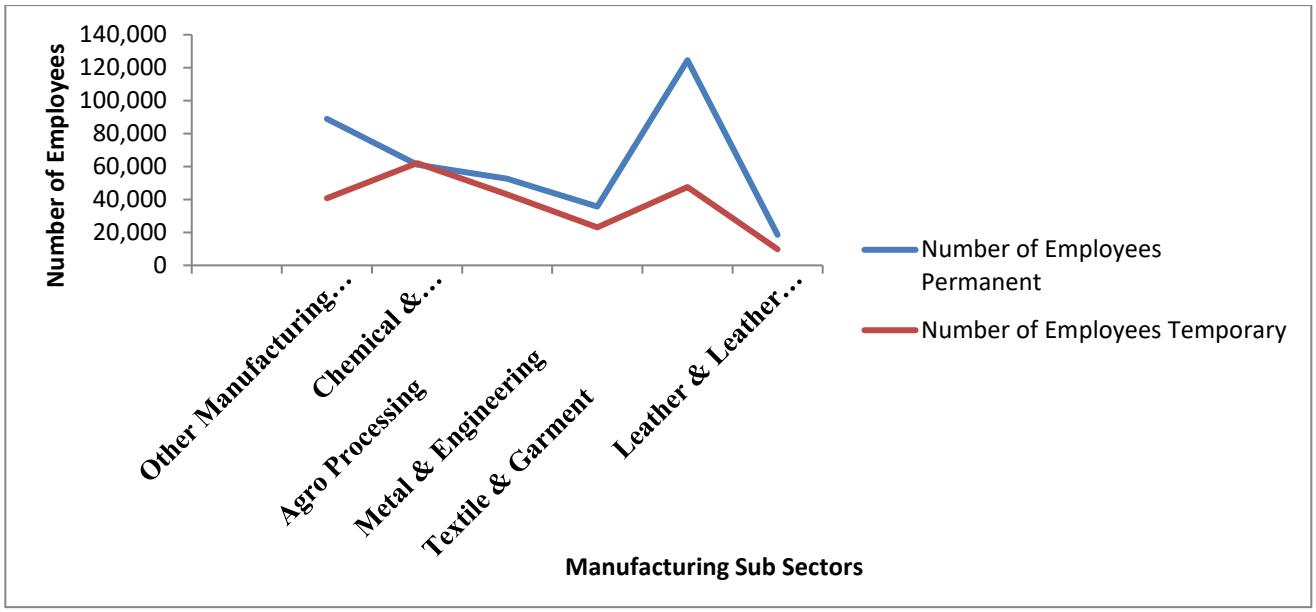

Figure 4. 8 Manufacturing FDI Distributions by Number of Employees

According to data compiled by Ethiopian Investment Commission (EIC, 2018), a total 2582 manufacturing FDI companies got licenses to invest in Ethiopia. Out of these numbers, 20.34% of them are under implementation phase, 50.82% are operational and 28.84% are under pre- implementation stage.

Most manufacturing FDI companies face challenges associated with land, loan, electricity, and other infrastructural and facility problems during implementation and pre-implementation investment phases. These phases of investment were characterized by feasibility study, searching for land and finance, importation of machineries and plants, requesting for infrastructures and facilities. Manufacturing companies to be operational, they have to face all challenges arise from their own side as well as Government body side.

Table 4. 10 Status of Manufacturing FDI in Ethiopia (active and in active)

Status of Manufacturing Industry Activity	Number of Companies	Percentage
Pre-Implementation	673	14
Implementation	493	10
Operation	1416	29
cancelled	2278	47
Total	4860	100

(Source: (EIC, 2018)

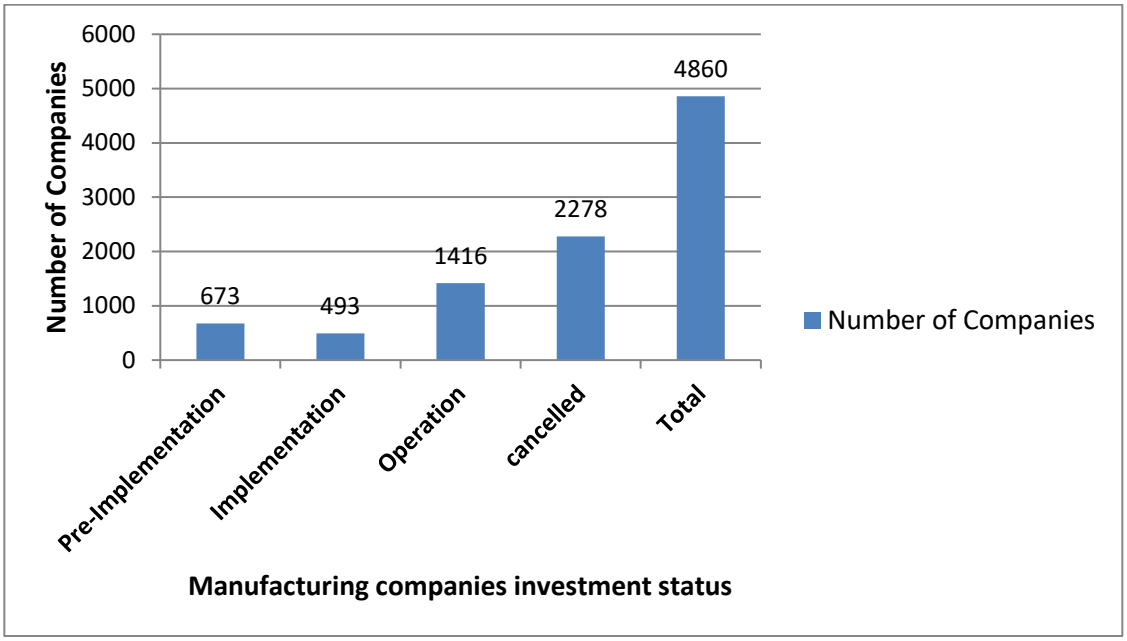

Figure 4. 9 Status of Manufacturing FDI in Ethiopia

4.3 Responses of Foreign Investors

The following part presents the response of foreign investors on reasons why they chose to invest in the manufacturing industry in Ethiopia and time taken to get critical public utilities and services.

4.3.1 Reasons why Foreign Investors chose to invest in the Manufacturing Industry in Ethiopia

Table 4. 11 Reasons why Foreign Investors chose to invest in Manufacturing Industry in Ethiopia

No	Factors	Mean	Standard Deviation
1	**Conducive Business Environment**		
	Political and social stability	3.59	0.970
	Macro-economic stability	3.95	0.804
2	**Investment Privileges**		
	Possibility of remittance of funds	2.99	0.908
	Right of foreign ownership to land, residential houses, vehicles, etc.	3.41	0.898
	Availability of domestic insurance against expropriation	3.48	0.960
	Duty free privilege of machinery, equipment, and spare parts	4.08	0.767
	Tax holiday exemption	4.07	0.723
	Investment guaranty and protection	3.93	0.827
3	**Resource Availability**		

	Availability of land	4.19	0.783
	Availability of cheap labor	4.37	0.814
	Availability of resources like water, minerals, petroleum, etc.	3.19	0.833
4	**Infrastructure Availability**		
	Presence of adequate infrastructure	3.66	0.858
	Availability of electric power supply	4.27	0.889
	Industrial parks development	4.37	0.762
5	**Access to Market**		
	Opportunity of AGOA/EBA/COMESA and others	3.26	0.886
	Large domestic market	4.11	0.847
	Access to wide international market	4.26	0.822
	Capital market in Ethiopia	2.23	1.236
	Low wage costs	4.18	0.811

(Source: Survey Questionnaire, 2019)

The survey indicated that the factors that highly influence foreign investors to invest in manufacturing industry in Ethiopia are availability of cheap labor (mean=4.37), industrial parks development (mean=4.37), availability of electric power supply (mean=4.27), access to wide international market (mean=4.26)and availability of land(mean=4.23) which is the first five highly influential factors for foreign investors to invest in manufacturing industry in Ethiopia accordingly, as shown above on the Table 4-11.

Table 4. 12 Summary: Reasons why Foreign Investors chose to invest in Manufacturing FDI

Factors	Grand Mean	Standard Deviation
Conducive Business Environment	3.77	0.887
Investment Privileges	3.66	0.847
Resource Availability	3.92	0.810
Infrastructure Availability	4.10	0.836
Access to Market	3.61	0.921

(Source: Survey Questionnaire, 2019)

Table 4-12 showed that infrastructure availability (grand mean=4.10) is the greatest contributing factor for foreign investors to invest in Ethiopia followed by resource availability (grand mean=3.92) despite other factors have also their own influence. The labor force is one of Ethiopia's competitive advantages. The country has an abundant young and easy-to-train labor force. In 2017, Ethiopia's labor force reached 51.45 million, with around a million people added to the labor force every year. Youth (15-24 years) literacy rates were 69.48per cent in 2019.

At present, Ethiopia does not have a minimum wage. Skilled wage rates range from USD 80 per month for entry level to USD 150 for experienced workers. Most manufacturing industries like textile and garment, leather and leather products, agro processing and other sub sectors were labor intensive and cost of labor is crucial factor for global competitiveness of foreign investors. Because of this, investors consider cost of labor seriously before investing.

In its Vision 2025 that the country aspires to be a light manufacturing hub in Africa, Ethiopia has developed industrial parks across all regions that gives due emphasis on agro-processing, pharmaceuticals, textiles, leather, and other labor-intensive factories. Currently, 18 industrial parks with 253 factory sheds are developing, of which four of them are private parks (built by Chinese and Hong Kong) while the rest are developed by government. 10 industrial parks are already operational while 8 parks are under construction and soon to become operational. The aim of industrial parks development is to boost manufacturing exports, generate knowledge, transfer skills and contribute to job creation,

Ethiopia has generated sufficient electric power from hydro, wind, and other sources to support FDI and other sectors of economy. Many power projects are under construction with the mega electricity project Grand Ethiopian Renaissance Dam (GERD) which will generate 6000MW is on the pipe line. Currently, Ethiopia has around 4300MW of installed power generating capacity. Hence, no shortage of electric power for foreign investors interested to invest in manufacturing FDI in Ethiopia. In addition, unreliable electricity service is a head ache to many investors in many African countries. But it is not a threat to start business in Ethiopia. Ethiopia is the leading country in Africa in supplying cheap electric power. Ethiopia provides foreign investors with cheap electric power cost as compared with most of its Africans rivals as most of its electric power sourced from hydroelectric dams. Electricity costs $0.05 per kilowatt-hour in Ethiopia, compared with $0.22 in Kenya, $0.27 in Nigeria, $ 0.23 in Djibouti, $0.21 in Uganda and $0.16 in Tanzania (UNI16)

Ethiopia has a large population (107 million in 2018/19) and thus potentially one of the largest domestic markets in Africa. Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) which consists of 19 member countries with a population of 400 million which allows it to enjoy preferential market access to these countries. Ethiopia's geographical proximity to the Middle East also offers potential market and investment opportunities. Ethiopia is one of the qualifying countries for preferential access to the Generalized System of Preference (GSP), to European Union market under the

EU's Everything-But-Arms (EBA) initiative, and to USA markets under the African Growth and Opportunities Act (AGOA). Ethiopian products can export into European Union markets and USA duty free and quota free. Moreover, export standard manufactured commodities from Ethiopia are qualified for preferential access under the GSP in USA, most countries of the EU and other developed countries. Ethiopian commodity exports are free of quota restrictions that are classifying under the 4800 products eligible for GSP treatment (EIC, 2017).

In Ethiopia, land belongs to government and public property. This means that individuals, companies and other organizations have only the right to use land. There are two broad classifications of land for rent or lease purposes: rural land and urban land. Rural land is rented mainly for agriculture. Land for manufacturing and other industries outside of industrial parks is given by the government at fixed prices. Land for export-oriented industries is generally available at concessionary rate (EIC, 2017). Since 2010, six regions identified 3,589,678 hectares of land (as shown in Table 4-13) to be transferred for investors to undertake large scale farms that serves as inputs for agro processing, textile and clothing, and other manufacturing industries.

Table 4. 13 Land prepared for Investment under Federal Land Bank

Regions	Land in Hectares
Amhara	420,000
Afar	409,678
Benishangul	691,984
Gambella	829,199
Oromia	1,057,866
SNNP	180,625
Total	3,589,678

Source: (MOARD, 2011)

4.3.2 Time Taken to Get Critical Public Services and the Utilities Standard

	Frequency	Percent	Institutions client charter standard
Time taken to get License			
less than 3 hours	13	18	3 hours
3 hours -1 day	31	42	
2-3 days	19	26	
longer than 3 days	10	14	
Total	73	100.0	
Time taken to get Land			
less than 6 months	10	14	60 days.
6-12 months	19	26	
1-2 years	30	41	
more than 2 years	8	11	
NOT submitted requests	6	8	
Time taken to get Electric Power			
less than 3 months	9	12.3	3 months
3-6 months	11	15.1	
6 months -1 year	28	38.4	
longer than a year	23	31.5	
NOT submitted requests	2	2.7	
Time taken to get Loan			
less than 41 days	2	3	41 days
41 days -2 months	4	6	
3-4 months	12	16	
longer than 4 months	44	60	
NOT submitted requests	11	15	
Time taken to get Foreign Currency Exchange			
less than 15 days	1	1	15 days
16 days -1 months	4	6	
2-3 months	10	14	
longer than 3 months	51	70	
NOT submitted requests	7	10	
Time taken to get residence & work permits			
less than 1 day	44	60	1day
2-7 days	24	33	
week	3	4	

months	2	3	
Time taken to get Custom Clearing and Forwarding Services			
less than week	20	28	Less than a week
1-2 week	30	41	
3-4 week	14	19	
longer than 4 weeks	9	12	

(Source: Survey Questionnaire, 2019)

1. **Time taken to get Investment License from E.I.C**

Ethiopian Investment Commission (E.I.C) is the only legal government entity that issued investment permits for foreign investors in Ethiopia. The commission prepared client charter that serves as service guideline that showed delivery time for each service provided after the client fulfilled the requirements needed for the services.

The client charter of Ethiopian Investment Commission (E.I.C) showed that if foreign investors fulfilled all requirements for investment permit, delivery time for the service is 3 hours but as we see in above table 60% of them issued license beyond the standard.

2. **Time taken to get Land for Investment**

In Ethiopia, land is primarily administered by regional governments. Land is provided to foreign investors by regional governments and Ethiopian Investment Commission (E.I.C) has the mandate to facilitate the allocation of land for manufacturing FDI companies throughout the country.

Whereas regional and/or federal government receives an application for the allocation of land for an approved investment, it shall, on the basis of the federal and its own laws, deliver within 60 days, the required land to the investor (FDRE Council of ministers, 2002) but as per the research findings 78% of them took longer than six months to get land outside of industrial parks. This showed that land provision is a big challenge in implementing manufacturing FDI and took long delivery time despite the investment law stated that it should be delivered within 60 days.

