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THE SOCIO-ECONOMIC IMPACTS OF FOREIGN DIRECT INVESTMENT IN OROMIA REGIONAL STATE: THE CASE OF BISHOFTU TOWN

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DECLARATIONS

I, the undersigned, declared that this thesis is my original work and has not been presented for a degree in any other University, and all the source of materials used for the thesis have been duly acknowledged.

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This is to certify that the thesis prepared by Gudisa Debele, entitled: "The Socio-economic Impact of Foreign Direct Investment in Oromia Regional State: The case of Bishoftu Town" and submitted in partial fulfillment of the requirements for the Award of Masters Degree in Regional and Local Development Studies complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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Abstract

The Socio-economic Impacts of Foreign Direct Investment inflows

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Foreign direct investment is one of the most striking features of the global economy today. Understanding this, the government of Ethiopia had issued several investment incentives to encourage the inflows of foreign direct investment. Thus, this study has attempted to identify and investigate the socio-economic impacts of foreign direct investment inflows to Bishoftu town.

To achieve this objective primary and secondary data were collected which is quantitative and qualitative in nature. To obtain this data, questionnaire, FGD and KII was employed where as to collect secondary documented data from different institutions. The main source of data for the study was employees working in selected six (6) foreign firms. The study also employed both probability and non probability sampling techniques. Probability sampling techniques has been used to select respondents from all workers who have been working in selected foreign firms. Purposive sampling method was also employed to collect data from focus group discussants and interviewees which were mainly used to triangulate data collected through questionnaire.

The result of the study showed that the inflows of Foreign Direct Investment in to the area have potential Socio-economic contributions and Socio-economic problems. These contributions are job creation, technology transfer, income generation, increasing saving levels of employees, providing of social and economic infrastructure. The problems are failure of the firms to fill the skill gap of employees in use of technology, the farming community loss productive asset, environmental pollution, distraction social institution and unwise use of investment land.

Based on the major finding of the thesis, recommendations were forwarded that could solve the problems. In this regard, improving the skill gap of employees, providing comprehensive approach that enable community to diversify sources of income, creating awareness, providing technical support for local community and strengthening follow up and after care services are the area that needs emphasis by concerned Regional and local bodies to solve these problems.

Key words: Foreign direct investment and Socio-economic impacts

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List of Acronyms

BoUFED	Bureau of Urban Finance and Economic Development
CSA	Central Statistics Agency
CSO	Central Statistics Office
CUTS	Consumer Unity and Trust Society
DPI	Domestic Private Investment
EEA	Ethiopian Economic Associations
EIA	Ethiopian Investment Agency
FDI	Foreign direct investment
FGD	Focus Group Discussion
FIAS	Foreign Investment Advisory Service
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
Ibid	In the same source
KII	Key Informant Interview
LDC	Least Developed countries
MNC	Multinational corporations
MNE	Multinational Enterprises
MoFED	Ministry of Finance and Economic Development
NUPI	National Urban Planning Institute
OECD	Organization for Economic Cooperation and Development

OIC	Oromia Investment Commission
OUPI	Oromia Urban Planning Institute
SAP	Structural Adjustment Program
SNNPR	Southern Nations, Nationalities and Peoples Region
SPSS	Statistical Package for Social Science
SSA	Sub-Saharan Africa
TNCS	Transnational corporations
UNCTAD	United Nations Conference on Trade and Development
USD	United States dollar
WB	World Bank
WIR	World Investment Report

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign direct investment is one of the most striking features of the global economy today. It's contribution to economic development and therefore poverty reduction comes through its role as a conduit for transferring advanced technology and organizational forms to the host country; triggering technological and other spillovers to domestically owned enterprises; job creation; assisting human capital formation; contributing to international trade integration; and helping to create a more competitive business environment (Ikiara, 2003).

The inflow of foreign direct investments allows the rise of savings in the host country above the level of internal capital accumulation. In this case, the inflow of foreign direct investments stimulates internal investments. Furthermore, the inflow of foreign direct investments, leads to so-called externalities (technology spillover effects) (Carkovic, Levine 2002).

Sustainable economic growth is highly determined by the rate of investment, which in turn is mainly determined by the national savings level. However, the national savings level of African countries is quite low. Foreign direct investment (FDI) is an alternative source of capital to bridge the gap between savings and the required investment level. The proponents of foreign direct investment point out that FDI fills savings, foreign exchange and local revenue gaps of developing economies.

FDI can also provide managerial, entrepreneurial, technological skills and increases export and integrate the country's economy into global economic network (Solomon, 2008).

As a result of this, in the present globalized world, many countries spend enormous resources and time to design policies that encourage the inflows of foreign direct investment, since the appropriately designed policy plays important role in promoting foreign investment inflows. Global foreign direct investment (FDI) flows exceeded the pre-crisis average in 2011, reaching $1.5 trillion despite turmoil in the global economy.

FDI inflows increased across all major economic groupings in 2011. Flows to developed countries increased by 21percent, to $748 billion while, in developing countries FDI increased by 11percent, reaching a record $684 billion (UNCTAD, WIR, 2012 *www.unctad.org/wir*).

Most African countries have been undertaking numerous policy measures to create hospitable investment climate for foreign direct investment. The major policy measures are: Liberalizing controls on foreign exchange and price, liberalizing investment regulations and privatization of public enterprises and creating a stable macroeconomic environment. Despite their notable efforts, the flows of foreign investment in Africa are extremely small compared to other developing nations. Africa's share in the total foreign direct investment flows to developing economies fell from 19percent in the 1970s to 11percent in the 1980s and to 8percent in 2006 (World Investment Report, 2009).