3. Time taken to get Electric Power

Electric power service provider in Ethiopia is the state-owned company, Ethiopian Electric Utility (EEU). Foreign investors will request electric power from EEU after they got investment license and supporting letter from E.I.C. Once investors paid fees for electric line installations, EEU stated that power will be connected with the grid within three months.

The response to how long did it take investors to get electric power shows that 9 (12%) investors got electricity less than three months, and 11 (15%) investors from three month to six months, 28 (38%) investors from six month to one year, and 23 (32%) investors got electric power longer than a year. 2 (3%) investors didn't request electric power as they were in pre-implementation phase, that is, they didn't start any investment activity so far.

As can be evidenced from above Table, 85% of them took longer than three months to get electric power. This showed that electric power supply is also a big challenge in implementing manufacturing FDI and took long delivery time despite EEU stated that it should be delivered within three months.

There is no power shortage in the country as 4300MB electric power is in operation now, and a further 6000MB is on pipe line. The big challenge is poor power transmission & distribution infrastructures especially old power lines do not carry sufficient power.

Respondents and interviewed officials indicated that the reason for taking electric power longer than six months include poor power infrastructures, shortage of transformers, power fluctuations, substation capacity overload, bureaucratic procedures, power transmission and distribution problem and so on.

4. Time taken to get Loans from Banks

Both private and Government banks finance manufacturing industries with loans. Development Bank of Ethiopia (DBE), a state-owned bank works on project financing while Commercial Bank of Ethiopia (CBE), also state-owned bank, and private banks issued working capital. The standard time to issue loans is 41 days.

The response to how long did it take investors to get loans from banks shows that 2 (3%) investors got loan less than 41 days, and 4 (6%) investors from 41 days to two months, 12 (16%) investors from three

months to four months, and 44 (60%) investors got loan longer than four months. 11 (15%) investors didn't request loan as they were fully equity investments, that is, their investment is financed fully by the company itself.

As can be evidenced from above Table, majority of them (60.3%) took longer than four months to get loans. In general, 82.2% of them took longer than the standard time set by the bank. This showed that provision of loan is also a big challenge in implementing manufacturing FDI and took long delivery time despite the standard time is within 41 days.

Respondents and interviewed officials indicated that the reason for taking loans longer than the standard time, i.e. 41 days, include long loan evaluation, approval and disbursement process, collateral problem, bureaucratic procedures, requirements requested by the bank such as feasibility study, supply analysis, bill of quantity (BoQ), and others took long time.

5. Time taken to get Foreign Currency Exchange

Both private and government banks allocate foreign currency exchange for investors to import machinery, spare parts, raw materials, and others. The standard time to issue foreign currency exchange is 15 days. Manufacturing was one of the top priority sectors by the government that enjoyed in getting foreign currency exchange allotment. Government allocates foreign currency priority to manufacturing industries that will fully export their products to international market.

The response to how long did it take investors to get foreign currency exchange from banks shows that 1 (1%) investors got foreign currency less than 15 days, and 4 (6%) investors from 16 days to one month, 10 (14%) investors from two months to three months, and 51 (70%) investors got foreign currency exchange longer than three months. 7 (10%) investors didn't request foreign currency exchange either they were in pre-investment phase or they cover their foreign currency needs from their abroad parent companies. Majority of them (70%) took longer than three months to get foreign currency exchange. In general, 90% of them took longer than the standard time set by the bank. This showed that provision of foreign currency exchange is also a big challenge in implementing manufacturing FDI and took long delivery time despite the standard time is within 15 days.

The main challenge in the allocation of foreign currency exchange is scarcity of foreign currency. Poor foreign currency earnings from export of commodities, tourism and remittances are key factor that aggravates foreign currency shortage. As the country is building mega projects like electricity dams, sugar factories, fertilizer factories, and others, they consumed huge foreign currency exchange for importation of machineries, plants, and other equipment.

6. Time taken to get Residence &Work permit

Foreign investors need residence and work permits to live and work in Ethiopia. These services are given by Main Department for Immigration & Nationality Affairs& Ministry of Labor and Social Affairs (MoLSA) respectively. Issuance of residence and work permits will complete within a day if foreign investors fulfilled the requirements and formalities. The response to how long did it take investors to get residence and work permits shows that 44 (60%) investors get their residence and work permits less than one day, and 24 (33%) investors from two days to seven days, 3 (4%) investors took weeks, and 2 (3%) investors have got their permits in months.

As can be evidenced from above Table, 60% of them issued residence and work permits less than one day. It is possible to say that, if an investor fulfills all the requirements for residence and work permit, he/she will be able to be issued with a permit within a day or less than a day.

7. Time taken to get Custom Clearing and Forwarding Services

While importing duty free capital goods such as machines, equipment, plants and vehicles, custom services are provided by two governmental institutions. E.I.C is responsible for the provision of custom duty free privilege while Ethiopian Revenue and Customs Authority (ERCA) are authorized for the provision of custom clearing and forwarding process.E.I.C gives custom approval letter for their duty free privilege materials while ERCA works in custom clearing and forwarding of the approved materials. The custom process in E.I.C is almost smooth and this research paper examined custom process in ERCA. Issuance of custom clearing and forwarding will complete less than a week if foreign investors fulfilled the requirements and formalities.

The response to how long did it take investors to get custom clearing and forwarding services shows that 20 (28%) investors got the service less than a week, and 30 (41%) investors from one week to two weeks,

14 (19%) investors from three weeks to four weeks, and 9 (12%) investors got the service longer than four weeks.

As can be evidenced from above Table, majority of them (41%) took one week to two weeks to get the service. In general, 72% of them took longer than the standard time to get custom clearing and forwarding services. This showed that provision of custom clearing and forwarding services is also a big challenge in implementing manufacturing FDI and took long delivery time despite the standard time is less than a week.

Respondents and interviewed officials indicated that the reason for taking custom clearing and forwarding services longer than a week include bulk shipment at once, congestion at sea and dry ports, bureaucratic procedures, poor infrastructures, lack of specific laws and regulations, insufficient shipping documents such as bill of lading, commercial invoices.

4.4 The Response of Professional Experts

These sections deal with data presentation and analysis on the response of professional experts. The challenges in implementing manufacturing FDI in Ethiopia have been observed through the information obtained from professional experts in the form of questionnaires and interview. Information obtained from secondary data sources is also incorporated.

4.4.1 Response Rate for Questionnaires Provided for Professional Experts

In this study, 27 questionnaires with close-ended and open-ended were provided to a group of experts selected from E.I.C and different stakeholders such as banks, Custom Authority, electric utility, regional investment offices, Road Authority, Immigration Authority and other related stakeholders who have direct link with manufacturing FDI. Professional experts with position of director, team leaders, senior experts, and junior experts were included to respond the questionnaires. The response rate was, therefore, 100% since all experts fully completed questionnaires provided for them. The response rate for questionnaires provided for professional experts were summarized in Table 4-14

Table 4. 14 Response Rates for Questionnaires Provided for Professional Experts

Questionnaires	Disseminated	Completed	Response rate (%)
Professional Experts Questionnaires	27	27	100

(Source: Survey Questionnaire, 2019)

4.4.2 Demographic Characteristics of Professional Experts

Demographic characteristics of professional experts were analyzed based on the personal and professional characteristics of the respondents.

4.4.2.1 Respondents Job Position

Job positions of respondents from experts are summarized in the following Table 4-15

Table 4. 15 Respondents by Job Position

Respondents Job Position	Frequency	Percent
Director	5	19
team leader	10	37
senior expert	9	33
junior expert	3	11
Total	27	100.0

(Source: Survey Questionnaire, 2019)

From the selected respondents, the higher share of percentage was taken by team leaders which account 37%. Table 4-15 indicated that top managerial positions, that is, directors and team leaders' accounts for 56% of the total respondents. These management level positions provided a diversified base of information given the contribution of the different management levels in decision and policy making. Majority of respondents had senior experts and above positions. This showed that they would provide their rich experiences and ideas on challenges in implementing manufacturing FDI.

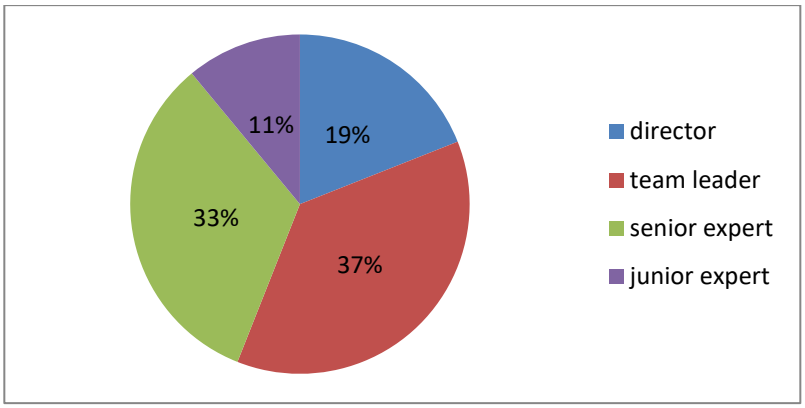

Figure 4. 10 Respondents Job Position

4.4.2.2 Respondents by Length of Service

The respondents indicated that they had worked in their respective firms for a period ranging from one year to over ten years as is shown by Table 5-30.

Table 4. 16 Respondents by Length of Service

Length of Service in Years	Frequency	Percent
less than 3 years	2	7.4
3 to 6 years	8	29.6
7 to 10 years	10	37.0
more than 10 years	7	25.9
Total	27	100.0

(Source: Survey Questionnaire, 2019)

From Table 5-30 which contains information about the respondents' years of service, two (7.4%) respondent had worked for a period less than three years, eight (29.6%) for between 3 - 6 years, another set of ten (37%) respondents for a period between 7 - 10 years and the remaining seven respondent for over 10 years. This means that a majority of the respondents (92.6%) having worked in their organization for more than 3 years in senior management positions for a considerable period of time were in a better position to provide relevant and credible information required for this study.

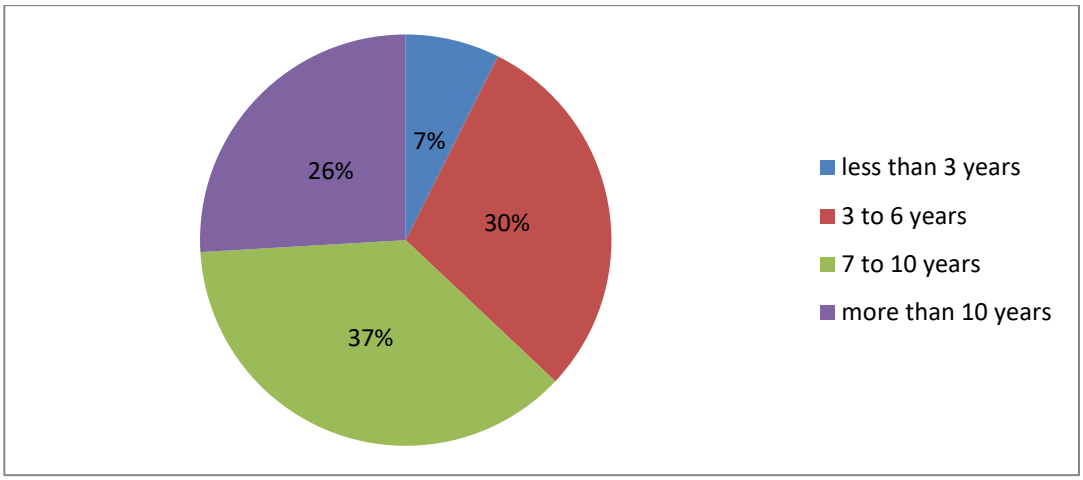

Figure 4. 11 Respondents by Length of Services

4.4.2.3 Respondents Academic Background

Respondents' academic background is presented in the following Table 5-31.

Table 4. 17 Respondents' Academic Background

Level of Education	Frequency	Percent
masters or above	10	37.0
Bsc/BA	17	63.0
Total	27	100.0

(Source: Survey Questionnaire, 2019)

All of the respondents were educated formal education; and of the respondent's majority of them (63 percent of the respondents) had university bachelor degree whereas the remaining 37 percent had master level of education. The respondent's academic background with bachelor and master degrees shows that the obtained information was credible and relevant with sufficient knowledge on the subject matter.

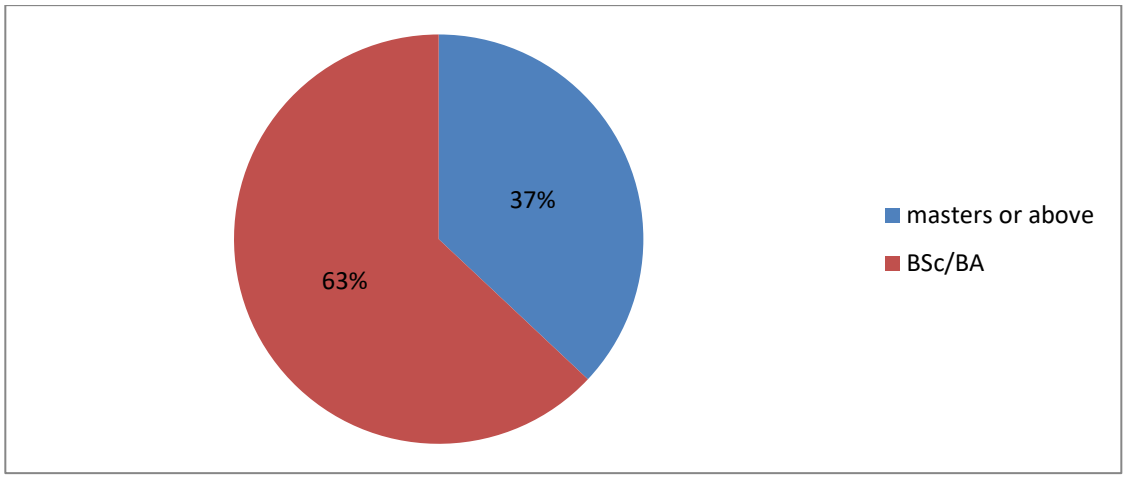

Figure 4. 12 Respondents Academic Background.

4.5 Why Ethiopia Involved Itself in Manufacturing Industries

Ethiopia has immense potential in the manufacturing sector and the government set new policies and strategies to attract foreign investors. Furthermore, Ethiopia has competitive advantage to develop the sector like abundant natural resource, cheap labor force, low energy cost, vast raw materials, etc.

The reason why Ethiopia involved itself in manufacturing industries deals with foreign investors include to create wide job opportunity for local people, capital accumulation, technology transfer, increase manufacturing production and productivity for export purpose, proper utilization of resources, maximize market opportunity and develop backward and forward linkage in the value chain of production.

Thus, the main reason for Ethiopia's involvement in the manufacturing sector deals with foreign investors is to create vast employment opportunities and proper utilization of resources of the country.

One Stop Shop (OSS) that facilitates Manufacturing FDI

A one-stop shop (OSS) is a specific location where a multitude of products or services offered to customers, meaning that all the business a client has can be carried out at that location. It saves time and effort and very convenience for customers. One-stop shop is believed to provide convenient and efficient service for customers that will allow the opportunity for the company to sell more for them (Investopedia, 2016)

For effective and efficient investment implementation, one-stop shop is very important opportunities by facilitating all government utilities and services within one window. One-stop shop (OSS) desks were established in Ethiopian Investment Commission (E.I.C) premises and 12 industrial parks established elsewhere in the country. E.I.C has established a separate department that coordinated and regulated the implementation of OSS in the operating industrial parks and a team that coordinate and evaluate OSS within E.I.C.

Industrial parks Proclamation No 886/2015 Article 27 states that E.I.C shall provide one-stop shop service within the industrial parks bring into line other competent organs and coordinate their day-to-day functions. Furthermore, it stated that the services provided by competent authorities in any industrial park shall be offered through one-stop shop in an efficient and streamlined manner.

Investment Proclamation No 769/2012 Article 30/5 stated that all federal service rendering government offices shall establish investment desks in one building.

The researcher tried to get the response of professional experts on whether the one-stop shop (OSS) established in E.I.C and industrial parks were operated in an efficient and streamlined manner to facilitate manufacturing FDI or not and based on the research findings majority of the respondents, nineteen (70.4%) experts considered one-stop shop (OSS) established in E.I.C was not given services in an efficient and streamlined manner while twenty three (85.2%) considered OSS established in industrial parks to facilitate manufacturing FDI were not given services in an efficient and streamlined manner. Thus, this inefficiency will lead to implementation problems.

Most services such as issuance of investment permit, business permit, construction permit, work permit, custom duty free exemption, commercial registration, tax identification number, and so on are given by E.I.C itself in efficient and streamlined manner but stake holder services such as land acquisition, electric power supply, bank loan, immigration service, environmental impact assessment and other different services are not given inefficient and streamlined manner.

Table 4. 18 Status of Stakeholders Desk Opening in E.I.C OSS

No	Services to be given in E.I.C OSS	Service Rendering Institution	Status of Stakeholders Desk Opening in E.I.C OSS
1	Provision of Land	Federal/Regional Land Agencies	Not Opened
2	Residence Permit	Department of Immigration and Nationality and vital event agency	Opened
3	Environment Impact Assessment	Environmental Protection Agency	Not Opened
4	Provision of Water	Water & Sewerage Authority	Not Opened
5	Provision of Electric Power	Ethiopian Electric Utility	Not Opened
6	Provision of Telecom and Internet	Ethio-Telecom	Not Opened
7	Provision of Loan	Development Bank of Ethiopia and Commercial Bank of Ethiopia	Opened but now not functional
8	Provision of Foreign Currency	Commercial Bank of Ethiopia	Opened
9	Custom Clearing and Forwarding	Ethiopian Revenue and Custom Authority	Opened

(Source: Survey Questionnaire, 2019)

The four stakeholders, as shown in Table 4.18, have established their desks in E.I.C OSS to give investment related information to foreign investors and to refer investors' complaints to their respective headquarters for final decision. However, they were not well organized themselves with trained human power and facilities. Due to this, they were performing under capacity and didn't start providing full services. The desks didn't have power to give final decision on investors' complaints. Stakeholders head offices will have ultimate power to give decision on critical issues. This situation will further take additional time on the process of their complaints and the time taken to get services will become long.

Although the investment Proclamation No.769/2012 Article 30/5 stated that all services rendering government offices shall establish a desk in one building, it has not yet been materialized since the adoption of this proclamation. Thus, this gap has led to the fact that E.I.C OSS is not functional properly.

Despite the 12 industrial parks were in operation (most of them were textile and clothing industries) and established OSS, E.I.C and Ethiopian Revenue and Custom Authority (ERCA) started rendering services within the parks. The other Stakeholders didn't open their desks in parks. Since industrial parks started operation at recent time, OSS was also at infant stage of operation and didn't organize themselves with trained manpower and facilities. Thus, industrial parks OSS were not providing services inefficient and streamlined manner.

Degree of Coordination between Governmental Institutions

For proper functioning of manufacturing FDI, there has to be smooth coordination for service delivery between government institutions that is E.I.C and federal stakeholders (banks, EEU, Ethio-telecom, immigration, etc.), and E.I.C and regional governments (land and others) so that redundancy or duplication of works will be avoided.

Table 4. 19 Degree of Coordination between E.I.C and Regional Government

Degree of Coordination between E.I.C and Regional Governments	Frequency	Percent
high	5	18.5
moderate	4	14.8
low	12	44.4
very low	6	22.2
Total	27	100.0

(Source: Survey Questionnaire, 2019)

Table 4.19 above illustrated that majority of the respondents, eighteen (66.6%) experts considered degree of coordination between E.I.C and regional governments is low or very low. Land is owned by regional government. Politically, regional governments (Oromia, Amhara, Tigray etc.…) are sovereign and hence land cannot be provided to investors without the will and consent of these governments. Regions allocate their resources especially land without federal government interferences. Moreover, regional governments have different rules and regulations on land leasing. Hence, E.I.C, as a Federal government organ, will not have power to issue land for foreign investors but to give them supporting letter to get priority in getting land in regions. In this case, the degree of coordination between E.I.C and regional governments is not so strong.

Table 4. 20 Degree of Coordination between E.I.C and Federal Stake Holders

Degree of Coordination between E.I.C and Federal Stake holders	Frequency	Percent
very high	1	3.7
high	2	7.4
moderate	9	33.3
low	11	40.7
very low	4	14.8
Total	27	100.0

(Source: Survey Questionnaire, 2019)

Table 4.20 illustrated that majority of professional experts, fifteen (55.5%) considered degree of coordination between E.I.C and federal stake holders is low or very low. Federal stake holders like banks, EEU, Ethio-telecom, immigration, etc. have job mandate that their operating rules and regulations is not usually framed in reference with the investment law. These created challenges for E.I.C in facilitating and after caring for manufacturing FDI investors, Furthermore, the poor coordination between E.I.C and federal stake holders increases the time taken to get services for long and created implementation challenges.

Professional experts describe that governmental institutions established to support investment, carry out their activities independently, but the cumulative objective of this institutions is one and the same: create good investment environment to manufacturing FDI. According to professional experts, E.I.C and federal government bodies (textile and garments industry development institute, leather technology industry development institute, metal and engineering industry development institute) are engaged to facilitate allotment of a plot of land, financial loan, electrical power, etc. These created redundancy or duplication of works. This shows that those institutions and agencies had no demarcation line to support different industries, because all of them tend to focus with routine activities. Participants on interviews of this study, especially government officials, described that these problems are recognized by different bodies and they have started to make a guideline to demarcate the activities accordingly.

Different institutions make their activity only according to their mission. All participants of investment facilitator governmental organizations are not making their plan by integration and not evaluate performance with regarded to the achievement of national mission in general and investment implementation in particular. This is bottle neck for investment implementation

Access to Critical Public utilities and Services

Manufacturing FDI companies established their factories both inside industrial parks and outside of industrial parks. Provision of critical public utilities and services such as land, electric power, foreign currency, immigration, internet, telecom, water, custom, etc. also differs inside industrial parks and outside of industrial parks.

Accessibility of public utilities and services are not critical challenges inside industrial parks as parks are developed with complete infrastructures and close support of federal and regional government bodies.

However, establishment of industrial parks is a recent phenomenon in Ethiopia and its stage of development is also at infant stage. Hence, one-stop shop services are also at infant stage and will be developed in the future. Inside industrial parks, some investors are requesting shade expansion, additional ware house, new design for shade due to new technology of manufacturing etc.

Accessibility of public utilities and services are major challenges outside of industrial parks. Since manufacturing FDI distributed unevenly elsewhere in regions, accessibility of public utilities becomes so difficult. The researcher tried to get the opinions of professional experts and officials about public utilities and services that are the most difficult to accesses by foreign investors and their order of priorities. Majority of respondents considered telecom, internet and water are the most accessible public utilities while land, electricity, foreign currency and custom clearing are the most difficult to access in their order of difficulty and also taken long time to access them. Other utilities and services like immigration, road, and so on are at moderate level of accessibility. The findings concur with the time taken to get license, land, and electric power, foreign currency and so on discussed in Chapter 4 section 4.3.2 and with analysis on challenges facing manufacturing FDI discussed in Chapter 5

Respondents believed that the delay in the provision of critical public services while implementing manufacturing FDI was due to poor decision-making process, lack of specific laws and regulations, lack of knowledge and experience, corruption, ignorance, and others in their order of priority.

Challenges with regards to Legal, Institutional and Policy Frame Works

The private investment policy has been introduced since May 1992, with the provision of entry and ownership requirements, The government of Ethiopia has revised the investment law over eight times for the last twenty three years (1992-2014) to make it more attractive and competitive (Proclamation Number 15/1992, 37/1996, 116/1998, 168/1999, 280/2002, 375/2003, 769/2012, 849/2014).

The Ethiopian Investment Commission (E.I.C) is an autonomous government institution in Ethiopia that licenses foreign direct investment (FDI) and some domestic investments that entitled to the federal government while regional investment agencies were accountable to their respected regional governments and mandated to license domestic investors. Both E.I.C & regional investment agencies work on promoting and facilitating manufacturing FDI.

Table 4. 21 Challenges with regards to Legal, Institutional and Policy Frame Works

Do you believe that there are problems with regards to legal, institutional and policy frame works?	Frequency	Percent
yes	18	66.7
no	9	33.3
Total	27	100.0

(Source: Survey Questionnaire, 2019)

Table 4.21 illustrated that majority of the respondents, eighteen (66.7%) experts believed that there are problem with regards to legal, institutional and policy frame works. Respondents believed that the legal framework, especially the investment proclamations, regulations and directives were not updated in line with technology changes, economic development, long term development plan, etc. Moreover, they were not specific, clear and transparent. Since rules and regulations are vague, it takes too much time to clear out issues related to legal frameworks. According to respondents investment proclamation and regulations are more generic type and have many problems.

For every directive, there must be working manual that clearly states and defines the concepts, meanings and applications.

The other bottleneck E.I.C and regional investment agencies currently face is institutional frame work. According to professional experts, there was redundancy or duplication of works between E.I.C and federal government bodies (industrial parks development corporation, textile and garments industry development institute, leather technology industry development institute, metal and engineering industry development institute). There are no clearly identified roles and responsibilities in facilitating manufacturing FDI. Similarly, some regional investment agencies were organized together with unrelated government departments such as transport, energy, mines, etc. that didn't help in promoting FDI in general and manufacturing FDI in particular. Furthermore, regional investment agencies had very few staff in their organizational structure which didn't support manufacturing FDI effectively and efficiently.

Ethiopia has no one policy document with regarding to investment. Major policy issue documents are described about sectorial investment perspectives. The rural development policy and strategy states that agriculture-led development will bring fast economic growth, enable its people become beneficiary of

economic growth, and lay solid foundation for industrial development. The industrial development policy and strategy focuses on export manufacturing industries with priority sectors of manufacturing are textile and garments, leather and leather products, agro-processing, and small and micro-enterprises. All main Ethiopian government policies and strategies indicate that the private investment is used as an engine for economic, social and cultural development, FDI also important to increase the different private investment activity, which is beyond the capacity of domestic investors in the case of financial and technological capacity.

4.6 Industrial Parks Development and its Challenges

Ethiopian government has the vision to make the country a leading manufacturing hub in Africa by 2025. For this aspiration, it places high focus on industrial park development and expansion. Industrial parks developed in every region in Ethiopia are open for the private sector (domestic and FDI). They are designed to be located along key economic corridors, connected to ports by road and electric-powered railway lines with close proximity to high labor force pool. Industrial parks are anchored on the principles of specialized parks (the principles of enhancing economy of scale and efficiency), export promotion (increased export performance and competitiveness), sustainability (maintaining high environmental standards through the use of renewable energy and zero liquid discharge technology), vertical integration (enhancing forward and backward linkages in the economy) and skills development and competitiveness (developing workers' skills for enterprise competitiveness) (Industrial Park Corporation, 2017).

Currently, 18 state-of-the art industrial parks were under construction by government and private developers with a total of 253 factory sheds, of which ten (10) of them were in operation (with 231 factory sheds) and four of them belonged to private Chinese and Hong Kong developers. Foreign investor's especially high-profile international brand companies in the textile and garment industry already established their manufacturing industries in the operational industrial parks.

Table 4. 22 Access of Industrial Parks to Manufacturing FDI

Accommodation of industry parks for all sectors of Manufacturing FDI?	Frequency	Percent
yes	4	14.8
no	23	85.2
Total	27	100.0

(Source: Survey Questionnaire, 2019)

Table 4.22 showed that majority of respondents, twenty-three (85.2%) of experts believed that industry parks built in Ethiopia were not accommodating all sectors of manufacturing FDI. Only four (14.8%) considered they were accommodating all sectors of manufacturing FDI.Respondents believed that the door of industrial parks was open only for textile and garment industries which were labor intensive and to some extent to pharmaceutical and agro processing industries which are 100% export. But, they didn't accommodate metal and engineering, leather, chemical and other manufacturing industries. Currently, access of industrial parks to all sectors of manufacturing FDI is a challenge as few industrial parks were in operation. However, when the under construction 12 industrial parks will be completed, all manufacturing industries are expected to be accommodated. Once all industrial parks are completed, the government plans to accommodate all domestic and FDI manufacturing industries inside the sheds so that the problem of land observed now as a great challenge outside of industrial parks will be avoided. Table 4-23 illustrated overview of industrial parks development in Ethiopia. Moreover, the country is also building four integrated agro-processing parks in four regions, namely Burie (Amhara region), Yirgalem (SNNPRS), Bulbula (Oromia region) and Bahir (Tigray region).

Professional experts also responded about major challenges of industrial parks development in accommodating and facilitating manufacturing FDI in Ethiopia. They cited lack of skilled man power, insufficient space or sheds for warehousing and expansion, insufficient one-stop shop (OSS) services, problem of shade design compatibility with technology, delay of infrastructure development especially railway and electricity supply, high cost of shades, lack of coordination with stakeholders, poor industrial parks promotion, delay in implementing industrial parks proclamation and regulation, problem of accessing industrial parks to all sectors of manufacturing industries, etc. Moreover, current industrial parks are focused on major and big investment areas like textile and garment which will export their products internationally with aim of generating foreign currency and creating large employment

opportunities. However, import substitution sectors such as metal and engineering, leather, chemical and other manufacturing industries are not given much attention. Furthermore, government gives priority to export companies to enter in the shades and expect all companies fully export their products to the international market in order to generate foreign currency. However, some companies are interested to sell their products to the local market instead of exporting it as domestic market is large in size. If companies involved themselves in such condition, government took measures, that is, companies to pay for incentives that were given in earlier times such as duty free importation of machineries, tax holiday exemption, and others.

Table 4. 23 Overview of Industrial Parks Development in Ethiopia

No	Name of IP	Region	Total Park Size in ha	Park First Phase in ha	Status of IP	Clusters	No of Shades	IP Developed By
1	Bole Lemi I	Addis Ababa	156	172	Operational	Textile & Apparel	20	Gov./IPDC
2	Hawassa I	SNNPRS	140	140	Operational	Textile & Apparel	37	Gov./IPDC
3	Hawassa II	SNNPRS	160	160	Operational	Textile & Apparel	15	Gov./IPDC
4	Mekelle	Tigray	1000	75	Operational	Textile & Apparel	15	Gov./IPDC
5	Kombolcha	Amhara	700	75	Operational	Textile &Apparel	9	Gov./IPDC
6	Adama	Oromia	2000	350	Operational	Textile & Apparel	19	Gov./IPDC
7	Jimma	Oromia	500	75	Operational	Textile & Apparel,	13	Gov./IPDC
8	Debire Birhan	Amhara	1000	75	Operational	Agro-Processing	15	Gov./IPDC
9	Arerti II	Amhara/Minjar	100	100	Operational	Building Materials, Furniture& Home Appliances		Private/Chinese
10	Eastern	Oromia/Dukem	400	233	Operational	Mixed	40	Private/Chinese
11	George Shoe	Oromia/Modjo	50	50	Operational	Leather &Shoes Making	32	Private/Hong Kong
12	Hujian	Addis Ababa	138	10	Operational	Shoe, Garment& Light Industry	16	Private/Chinese
13	Bole Lemi II	Addis Ababa	181	181	Under Construction (96.23% as of July 2019)	Textile &Apparel	2 and serviced land	Gov./IPDC
14	Dire Dawa	Dire Dawa	1500	150	Operational at 95.8%construction status	garment, Textile& Apparel,	15	Gov./IPDC
15	Bahir Dar	Amhara	1000	75	Under Construction (93.7% as of July 2019)	Textile & Apparel,	8	Gov./IPDC
16	Kilinto	Addis Ababa	279	279	Under Construction (82.7% as of July 2019)	Pharmaceuticals hub	No Sheds (serviced land)	Gov./IPDC
17	Debire Birhan	Amhara	1000	75	inaugurated at 98.88% construction status	Apparel & garment	8	Gov./IPDC
18	Aysha	Somali		75	Under Feasibility	Mixed	8	Gov./IPDC

(Source: (EIC, 2019)

4.7 Challenges of Manufacturing FDI under different Investment Phases

Implementation challenges of manufacturing FDI differ under pre-implementation, implementation, and operation phases of investment. Professional Experts responded about major challenges in each phases of investment. Here follows Implementation challenges of manufacturing FDI under different investment phases.

Challenges of Manufacturing FDI under Pre-Implementation Phase

After investors got investment permit, investors usually search for land, loan, residence permit, work permit for expatriate staff and other pre-investment activities such as preparing feasibility studies, consultation with business stakeholders, and so on.

Professional experts cited land related challenges, fiscal policy related challenges especially delay in financing costs/loans/, infrastructure challenges (especially road), delay in residence and work permit, lack of coordination between service providers, red tape in stakeholders, lack of reliable and sufficient information and so on. They considered land as a key challenge outside of industrial parks under pre-implementation phase despite there is numerous challenges with varying degrees.

Inside industrial parks, they cited industrial parks challenges, problems associated with handing over of sheds, release of land subleased from IPDC, insufficient one-stop services (OSS), delay in residence and work permit, lack of coordination between service providers, red tape in stakeholders, lack of reliable and sufficient information and so on.

Challenges of Manufacturing FDI under Implementation Phase

After investors got land (outside industrial parks), they started construction of civil works, order, import and install machineries and equipment, and so on. During this phase, practical undertakings were started but not yet started production of goods.

Professional experts cited infrastructure challenges especially electric power supply for machinery erection & testing, custom and tax regulation challenges especially custom clearing and forwarding, fiscal policy related challenges especially shortage in the supply of foreign currency, port efficiency problems, delay in getting construction permit, human resource challenges especially trained man power,

lack of coordination between service providers, red tape in stakeholders, and so on. They considered challenges in electric power supply and custom clearing and forwarding process as key challenges outside of industrial parks under implementation phase despite there is numerous challenges with varying degrees.

Inside industrial parks, they cited industrial parks challenges especially shed design incompatibility with technology, insufficient one-stop services (OSS), custom clearing and forwarding process, lack of coordination between service providers, red tape in stakeholders, and so on.

Challenges of Manufacturing FDI under Operation Phase

After investors completed machinery importation and installation, they started testing of machineries or plants, commissioning, raw material importation, training of man power, and so on. During this phase, investors started production of goods for domestic and export market.

Professional experts cited fiscal policy related challenges (especially shortage in the supply of foreign currency and delay of loan for working capital), market challenges (penetration into domestic and international market, delay in importation of raw materials), challenges on getting certificate of competency (CoC), human resource challenges (trained man power), infrastructure challenges especially electric power interruption, logistics challenges, port efficiency and shipping related challenges, delay on custom clearing and forwarding process, delay in getting business permit, land challenges for expansion, and so on. They considered shortage in the supply of foreign currency and market challenges as key challenges under operation phase despite there is numerous challenges with varying degrees.

Inside industrial parks, they cited industrial parks challenges especially space insufficiency in parks for expansion and warehousing, shortage of foreign currency, market challenges (penetration into domestic and international market, delay in importation of raw materials), challenges on getting Certificate of Competency (CoC), human resource challenges (trained man power),logistics challenges, port efficiency and shipping related challenges, delay on custom clearing and forwarding process, and so on.

4.8 Analysis and Interpretation on Challenges Facing Manufacturing FDI In Ethiopia

This section deals with data presentation and analysis on challenges facing Manufacturing FDI in Ethiopia. The findings have been observed through the information obtained from foreign investor respondents which was collected using different techniques such as questionnaires, interview, and different secondary sources (both published and unpublished). After data presentation in tabular form, discussions, analysis and interpretations were made based on the responses of foreign investors engaged in manufacturing FDI. Many challenges that impede implementation of manufacturing FDI were identified and discussed in this section. They were fiscal policy, infrastructure, customs and tax regulations, market and product, political, legal and social related, human resource related, land, and industrial park related challenges. Main findings on challenges facing manufacturing FDI were analyzed below using mean rankings.

4.8.1 Fiscal Policy

Fiscal policy as one of the challenges to Manufacturing FDI implementation in Ethiopia was one of the purposes of this study. It is considered as one of the factors that impedes new FDI or increase in investment for existing FDI (MacDonald, 2000).Fiscal policy challenges were investigated using a set of four challenges that includes exchange rate ETB/Dollar, inflation rate, provision of foreign currency and financial cost which were used to determine the effect of Ethiopia's fiscal policy on manufacturing FDI.

Table 4. 24 Fiscal Policy Challenges

Fiscal Policy Challenges	Mean	Standard Deviation
Erratic Exchange rate ETB/Dollar	2.93	0.730
Shortage in the Provision of Foreign Currency	4.56	0.506
Unpredictable Inflation rate	2.56	0.641
Delay in Financing costs/Loans/	4.22	0.424
Grand Mean	3.57	0.575

(Source: Survey Questionnaire, 2019)

The findings in Table 6-40 shows that shortage in the provision of foreign currency had the highest mean of 4.56 followed by delay in financing costs/loans/ mean of 4.22, erratic exchange rate ETB/Dollar mean of 2.93 and lastly unpredictable inflation rate mean of 2.56. All four fiscal policy challenges were considered to be a source of challenge by a majority of the respondents. However, based on mean ranking illustrated by Table 6-40, some fiscal policy challenges were more influential than others. This means that shortage in the provision of foreign currency was considered a greater source of challenge to the manufacturing FDI by the respondents followed by delay in financing costs/loans/. Overall, the fiscal policy had a grand mean of 3.57. Therefore, fiscal policy was a major challenge to the manufacturing FDI in Ethiopia. These findings concur with results shown on time taken to get loans in Table 4-24 and time taken to get foreign currency exchange in Table 4-25.

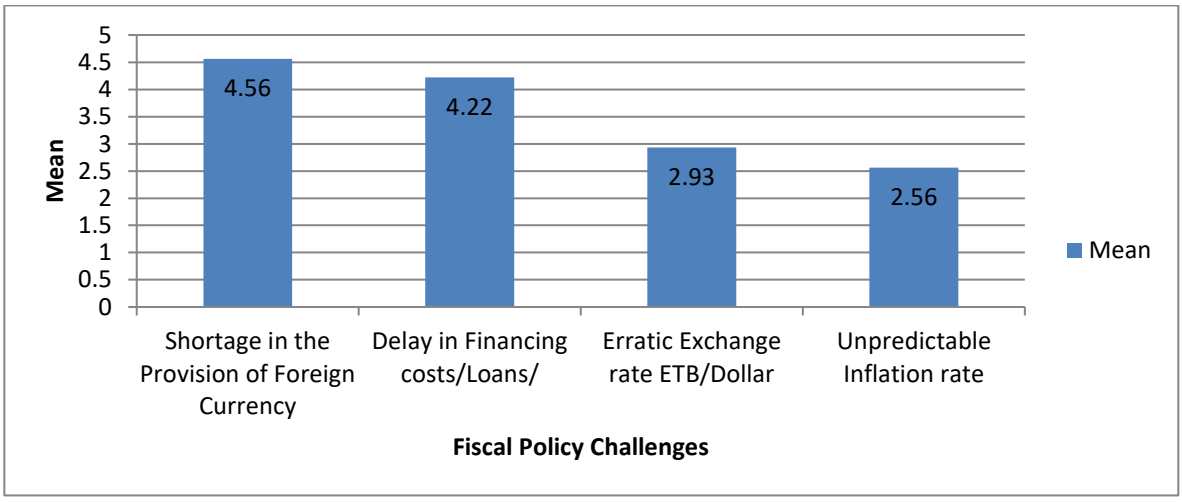

Figure 4. 13 Fiscal Policy Challenges

4. 8.2 Infrastructure Challenges

Infrastructure challenges as a source of challenge to the manufacturing FDI in Ethiopia were investigated using a set of six challenges such as effect of road, rail, telephone and internet, port efficiency, availability and cost of electricity and lastly availability and cost of water. Infrastructures were considered as vital and a prerequisite for the operation of manufacturing FDI and its effect either impedes or increases FDI. Infrastructures have also an effect on cost of production. The effect of infrastructure as a source of challenge to the manufacturing FDI in Ethiopia was indicated by a majority of respondents as shown by the results in Table 6-41.

Table 4. 25 Infrastructure Challenges

Infrastructure Challenges	Mean	Standard Deviation
Availability of Road and Cost of Transport	**3.11**	**0.32**
Availability of Rail and Cost of Transport	**1.19**	**0.396**
Availability and Cost of Telephone and Internet	**2.51**	**0.501**
Port Efficiency and related costs	**4.3**	**0.465**
Cost and Availability of Electricity supply	**4.7**	**0.465**
Cost and Availability of Water supply	**2.22**	**0.506**
Grand Mean	**3.02**	**0.442**

(Source: Survey Questionnaire, 2019)

Table 6-41 shows that infrastructure challenges affected manufacturing FDI in varying degrees as indicated through mean ranking. The analysis shows that cost and availability of electricity supply had the highest mean of 4.7 followed by port efficiency and related costs mean of 4.3, followed by availability of road and cost of transport (mean of 3.11), availability and cost of telephone and internet (mean of 2.51), cost and availability of water supply (mean of 2.22) and least of all availability of rail and cost of transport (mean of 1.19). Overall, with the grand mean of 3.02, infrastructure is a challenge to the manufacturing FDI and this finding concurs with that of (Wanyama, 2003) and with that of the results shown on time taken to get electric power in Table 4-23.

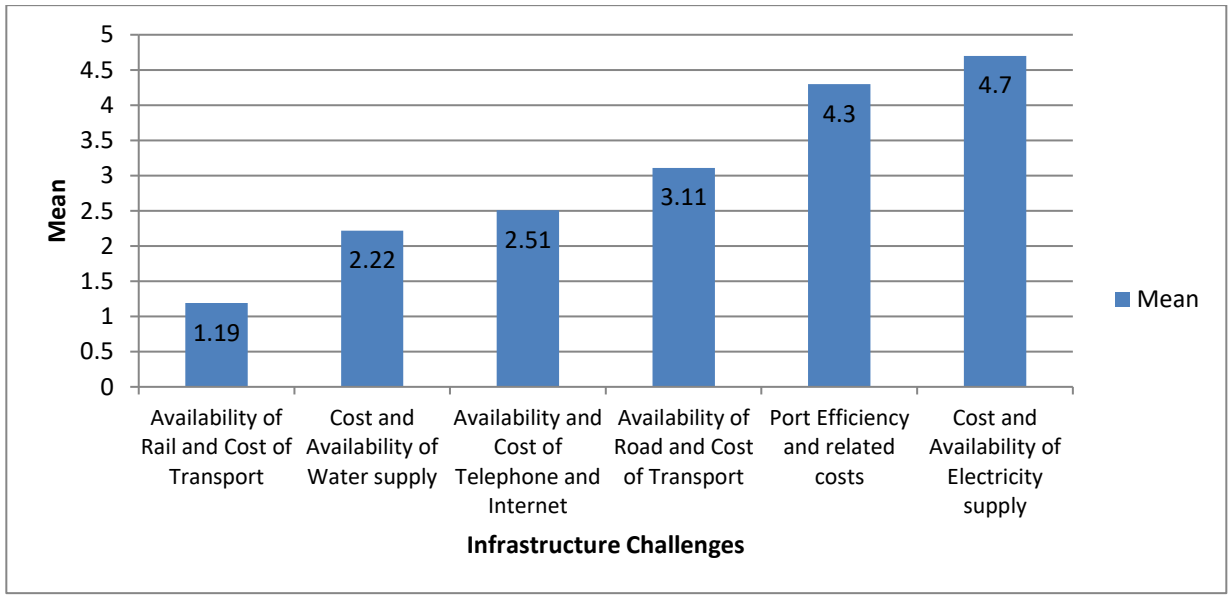

Figure 4. 14 Infrastructure Challenges

Ethiopia used port of Djibouti for import and export of commodities. Recently, the port is undertaking massive expansion works and because of Djibouti port expansion works and delay in custom clearing and forwarding process, there were congestion at the port and shipments would stay for long time and this resulted in demurrage costs and subsequent rise in investors cost of shipment. Rail transport had least mean because of the Ethio-Djibouti rail transport of passengers and cargo were not started operation until January/2018 due to rail linkage with dry ports and sea ports, and industrial parks were not completed.

4. 8.3 Market and Product Challenges

Market- seeking FDIs encountered market risk and impede new investments or increase in investment for existing FDIs if they have been highly dependent on global competition, pricing, channels of distribution, a particular market, trends in purchase patterns, and trends and growth in the market size (McDonald, 2000). Market and product challenges as a source of challenge to the manufacturing FDI in Ethiopia were investigated using a set of ten challenges and the results were as is seen in Table 6-42.

Table 4. 26 Market and Product Challenges

Market and Product Challenges	Mean	Standard Deviation
Capability of utilizing AGOA/EBA/ COMESA Opportunities	2.64	0.888
Foreign Trade Regulations-Non AGOA	2.59	0.847
Shortage of AGOA/EBA/ COMESA Market-Orders	2.58	0.865
Penetrating Domestic Markets	3.04	0.992
Penetrating International Markets	4.01	0.773
Change in Production Technology	2.12	0.725
Competition: From Within Ethiopia	2.86	0.887
Competition: Global	4.11	0.792
Availability of Raw Material-Local	3.15	1.023
Shortage of Raw Materials imported from Abroad	3.85	0.861
Grand Mean	3.095	0.8653

(Source: Survey Questionnaire, 2019)

Analysis of the mean contained in Table 4.26 shows that competition at global level with highest mean of 4.11 followed by penetrating international markets mean of 4.01 then shortage of raw materials imported from abroad mean of 3.85. However, change in production technology (mean of 2.12), shortage of AGOA/EBA/COMESA market-orders (mean of 2.58) and foreign trade regulations-Non AGOA (mean of 2.59) had lower mean. This means that while majority of the respondents consider competition

at global level and penetrating international markets as the major market and product challenges. The finding concurs with Basu and Srinivasan (2002) which identified Market-seeking as one of the three motives of FDIs. Change in production Technology and shortage of AGOA/EBA/COMESA market-orders are not major challenges to manufacturing FDI. With the grand mean of 3.095, market and product factors concur with (McDonald, 2000)as challenges.

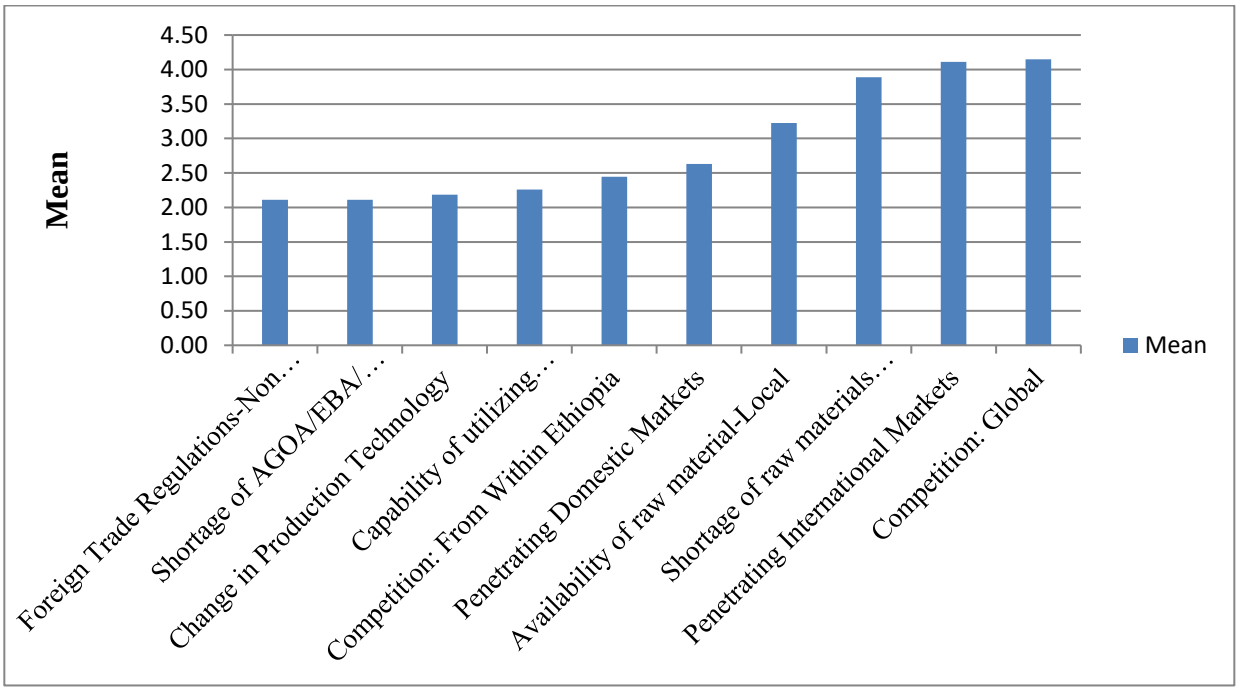

Figure 4. 15 Market and Product Challenges

4. 8.4 Political, Legal and Social Challenges

Political, legal and social factors of the country will pose a challenge on the operation of manufacturing FDI. Political risks and instability within the country and from neighboring countries and global side will affect smooth functioning of FDI. The same is true for the rest of factors too. The effects of the political, legal and social challenges as a source of challenge to the manufacturing FDI in Ethiopia were investigated using a set of twelve challenges and the results were illustrated in Table 6-43.

Table 4. 27 Political, Legal and Social Challenges

Political, Legal and Social Challenges	Mean	Std. Deviation
Terrorism	1.04	0.192
Crime and theft	1.93	0.267
Delay in provision of Investment & Business licenses	2.00	0.000
Delay in provision of Resident and Work Permits	2.00	0.000
Political risks/instability: Within Ethiopia	2.04	0.192
Safety and Environment Regulations	2.04	0.192
Political Risks/instability-from Neighboring Countries and Global side	2.07	0.267
Insufficient incentive package in the investment policy	2.22	0.424
Policy instability/Implementation	2.33	0.480
Corruption	2.41	0.501
Government Bureaucracy/Red Tape in Stakeholders	3.93	0.267
Lack of Coordination between the public utilities& services	4.07	0.385
Grand Mean	**2.34**	**0.264**

(Source: Survey Questionnaire, 2019)

Analysis of the mean ranking of political, legal and social challenges illustrated in Table 6-43 shows that lack of coordination between the public utilities and services had the highest mean of 4.07; Government bureaucracy/red tape in stakeholders with mean of 3.93 and corruption with mean of 2.41 were challenges to the manufacturing FDI while terrorism (mean of 1.04) and crime and theft (mean of 1.93) were not challenges to the manufacturing FDI. The findings with the grand mean of 2.34 concur with that of the respond of professional experts on coordination between the public utilities and services in Table 5-35 and Table 5-36and with the results shown on time taken to get investment license in Table 4-21 and the time taken to get residence and work permits in Table 4-26. In similar manner, the findings with the grand mean of 2.34 concur with Madura. (Madura, 2006)and (Stopford & Wells, 1972)Therefore, political, legal and social factors were a major challenge to the manufacturing FDI in Ethiopia.

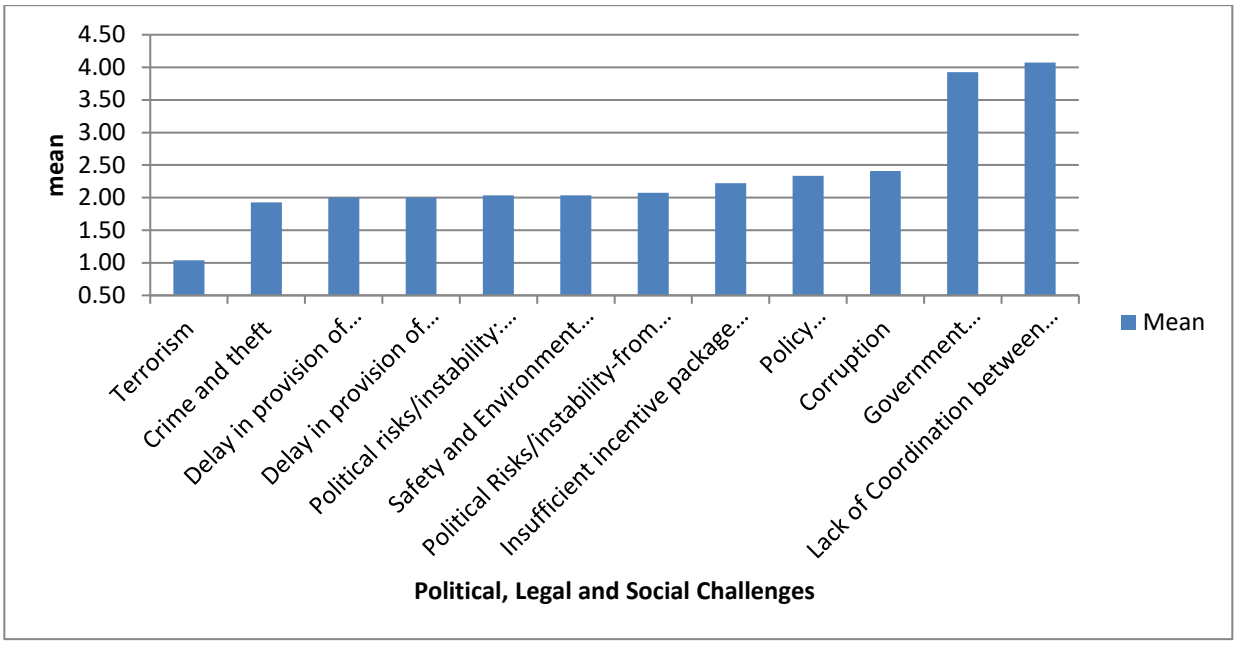

Figure 4. 16 Political, Legal and Social Challenges

4.8.5 Customs and Tax Regulation Challenges

The researcher attempted to determine whether or not customs and tax regulations would be challenges for manufacturing FDI in Ethiopia. This was investigated using a set of six challenges and the results were illustrated in Table 4.28

Table 4. 28 Customs and Tax Regulation Challenges

Customs and Tax Regulation Challenges	Mean	Standard Deviation
Cost of Custom Policy	2.04	0.338
Insufficient Tax Holiday exemption	2.15	0.456
Delay in provision of Custom duty-free privilege	2.26	0.447
Tax Regulations	2.26	0.447
Customs Regulations	2.44	0.506
Delay in provision of Custom Clearing and forwarding process	3.89	0.424
Grand Mean	**2.51**	**0.436**

(Source: Survey Questionnaire, 2019)

The findings showed that delay in provision of custom clearing and forwarding process (mean of 3.89) and customs regulations (mean of 2.44) were deemed to be more challenging to the Manufacturing FDI than cost of custom policy (mean of 2.04) and delay in provision of custom duty-free privilege (mean of 2.26). Overall, with the grand mean of 2.51, customs and tax regulations factors concur with that of the time taken to get custom clearing and forwarding services in Table 4-28. Therefore, customs and tax regulation factors were major challenges to the manufacturing FDI in Ethiopia.

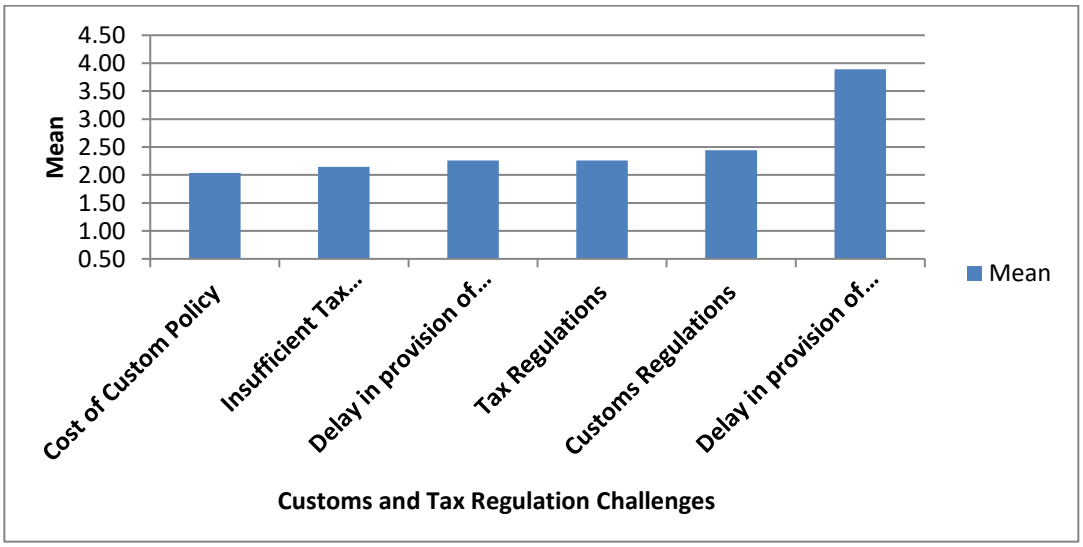

Figure 4. 17 Customs and Tax Regulation Challenges

4.8.6 Human Resource Related Challenges

Both skilled and semi-skilled labor plays important role in the smooth functioning of manufacturing FDI. Lack of skilled and semi-skilled labor hinders both new and existing investments. The same works for other human resource related factors.

Whether human resource challenges have an effect or not on manufacturing FDI in Ethiopia, the researcher attempted to investigate using a set of nine challenges. The factors used to determine the effects of human resource were availability of skilled and semi-skilled labor, management system variation for local and expatriate staff, lack of skill and knowledge in technology transfer, labor union interference, labor regulation, unrest, and wage cost,

Table 4. 29 Human Resource Related Challenges

Human Resource Related Challenges	Mean	Standard Deviation
Labor Union Interference	1.96	0.192
Labor Unrest	2.00	0.000
Management System variation -Local staff	2.00	0.000
Management System Variation-Expatriate staff	2.00	0.000
Labor regulations	2.07	0.267
Cost and Availability of Human Resource-Semi Skilled	2.44	0.506
Labor low wage cost	2.70	1.031
Lack of Skill & Knowledge in Technology Transfer	2.85	0.534
Cost and Availability of Human Resources-Skilled	4.00	0.277
Grand Mean	2.45	0.312

(Source: Survey Questionnaire, 2019)

The analysis of the mean illustrated in Table 4-29 showed that availability of skilled human resources had the highest mean (mean of 4.00) followed by lack of skill and knowledge in technology transfer (mean of 2.85) and lastly low labor wage cost (mean of 2.70). This means that majority of the respondents consider availability of skilled human resources are the major human resource related challenge followed by lack of skill and knowledge in technology transfer and lastly low labor wage cost in that order. On the other hand, labor union interference (mean of 1.96), Labor Unrest (mean of 2. 00), and management system variation with locals (mean of 2. 00) were classified by the respondents as non-challenges. With the grand mean of 2.45, human resource was a challenge to the manufacturing FDI. Human resource related factors concur with (McDonald, 2000)and (Hofstede, 1983).

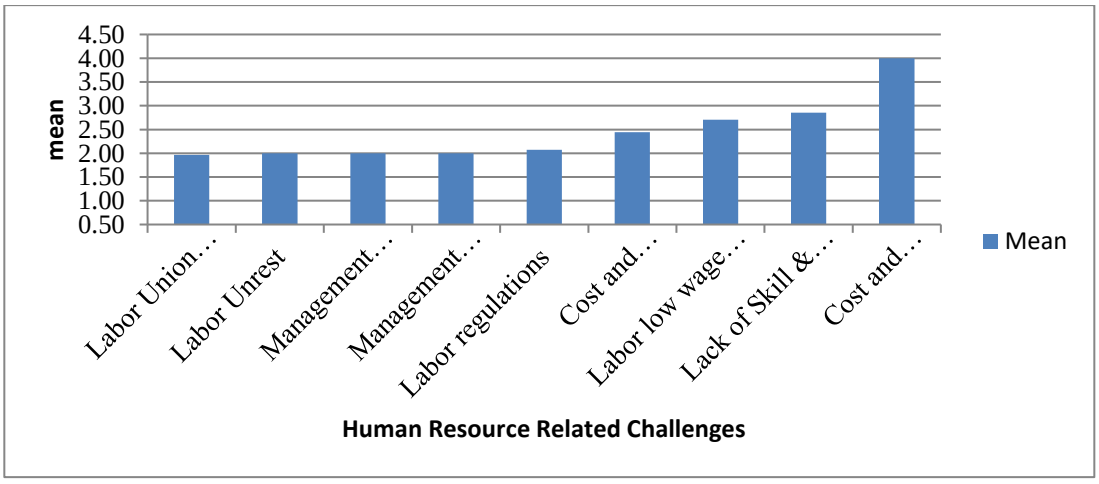

Figure 4. 18 Human Resource Related Challenges

4. 8.7 Land Related Challenges

The researcher attempted to determine whether or not land related issues as challenges for manufacturing FDI. When referring land, it is mean government land, usually found in cities outside of industrial parks and prepared and issued on lease basis for domestic and foreign investors engaged in manufacturing industries to build their factories, offices, warehouses and so on. The effects of land related challenges as a source of challenge to the manufacturing FDI in Ethiopia were investigated using a set of three challenges which included access to land, cost of land, and regulations in land transactions/deals. The results were as tabulated in Table 4-30.

Table 4. 30 Land Related Challenges

Land Related Challenges	Mean	Standard Deviation
Access to Land	4.59	0.844
Cost of Land	2.70	0.465
Regulations in Land Transactions/Deals	2.19	0.396
Grand Mean	3.16	0.568

(Source: Survey Questionnaire, 2019)

Analysis of the mean illustrated in Table 4-30 showed that access to land (mean of 4.59) had highest mean followed by cost of land (mean of 2.70), and regulations in land transaction/deals (mean of 2.19).This means that access to land (with highest mean of 4.59) was considered a greater source of challenge to the manufacturing FDI by the respondents. Land related challenges with the grand mean of 3.16 are a major challenge to the manufacturing FDI in Ethiopia. These findings concur with results shown on time taken to get land.

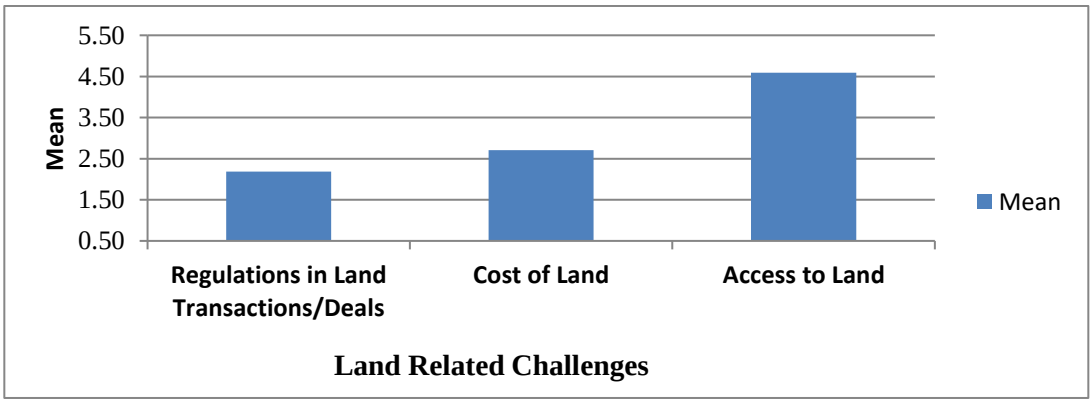

Figure 4. 19 Land Related Challenges

4. 8.8 Industrial Parks Related Challenges

Industrial park is defined as an area with distinct boundary designated by the appropriate organ to develop comprehensive, integrated, multiple or selected functions of industries, based on a planned fulfillment of infrastructure and various services such as road, electric power and water, one stop shop and have special incentive scheme, with a broad aim to achieving planned and systematic, development of industries, mitigation of impacts of pollution on environment and human being and development of urban centers, and includes special economic zones, technology parks, export processing zones, agro-processing zones, free trade zones and the like designated by the investment board (Industrial Parks Proclamation No 886/2015). Industrial parks related challenges as a source of challenge to the manufacturing FDI in Ethiopia were investigated using a set of four challenges which included space insufficiency in parks, cost of space in parks, and industry parks regulation deals and site design incompatibility with technology. The results were illustrated in Table 4-31.

Table 4. 31 Industrial Parks Related Challenges

Industrial Parks Related Challenges	Mean	Standard Deviation
Industry Parks Regulation Deals	2.00	0.000
Site design incompatibility with technology	2.07	0.385
Cost of Space in Parks	2.93	0.267
Space insufficiency in Parks	4.78	0.424
Grand Mean	2.94	0.269

(Source: Survey Questionnaire, 2019)

Analysis of the mean illustrated in Table 4-31 showed that space insufficiency in parks (mean of 4.78) had the highest mean followed by cost of space in parks (mean of 2.93), site design incompatibility with technology (mean of 2.07) and industry parks regulation deals (mean of 2.00). This means that space insufficiency in parks (with highest mean of 4.45) was considered a greater source of challenge to the manufacturing FDI by the respondents. Industrial parks related challenges with the grand mean of 2.94 were a major challenge to the manufacturing FDI in Ethiopia. These findings concur with that of the respond of professional experts on industrial parks development.

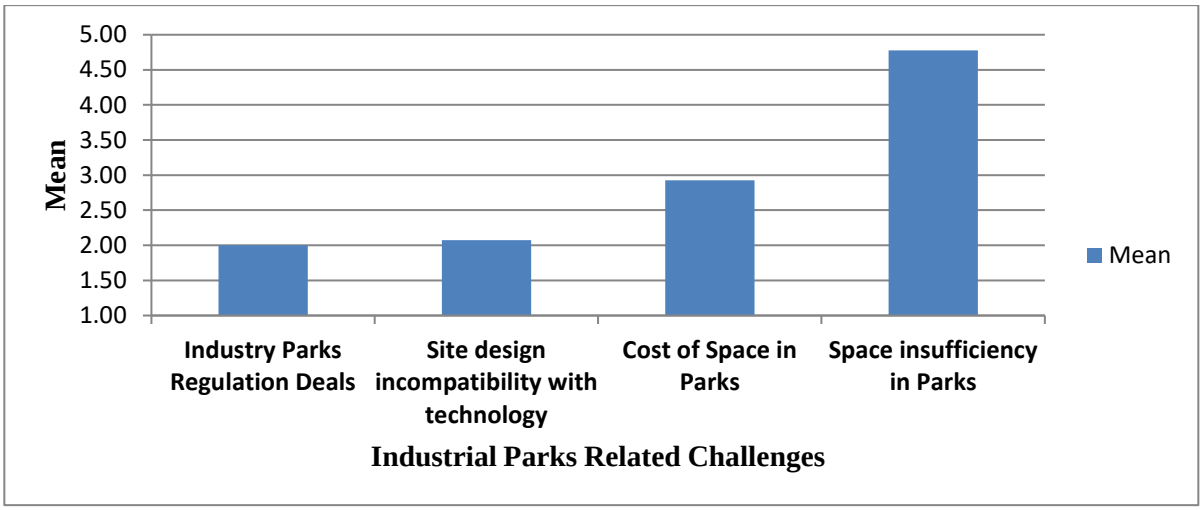

Figure 4. 20 Industrial Parks Related Challenges

4.8.9 Discussions of the Main Findings

In this section, the researcher attempted to synthesize data collected from 73 foreign investor respondents. The findings of the analysis of information gathered from foreign investor questionnaires isolated various challenges. The effect of challenges in implementing manufacturing FDI were summarized as is shown in Table 4.32.

Table 4. 32 Challenges of Manufacturing FDI

Challenges of Manufacturing FDI	Mean	Standard Deviation
Political, Legal and Social Challenges	2.34	0.264
Human Resource Related Challenges	2.45	0.312
Customs and Tax regulation Challenges	2.51	0.436
Industrial Parks Related Challenges	2.94	0.269
Infrastructure Challenges	3.02	0.442
Market and Product Challenges	3.10	0.8653
Land Related Challenges	3.16	0.568
Fiscal Policy Challenges	3.57	0.575

(Source: Survey Questionnaire, 2019)

Analysis of the mean of the eight types of challenges indicated that fiscal policy factors (mean of3.57) as the greatest source of challenge to the manufacturing FDI followed by land related factors(mean of 3.16),market and product factors(mean of 3.10) and infrastructure factors (mean of 3.02). The findings could be attributed to the significance with which these challenges are to the manufacturing FDI. The study highlighted that industrial parks related factors (mean of 2.94), customs and tax regulation factors (mean of 2.51), and human resource related factors (mean of 2.45 are not major challenges to the implementation of manufacturing FDI in Ethiopia. Political, legal and social factors (mean of 2.34) were not considered as challenge by foreign investor respondents.

4. 8.10 Secondary Data Analysis and Presentation

Secondary data were collected from Ethiopian Investment Commission (E.I.C) from the period of January 1992 to July 2017. Total registered manufacturing FDI refers to total licensed manufacturing FDI by E.I.C while total operational manufacturing FDI refers to total manufacturing FDI in operation (producing goods for domestic and export market).

Table 4. 33 Registered and Operational Manufacturing FDI in Ethiopia by Year of Establishment

Year	Total Registered Manufacturing FDI				Total Operational Manufacturing FDI			
	No of Company	Capital in '000' ETB	Perm Employ.	Temp Employ.	No of Company	Capital in '000' ETB	Perm Employ.	Temp Employ.
1992	2	8,976.10	213	-	2	8,976.10	213	-
1993	1	44,452.60	99	-	1	44,452.60	99	-
1994	2	202,399.40	856	-	2	202,399.40	856	-
1995	4	146,100.03	331	300	2	52,051.03	94	300
1996	14	369,028.72	1,430	93	13	363,795.52	1,398	93
1997	17	840,249.79	3,527	134	16	761,531.49	3,355	134
1998	7	407,377.70	1,050	72	5	357,933.30	840	72
1999	7	341,790.40	901	120	7	341,790.40	901	120
2000	11	172,773.30	1,034	499	10	166,198.30	995	499

2001	12	1,858,188.12	2,520	283	8	1,690,080.12	1,999	58
2002	11	196,436.90	1,183	1,539	11	196,436.90	1,183	1,539
2003	54	1,162,938.94	3,973	2,072	43	487,709.37	3,018	1,843
2004	69	1,862,957.53	5,060	4,248	55	1,481,793.00	4,243	3,473
2005	78	2,722,547.00	4,365	2,497	65	1,790,700.96	3,613	2,050
2006	114	31,291,072.05	18,928	21,265	87	8,647,911.27	9,282	5,178
2007	136	8,276,483.89	7,334	7,242	109	2,989,284.51	5,601	4,722
2008	161	15,429,322.46	16,612	13,580	112	3,869,223.64	11,025	6,238
2009	140	22,206,852.61	18,166	9,231	106	7,344,039.61	13,906	5,961
2010	136	13,619,004.56	11,358	9,020	85	6,508,151.36	7,424	4,996
2011	118	14,471,325.21	8,172	7,899	69	12,168,541.99	5,940	6,654
2012	218	23,358,758.97	16,771	14,309	102	4,198,090.06	5,418	3,221
2013	261	17,769,027.36	30,684	19,163	116	7,185,370.10	7,924	8,869
2014	190	20,639,669.63	46,340	34,704	81	4,303,467.90	15,667	8,148
2015	246	35,890,021.34	37,340	16,962	116	5,770,049.29	13,643	3,505
2016	217	48,496,719.75	62,367	20,533	107	4,872,534.98	9,469	15,192
2017	191	171,464,377.94	45,074	26,596	66	13,817,780.70	18,698	10,906
2018	165	21,005,263.71	35,668	14,045	20	531,461.38	4,736	2,938
Total	2,582	454,254,116.01	381,356	226,406	1,416	90,151,755.29	151,540	96,709

(Source: (EIC, 2018))

Table 4.33 above presents registered and operational manufacturing FDI in Ethiopia from 22 August 1992 to 4th December 2018. It is clear to observe that there is a significant gap between the proportion of registered manufacturing FDI versus operational manufacturing FDI in terms of companies, capital and employment in each year for the last twenty-six years. The gap indicated that there were challenges in implementing manufacturing FDI in Ethiopia.

Table 4. 34 Manufacturing FDI Comparison: Registered Versus Operational

Manufacturing FDI		Registered	Operational	Percentage
Companies		2,582	1,416	55%
Capital in '000' ETB		454,254,116.01	90,151,755.29	20%
Job Opportunity	Permanent	381,356	151,540	40%
	Temporary	226,406	96,709	43%
	Total	607,762	248,249	41%

(Source: (EIC, 2018)

Table 4.34 showed that the conversion rate of manufacturing FDI in terms of companies, capital and job opportunity was very low. The actualized and realized manufacturing FDI was very low when compared with registered manufacturing FDI. This depicted that there were implementation challenges. These challenges emanate from Government body sides and foreign investors side. There was lack of coordination between Government institutions, red tape procedures, corruption and other factors were from government body sides while failure to implement their business plan due to financial and market limitation, lack of technical and skill capacity, and other factors from foreign investors side.

Challenges of manufacturing FDI were analyzed from the following three types of comparisons.

Licensed Companies versus Operational Companies

As shown above in table 4-34, from 22 August 1992 to 4th December 2018, only 1416 companies were in operation from the total 2582 licensed and active foreign investment companies, i.e. about 55 percent of the total approved projects. However, 1116 companies (45%) were not start production. One can easily understand the gap between registered manufacturing FDI and operational manufacturing FDI. The conversion rates of manufacturing FDI companies are very low due to the implementation challenges.

Factors that contribute for the lower conversion rate includes delay in accessing land and electric power, poor coordination between E.I.C and Regional Governments and Federal stakeholders, red tape procedures, poor decision-making process and others. On the other hand, foreign investors themselves also contribute to implementation challenges due to their poor technical and financial capacities and other factors. Because of these reasons, foreign investors spent long time in implementation phase rather than operational phase, without commencement and production of goods.

Registered Capital versus Realized Capital

As can be observed from table 4-34 above, there is high gap between registered capital and actualized capital. Total registered capital amounted to ETB454, 254,116,010while the actualized and realized capital amounted to ETB 90,151,755,290. The actualized and realized capital was equivalent to 20 percent out of the huge capital disbursement[8]expected as a result of the activities of these manufacturing FDI companies.

Similarly, there is a significant gap between registered capital and actual capital which resulted to low conversion rate in capital. The reasons for low conversion rate in capital investment include delay in the provision of loan, bureaucratic procedures, poor coordination between government institutions, and others on the government body side and failure to secure capital investment from shareholders, poor business plan, and failure of capital expectations from overseas banks, and others on foreign investors' side.

Expected Job Opportunity versus Actualized Job Opportunity

Developing countries have large labor force dominated by young age groups. In order to create job opportunity for their human resources, they need to attract and implement FDI especially labor-intensive manufacturing FDI such as textiles and garment, leather, agro-processing and other industries so as to absorb the ever-increasing labor force. This depends on the Government commitment to make smooth functioning of FDI and the type and viability of the FDI.

As can be observed from table 4-34 above, there is significant gap between expected job opportunity and actualized job opportunity. Total expected employment was 607, 762, of which 381,356 permanent and 226,406 Temporary whereas the actualized and realized employment is 130,000 permanent and temporary. The actualized and realized employment was equivalent to 21.38 percent out of the huge number of employments estimated to be created as a result of the activities of these manufacturing FDI companies.

[8]the payment of money from a fund:

The reasons for low conversion rate in employment creation include delay in capital disbursement, poor FDI monitoring and evaluation process, lack of coordination between government institutions, and others on the Government body side and poor business plan, failure to secure capital investment from shareholders, the trend to revise business plan to employ few workers than their initial plan, and others on foreign investors' side.

4.8.11 Comparison of Challenges in Implementing Manufacturing FDI: Ethiopia, Kenya & Nigeria

Challenges in implementing manufacturing FDI differ from countries to countries depending on the presence of infrastructure, policy implementation, cost of production, different laws and regulations and other factors. The research paper tried to compare implementation challenges of manufacturing FDI in three African countries where they were showing good progress in attracting and implementing manufacturing FDI: Ethiopia, Kenya and Nigeria.

The manufacturing sector in Ethiopia, which accounts for merely 22.9% of GDP in 2017 fiscal year, is dominated by food, beverage, textiles, hides and skins, and leather industries (Plecher, 2019)

The manufacturing sector in Kenya contributed 16.53% of the GDP in 2017 and dominated by mining, manufacturing (Manufacture of food, beverages and tobacco), energy production, and construction (Plecher, 2019)

Leading manufacturing industries in Nigeria produces cement, chemicals, clothing, fertilizers, food products, leather goods, lumber, metal products, and textiles. The country also has motor vehicle assembly plants, petroleum refineries, steel mills, and factories that process rubber. In 2016, manufacturing accounted for 22.32percentof the GDP. (Plecher, 2019)

Comparison of challenges in implementing manufacturing FDI in countries of Ethiopia, Kenya and Nigeria presented in Table 4.35.

Table 4. 35 Comparison of Manufacturing FDI Challenges in in Ethiopia, Kenya & Nigeria

No	Challenges of Manufacturing FDI	Ethiopia	Kenya	Nigeria
1	Land Related Challenges	Access to land is major & serious challenge	Access to land consider not as a major challenge	Access to land a challenge but not major challenge
2	Human Resource Challenges	Shortage of skilled man power is a challenge	Shortage of skilled man power is a challenge	Shortage of skilled man power is a challenge
3	Fiscal Policy Challenges	Erratic exchange rate is not a major challenge	Erratic exchange rate was considered a greater source of challenge	Erratic exchange rate was considered a greater source of challenge
		Inadequate access to credit	Inadequate access to credit	Inadequate access to credit
4	Political, Legal, and Policy Challenges	Poor implementation of Policies	Poor implementation of Policies	Poor implementation of Policies
		Corruption is not a major challenge	Corruption is a major challenge	Corruption is a major challenge
		Security issue is not a major challenge	Security issue is a major challenge	Security issue is a major challenge
5	Infrastructure Challenges	Cheap Cost of Production especially Electricity Cost	High Cost of Production especially Electricity Cost	High Cost of Production especially Electricity Cost
6	Market and Product Challenges	High Competition from American, European & Asian Industries	High Competition from American, European & Asian Industries	High Competition from American, European & Asian Industries
		Lack of raw materials imported from abroad	Lack of raw materials imported from abroad	Lack of raw materials imported from abroad
7	Customs & Tax regulation Challenges	Long custom clearance procedures	Long custom clearance procedures	Long custom clearance procedures

(Source: (Hiten, 2012) and (Vassily, 2011)

The difference in land challenges among the three countries (Ethiopia, Kenya and Nigeria) lies on land ownership. In Ethiopia, land belongs to the government while it is private, public and community ownership in Kenya and state control of land in Nigeria. Land cannot be sold or exchanged in Ethiopia while it is possible to sell or exchange in Kenya.

Currency exchange rate in Ethiopia remained stable against global currencies for long time which enables the country to have a stronger fiscal policy that resulted in low inflation rate. Because of this, erratic exchange rate has low impact in implementing manufacturing FDI. In Kenya and Nigeria, frequent currency devaluation is the main reason for erratic exchange rate and this was believed to have an impact in implementing manufacturing FDI. Currency exchange rate of Ethiopian Birr, Kenyan Shilling & Nigerian Naira against US Dollar for July 1, 2019 presented as follows. 1USD=28.6805 Ethiopian Birr (ETB), 1USD=101.330 Kenyan Shilling (KES) and 1USD=358.104 Nigerian Naira (NGN) (OANDA, 2019).

Corruption rate is low in Ethiopia as compared to Kenya and Nigeria. Transparency International, a global coalition against corruption ranked 176 countries in corruption rate from its lowest rate to highest rate. According to Corruption perceptions index 2017, Ethiopia ranked 107th, Kenya 143th and Nigeria 148^{h}. (Transparency International, 2017)

Crime, theft and terrorism rate is very low in Ethiopia as compared to Kenya and Nigeria. That is why security issue is not a major challenge in Ethiopia. Cost of production especially electricity cost differs among the three countries (Ethiopia, Kenya and Nigeria). Electricity cost is cheap in Ethiopia as compared to Kenya and Nigeria. Electricity costs $0.05 per kilowatt-hour in Ethiopia, compared with $0.22 in Kenya and $0.27 in Nigeria. (UNIDO, 2017)

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter discusses summary of findings, conclusions and recommendations for further research and policy framework.

5.1 Summary of Main Findings

The research attempted to find out challenges in implementing manufacturing FDI in Ethiopia. The sample consisted of seventy-three（73） foreign investors engaged in manufacturing FDI and twenty-seven（27） professional experts from E.I.C and other stakeholders. Before responding to challenges of manufacturing FDI, the researcher considered to look at the demographic characteristics of foreign investors and professional experts. Majority of foreign investor respondents have entered in manufacturing FDI for the past ten years and therefore able to offer the required valuable information. Majority of foreign investor respondents were wholly foreign owned and the rest are joint ventures with locals. Majority of foreign investors originated from China, India, Britain, Netherland, Sudan and Turkey. Majority of the respondents had over 100 workers and a capital investment of over ETB ten million. Furthermore, Majority of respondents was located in Oromia region and Addis Ababa City and they were found in implementation phase of investment. Since 56.2% of the respondents invested in manufacturing FDI for more than five years, the sampled foreign investors were in a position to provide with relevant and credible information required for this study. Since 92.6% of professional experts have worked in their organization for more than 3 years in top managerial positions, that is, directors and team leaders' and had academic background of masters and bachelor degrees. Therefore, professional expert respondents were also in a better position to provide relevant and credible information required for the study.

With respect to identifying challenges of manufacturing FDI, critical challenges were categorized and discussed. It was established that under fiscal policy challenges, shortage in the provision of foreign currency was the major challenge, followed by delay in financing costs/loans/ and unpredictable inflation rate the least. Under infrastructure challenges, cost and availability of electricity supply and port efficiency were the major challenges with availability of rail the least challenge. Delay in provision of custom clearing and forwarding process was a major challenge under the Customs and tax regulation

challenges and delay in provision of custom duty-free privilege the least challenge. Global competition and penetration of international market were highlighted as major challenges while change in production technology the least. Lack of coordination between the public utilities and services, and Government bureaucracy/red tape in stakeholders were isolated as major challenges under the political, legal and social challenges, with terrorism being the least challenge. The respondents identified availability of skilled labor as the biggest challenges under human resource challenges with difference of management style by expatriate and local as the least challenge. Access to land was considered by the respondents as a major challenge under land related challenges while regulations in land transaction/deals the least challenge. Space insufficiency in parks was considered by the respondents as a major challenge in industry parks related challenges while industry parks regulation deals the least challenge. In summary to the challenges in implementing manufacturing FDI in Ethiopia, the researcher identified fiscal factors as the greatest source of challenge to the manufacturing FDI followed by land related factors, market and product factors and infrastructure factors. The study highlighted that political, legal and social factor; industrial parks related factors, customs and tax regulation factors, and human resource related factors are not major challenges to the manufacturing FDI. Moreover, availability of cheap labor, industrial parks development, availability of electric power supply, access to wide international market and availability of land are highly influential factors for foreign investors to invest in manufacturing industry in Ethiopia

5.2 Conclusions

Conclusions of the study are primarily based on the objectives of the research. As it is indicated on the discussion of the main findings, it can be concluded that fiscal policy, land related factors, market and product factors and infrastructure factors are the major sources of challenges for manufacturing FDI in Ethiopia. However, human resource, political, legal and social challenges, industrial parks related factors, customs and tax regulation factors can be considered as minor challenges by the respondents.

With respect to the response to how long did it take investors to get critical public utilities and services, it can be concluded that provision of land, electric power, loan, and foreign currency were a big challenge in implementing manufacturing FDI and took long delivery time despite the client charter of institutions and investment law stated that it should be delivered within the specified period of time while provision of investment license and residence and work permit can be considered as minor challenges by the

respondents in contrast infrastructure and resource availability were the greatest contributing factors for foreign investors to invest in Ethiopia while conducive business environment, investment privileges, and access to market were not big contributing factors.

The study has shown that One-stop shop (OSS) initiative to bring all the relevant service rendering institutions to have their desks within the premises of the E.I.C and industrial parks has so far not been as effective as desired despite implementation of OSS is a new phenomenon and at infant stage of development in Ethiopia.

The research showed that the main reason for Ethiopia's involvement in the manufacturing sector deals with foreign investors is to create vast employment opportunities and proper utilization of resources of the country but as per the finding of this study the degree of coordination between E.I.C and federal stake holders and E.I.C &Regional Governments were very low and this lack of coordination affects implementation of manufacturing FDI.

The research indicated that the legal framework, especially the investment proclamations, regulations and directives were not updated in line with technology changes, economic development, long term development plan, etc. The investment law and its regulations were not specific, clear and transparent. Moreover, there was redundancy or duplication of works between E.I.C and Federal Government bodies when reviewing institutional frame work. Furthermore, there was no single policy document with regarding to investment including FDI but sector-based policy like industrial policy, rural development policy and so on.

The study showed that industrial parks in Ethiopia didn't accommodate all sectors of manufacturing FDI. They were open only for textile and garment industries which were labor intensive and to some extent to pharmaceutical and agro processing industries which are 100% export. But they didn't accommodate other sub-sectors like metal and engineering, leather, chemical and other manufacturing industries despite industrial parks development was at infant stage in Ethiopia and will accommodate more sub-sectors when the under-construction industrial parks will be fully completed.

The research paper attempted to identify challenges of manufacturing FDI under different investment stages. Under pre-implementation stage of investment, land related challenges, fiscal policy related challenges especially delay in financing costs/loans/, infrastructure challenges (especially road), delay in residence and work permit were challenges but access to land was considered as a key challenge outside of industrial parks under this phase. Under implementation stage of investment, infrastructure challenges especially electric power supply for machinery erection and testing, custom and tax regulation challenges especially custom clearing and forwarding, fiscal policy related challenges especially shortage in the supply of foreign currency, port efficiency problems, delay in getting construction permit, human resource challenges especially trained man power were challenges but challenges in electric power supply and custom clearing and forwarding process were considered as key challenges. Under operational stage of investment, fiscal policy related challenges (especially shortage in the supply of foreign currency and delay of loan for working capital), market challenges (penetration into domestic and international market, delay in importation of raw materials), challenges on getting certificate of competency (CoC), human resource challenges (trained man power), infrastructure challenges especially electric power interruption, logistics challenges, port efficiency and shipping related challenges, delay on custom clearing and forwarding process were challenges but shortage in the supply of foreign currency and market challenges were considered as key challenges.

The Ethiopian Investment commission has to do a lot in promotional and follow up activities, on foreign investors who have a sensitive nature towards implementation obstacles. So EIC should strive a lot to work on one stop shop services so as to facilitate and support foreign investors who face frequent obstacles. It is better to serve investors request for land, custom, and other services under this one stop shop doors.

Investors have faced long process of issuing new and expansion investment permits. In order to solve this problem, Ethiopian Investment commission should consider to start E-Licensing (electronic way of issuing investment licenses) to avoid unnecessary delays which consumes valuable time of investors.

One of the problems of foreign investors is tardiness of provisions of loans. This could be solved by increasing investment on private financial institutions. Also, it would have no harm if foreign investors are allowed to invest in loan giving financial institutions with some restrictions to avoid monopoly.

Infrastructures are vital for investment. It is obvious that they require lots of financial expenditure by the government on roads, electric power, telecommunication, water supply, and others. In order to solve the problem of finance for infrastructure especially rural roads, it is better to implement cost sharing scheme for expenditures between the government and the private investors. It is also better for the Government to privatize part of telecommunication sector for private investors.

The other main challenge is long process of issuing rural and urban land which discourages investors from investing at their full capacity. In order to solve the problems associated with urban and/or rural investment lands, it is necessary to establish special economic zones to be developed by the government and/or private investors, the government has to focus on infrastructural development especially on roads and electricity, and the establishment of land bank that would offer efficient and prompt service delivery systems for investors who submit land requests.

Finally, secondary data collected from E.I.C showed that the conversion rate of manufacturing FDI in terms of companies, capital and employment was very low. The actualized and realized manufacturing FDI in terms of companies, capital and employment was very low when compared with expected and registered manufacturing FDI. This depicted that there were implementation challenges.

5.3 Recommendation

1/ There is a need for a much more specific, clear and transparent legal document especially the investment proclamations, regulations and directives need to be updated in line with technology changes, economic development, long term development planning.

2/ There is a need for a much more clear, coherent, integrated and comprehensive policy document related to investment and their implementation.

3/ There should be strong coordination between E.I.C and Regional Governments in relation to land and facilitation works. It is important to establish online ICT linkage between E.I.C and regional governments to exchange information with regard to investment implementation.

4/ There should be strong coordination and integration between E.I.C and federal stakeholders in relation to investment facilitation and avoiding duplication of duties and implementation challenges.

5/ One-stop shop (OSS) established in E.I.C and industrial parks should operate in an efficient and

streamlined manner to facilitate manufacturing FDI. Thus, Ethiopian Investment Commission (E.I.C) should strive a lot to work on one-stop shop services in its compound and industrial parks so as to facilitate and support foreign investors who face frequent obstacles. It is better to serve investors request for land, custom, and other services under this one-stop shop doors.

6/ Accessibility of public utilities and services should be given due attention to manufacturing FDI operating outside of industrial parks as getting these public utilities and services are very challenging for both domestic and foreign investors.

7/ Investors have faced long process of issuing new and expansion investment permits. In order to solve this problem, Ethiopian Investment Commission (E.I.C) should consider to start e-licensing (electronic way of issuing investment licenses) to avoid unnecessary delays which consumes valuable time of investors.

8/ One of the challenges of foreign investors is delay in the provisions of loans and foreign currency. The government should consider increasing investment on private financial institutions and diversify the export sector to generate more foreign currency.

9/ Infrastructures are vital for investment. It is obvious that they require lots of financial expenditure by the government on roads, electric power, telecommunication, water supply, and others. The Government through relevant ministries should further improve the country's infrastructures, provisions of loans and foreign currency and allocation of land for the manufacturing sector to reduce the cost of doing business thereby reducing challenges due to infrastructure.

10/The other main challenge is long process of issuing land which discourages investors from investing at their full capacity. In order to solve problems associated with investment lands, it is necessary to establish additional industrial parks to be developed by the government and/or private investors.

5.4 Recommendation for Further Research

1/ It is suggested that a comprehensive study on the strengths, shortcomings and effectiveness of human resources especially skilled and semi-skilled labor on the operations of manufacturing FDI in Ethiopia to be undertaken to help strengthen the country's labor regulation and minimum wage policies.

2/It is suggested that a study to be undertaken on challenges that affect domestic investors engaged in manufacturing industry in Ethiopia. This helps to have a comprehensive manufacturing policy that helps the promotion of strong manufacturing sector in the country.

3/ Lastly, It is suggested that a study on the strengths, shortcomings and effectiveness of one-stop service (OSS) in E.I.C and industrial parks needs to be undertaken to help come up with policies that could strengthen the service rendering and by extension assist manufacturing FDI inflow into Ethiopia.

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Appendices

Appendix I Foreign Investors Questionnaire

Dear Respondents,

The study is purely for academic purpose and in no way affects you personally and organizationally. Your sincere and timely responses would be of great help to the success of this study. Therefore, you are kindly requested to fill the questionnaire honestly and with great responsibility.

This paper will attempt to investigate challenges in implementing Manufacturing FDI in Ethiopia. Thank you very much indeed for your kind cooperation in advance. Please follow specific instruction at the beginning of the question and try to read each before attempting to complete it. No need of writing your name/company name.

PART ONE GENERAL INFORMATION

Encircle on the answer you think proper for the question/write your answer on blank spaces provided.

- What is the ownership structure of the investor/company?

  a. Wholly Foreign owned b. Joint venture with locals

Home country/ the origin of investor/company: _____
Regional Location of the company's manufacturing industry in Ethiopia _____
In which sub sector of manufacturing investment you are engaged in?

a. Textile & Garment b. Leather & Leather Products

c. Agro Processing d. Chemical & Pharmaceutical Products

e. Metal & Engineering f. Other Manufacturing Industry

5. For how long have you been engaged in the manufacturing industry you specified above?

a. 0-5years b. 6-10 years c. 11-15 years d. Above 15 years

6. How many employees are there in your Company?

a. 1-49 b. 50-100 c. 101-500 d. Over 500 e.No Employees

7. What is the total registered capital of your company in Ethiopian Birr (ETB)? (As it is shown in your investment license)

a. 1-10 million b. 11-50 million c.51-100 million d. Over 100 million

8. Status of the investor/company's manufacturing industry activity

a. **Pre-Implementation**/stage of investment projects that have not yet started implementation of investment activities/

b. **Implementation**/stage of investment projects in which practical undertakings such as construction of civil works, provision of machinery and equipment, etc. are underway but not yet started production of goods or provision of services/

c. **Operation**/stage of investment projects in which they have either partially or fully begun production of goods or provision of services/

PART TWO WHY YOU CHOSE TO INVEST IN MANUFACTURING INDUSTRY IN ETHIOPIA?

Why foreign investors/Companies chose to invest in manufacturing industry in Ethiopia? (Put a right mark √)

No	Factors	Not at All	Little Extent	Moderate Extent	Great Extent	Very Great Extent
		1	2	3	4	5
1	**Conducive Business Environment**					
	Political& Social Stability					
	Macro-Economic Stability					
2	**Investment Privileges**					
	Possibility of Remittance of funds					
	Right of Foreign ownership to land, residential houses, vehicles, etc.					
	Availability of Domestic insurance against expropriation					
	Duty free privilege of machinery, equipment, and spare parts					
	Tax holiday exemption					
	Investment Guaranty and Protection					
3	**Resource Availability**					
	Availability of land					
	Availability of cheap labor					
	Availability of Resources like water, minerals, petroleum, etc.					
4	**Infrastructure Availability**					
	Presence of Adequate infrastructure					

	Availability of Electric power supply					
	Industrial Parks development					
5	**Access to Market**					
	Opportunity of AGOA/EBA/COMESA & others					
	Large Domestic Market					
	Access to wide international market					
	Capital market in Ethiopia					
	Low wage costs					
6	**Other factors** in your option which have been left out; Please specify below with the rating					

PART THREE TIME TAKEN TO GET CRITICAL PUBLIC SERVICES

Encircle on the answer you think proper for the question/write your answer on blank spaces

1. How long it took you to have an investment/business license?

a. Less than 3 hour's b. 3 hours-1day c. 2-3 days d. Longer than 3 days

If you have taken more than one day to get investment/business license, could you please mention the possible reasons that led to this scenario?

……
……

2. How long have you been taken in getting land from regional and federal governments after your request?

a. Less than 6 month's b. 6-12 months c. 1-2 Years d. More than 2 Years

e. I have not submitted requests

If you have taken more than six months to get land, could you please mention the possible reasons that led to this scenario?

……
……

3. How long have you been taken in getting electric power from government electric power/utility Authority after your request?

a. Less than 3 month's b. 3-6 months c.6 months-1Year d. Longer than a Year

e. I have not submitted requests

If you have taken more than three months to get electric power, could you please mention the possible reasons that led to this scenario?

……
……4. How long have you been taken in getting loans from banks after your request?

a. Less than 41 day's b. 41days-2 month's c. 3 months-4 months

d. Longer than 4 months e. I have not submitted requests

If you have taken more than 41 days to get bank loans, could you please mention the possible reasons that led to this scenario?

……
……5. How long have you been taken in getting foreign currency exchange from banks after your request?

a. Less than 15 day's b. 16 days-1 month c. 2 months-3 month d. Longer than 3 months

e. I have not submitted requests

If you have taken more than 15 days to get foreign currency exchange, could you please mention the possible reasons that led to this scenario?

……

6. How long have you been taken in getting residence permit and work permit after your request?

a. Less than one day b. 2-7 days c. Weeks d. Months

If you have taken more than one day to get residence permit and work permit, could you please mention the possible reasons that led to this scenario.

……

7. While importing duty free capital goods such as machines, equipment, plants and vehicles, how long have you been taken in getting custom clearing and forwarding services?

a. Less than a Week b. 1 Week-2 Week c. 3 Week-4 Weeks d. Above 4 Weeks

If you have taken more than one week to get custom clearing and forwarding services, could you please mention the possible reasons that led to this scenario?

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PART FOUR CHALLENGES IDENTIFICATION

To what extent do you face each of the following challenges?

Rate the challenges facing Manufacturing FDI in Ethiopia using a 5-Point Scale: 1=Not at all, 2=little extent, 3=moderate extent, 4=Great extent and 5=Very great extent. Please tick appropriately in the box below. (Put a right mark √)

No	Challenges	Not at All	Little Extent	Moderate Extent	Great Extent	Very Great Extent
		1	2	3	4	5
1	**Fiscal policy challenges**					
	Erratic Exchange rate ETB/Dollar					
	Shortage in the supply of Foreign Currency					
	Unpredictable Inflation rate					
	Delay in Financing costs/Loans/					
2	**Infrastructure challenges**					
	Availability of Road and cost of transport					
	Availability of Rail and cost of transport					
	Availability and cost of Telephone and Internet					
	Port Efficiency and related costs					
	Cost and Availability of Electricity supply					
	Cost and Availability of Water supply					
3	**Market and product challenges**					
	Capability of utilizing AGOA/EBA/ COMESA opportunities					
	Foreign Trade Regulations-Non AGOA					
	Shortage of AGOA/EBA/ Market-orders					
	Penetrating Domestic Markets					
	Penetrating International Markets					
	Change in Production Technology					
	Competition :From Within Ethiopia					
	Competition: Global					
	Availability of raw material-Local					
	Shortage of raw materials imported from abroad					
4	**Political, legal and social challenges**					
	Political risks/instability: Within Ethiopia					
	Political Risks/instability-from Neighboring Countries and Global side					
	Government Bureaucracy/Red Tape in Stakeholders					
	Lack of Coordination between the public utilities& services					

	Policy instability/Implementation					
	Insufficient incentive package in the investment policy					
	Safety and Environment Regulations					
	Crime and theft					
	Corruption					
	Terrorism					
	Delay in provision of Investment licenses					
	Delay in provision of Resident and Work Permits					
5	**Customs & Tax regulation challenges**					
	Customs Regulations					
	Delay in provision of Custom duty free privilege					
	Delay in provision of Custom Clearing and forwarding process					
	Cost of Custom Policy					
	Tax Regulations					
	Insufficient Tax Holiday exemption					
6	**Human resource related challenges**					
	Availability of Human Resource-Semi Skilled					
	Availability of Human Resources-Skilled					
	Labor regulations					
	Labor low wage cost					
	Labor Unrest					
	Labor Union Interference					
	Lack of Skill & Knowledge in Technology Transfer					
	Management System variation-Expatriate staff					
	Management System variation -Local staff					
7	**Land Related challenges**					
	Access to Land					
	Cost of Land					
	Regulations in Land Transactions/Deals					
8	**Industrial Parks Related challenges**					
	Space insufficiency in Parks					
	Cost of Space in Parks					
	Industry Parks Regulation Deals					
	Site design incompatibility with technology					
9	**Other challenges** in your option which have been left out; Please specify below with the rating					

Appendix II Professional Experts Questionnaire

This questionnaire is designed with the intention of gathering information about the challenges in implementing Manufacturing FDI in Ethiopia. The information that you will provide will only be used for academic purpose and will be kept confidential. Therefore, do not hesitate to provide credible and valid information.

PART ONE GENERAL INFORMATION

Part One: Questionnaire for relevant officials/expert persons from Ethiopian Investment Commission and other investment service rendering offices.

1. Your Position in the government office:

Director_____, Team leader_____ ,

Senior expert _____, junior expert_____

2. Years of experience in investment facilitation: _____

3. Please indicate the highest level of education that you have completed?

Masters or above_____, B.Sc._____,

College Diploma _____, TVET level_____

PART TWO INVESTMENT FACILITATION SERVICES

1. Explain the main reason why Ethiopia involved itself in Manufacturing Industries deals with foreign investors?

……
……

2. Do you believe that one stop shop services given in

2.1. EIC in efficient & streamlined manner?

a. Yes b. No

2.2. Industrial Parks in efficient & streamlined manner?

a. Yes b. No

If your answer is No, could you please mention the possible reasons?

……
……

3. The degree of coordination between

3.1. EIC and Regional Governments (Land and others) is:

a/ very high b/ high c/ moderate d/ low e/ very low

3.2. EIC and Federal Stake holders (Banks, EEU, Ethio Telecom, Immigration, etc.) are:

a/ very high b/ high c/moderate d/ low e/ very low

If your answer is low/very low, what are the possible reasons?

……
……

4. Among the public utilities and services which ones are the most difficult to accesses by foreign investors (land, water, electricity, telephone & internet---------?) (Please specify the challenges in order of priorities)

……
……

5. Do you believe that the delay in the provision of critical public services while implementing Manufacturing FDI is due to?

a/ Lack of knowledge and experience b/ Ignorance c/ Corruption

d/ Poor decision making process e/ Lack of specific laws and regulations

f/ Other----------/specify

6. Do you believe that there are problem with regards to legal, institutional and policy frame works?

a. Yes b. No

If your answer is Yes, could you please mention the possible reasons

……

……

7. Do you believe that industry parks built in Ethiopia were accommodating all sectors of Manufacturing FDI?

a. Yes b. No

If your answer is No, could you please mention the possible reasons?

……
……

8. What are the major problems and challenges observed in industrial parks development to accommodate & facilitate Manufacturing FDI in Ethiopia? (Please specify the challenges in order of priorities)

……
……

9. What are the major problems and challenges that foreign investors/companies have faced during pre-implementation investment stage? (please specify the challenges in order of priorities)
……
……

10. What are the major problems and challenges that foreign investors/companies have faced during implementation investment stage?

(please specify the challenges in order of priorities)

……
……

11. What are the major problems and challenges that foreign investors/companies have faced during operational investment stage?

(Please specify the challenges in order of priorities)

……
……

12. What measures should be taken to alleviate the challenges of Manufacturing FDI in Ethiopia?

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Respondents by Country of Origin

Country of Origin	Frequency	Percent
China	26	35.6
India	9	12.3
china/Ethiopia	7	9.6
Saudi Arabia/ Sudan/Ethiopia	2	2.7
Saudi Arabia	2	2.7
turkey	2	2.7
Malaysia	2	2.7
USA	1	1.4
Sudan/Ethiopia	1	1.4
Sudan/Egypt/Ethiopia	1	1.4
Sudan	1	1.4
sirilanka	1	1.4
Saudi Arabia/ Ethiopia	1	1.4
Poland	1	1.4
Nigeria	1	1.4
Netherlands/Ethiopia	1	1.4
Netherlands	1	1.4
Lebanon	1	1.4
Kenya/ Ethiopia	1	1.4
France/Ethiopia	1	1.4
Egypt	1	1.4
Djibouti/Ethiopia	1	1.4
Djibouti	1	1.4
China/India	1	1.4
British/Ethiopia	1	1.4
Belgium	1	1.4
India/Ethiopia	1	1.4
Canada/Ethiopia	1	1.4
Britain	1	1.4
USA/Ethiopia	1	1.4
Total	73	100.0

(Source: Survey Questionnaire, 2019)