On the contrary, Asia and the Caribbean countries have increased their share in FDI flows to developing countries from 33percent in the 1970s to 62percent in 2000-2006.

Since the liberalization of the Ethiopian economy in 1992, the government has provided various incentive packages to attract foreign investors. The government has issued several investment incentives, including tax holidays, duty free importation of capital goods and export tax exemption to encourage foreign investment.

Numerous macroeconomic reforms have been implemented with the objective of achieving macroeconomic stabilization and growth. The macroeconomic reforms include privatization of state owned enterprises, liberalization of trade policy, reduction of import tariff rates, elimination of non-tariff barriers, devaluation and deregulation of price & exchange rate controls (UNCTAD, 2002).

The Ethiopian Investment Agency (EIA) was also established in 1992 to promote private investment, primarily foreign direct investment. In response to this, the number of FDI flows to Ethiopia increased from 3 in 1992 to 6,605 in 2013 from which Bishoftu town administration where this study has been undertaken holds 32 projects (Ethiopian Investment Agency data base, 2013).

1.2 Statement of the Problem

Foreign Direct Investment (FDI) is often seen as a driver for economic development as it may bring capital, technology, management know-how, jobs and access to new markets. Policy makers have, therefore, tended to emphasize the benefits that FDI can bring to host economies, particularly in developing countries.

The inflow of foreign direct investment is not only the transfer of money from host countries to recipient countries but it is also a combination of marketing skills, managerial and entrepreneurial capabilities and financial assets.

As a result, the government of Ethiopia has been trying to developed policies and creates an appropriate enabling environment to encourage the inflows of Foreign Direct Investment. These include investment policy, labor law, taxation rates, devaluation of currency, removal of import quotas, tariff reduction, and export promotion and dissolution of highly centralized bureaucratic corporations through restructuring public enterprises with high marginal autonomy as parts and parcels of effort to liberalize the economy (Werotaw, 2005).

To achieve the objectives set in investment proclamation of the country, the government has also issued several investment incentives, including tax holidays, duty free importation of capital goods and export tax exemption to encourage foreign investment (EIA, 2009). Following government effort and its socio-economic reforms programme, considerable growth of private investment in general and FDI in particular has been recorded both at national and regional level.

Until 2013, about 63,095 private investments have been licensed in Ethiopia of which about 6,605 are foreign investment. On the other hand, in Oromia Regional State 13,311 projects licensed until the stated period from which Foreign Direct Investment account 1,953 projects (EIA, 2013). FDI flows not only to Ethiopia also to many other developing countries, making use of their comparative advantages of cheap labor and natural resources.

Arguably, as a result of FDI many developing countries such as the newly industrializing countries (NICs) of Asia, have achieved the status of middle-income industrialized economies.

However, debates still take place about the role of FDI in socio-economic development process, whether useful or detrimental in socio-economic development and what government can do to make use of FDI flows. In particular, such debates have continued between those argued as FDI can play a key role in the process of creating a better economic environment given appropriate policies and a basic level of development and those argued that there is a drawback with FDI as it leads to the deterioration of the balance of payments as profits are repatriated and negative impacts on competition in national markets.

A number of research works are done on foreign direct investments from different angles. For instance Mustafa Aman (2011) has undertaken study on An Assessment of Challenges and Prospects of Foreign Direct Investment in Agricultural Sector in Ethiopia and Mengistu Bessir (2008), worked on Contribution of private Investment for Economic Growth in Ethiopia. On the other hand Getinet Astatike and Hirut Assefa (2005), on their part conducted research on Determinants of Foreign Direct Investment in the country while, Ambachew & Makonnen (2010), have undretaken study on the Determinants of Private Investment in Ethiopia.

In addition, Yared Lemma (2011), tried to examine the impact of foreign direct investment (FDI) on technology transfer in Ethiopia, while Remla Kedir (2012) has been conducted research on the impact of foreign direct investment on poverty reduction in Ethiopia. The majority of these researches have done at national/macro level and wider scope. The research yet undertaken did not focus on socio-economic impacts of foreign direct investment inflows on particular area.

Moreover, those studies which have been undertaken to examine the impact of foreign direct investment on technology transfer and poverty reduction have not adequately to examine the socio-economic impacts of foreign direct investment inflows. It is also difficult to generalize that the study conducted in some specific area to identify the impact of foreign direct investment inflows on socio-economy is also applicable to the study area as well.

Bishoftu town administration where this study has been undertaken also holds significant number of projects that have been licensed since 1991/2. Bishoftu town is located in East Shoa zone of the Oromia Regional State, at a distance of 47km from Addis Ababa at south east along Addis Ababa-Djibouti road. According to the 2007 census, Bishoftu town had a population size of 100,114 (CSA 2007).

Currently the estimation of Bishoftu town Administration based on the inclusion of other six rural kebeles to the town the population of the town estimated to be 200,000 (95,600 male and104, 400 female) with a total area of about 15,273 hectares. The major economic activities of the town are petty trade, Small and Micro Enterprises, medium and large scale industries and other commercial activities. Urban agriculture and Hotel & tourism also shares significant proportion.

The researcher, while developing interest and selecting areas of the study observed that from Cities and Towns nearby Addis Ababa, Bishoftu Town because of its location proximity to the capital city of the country, relatively availability of basic infrastructure and favorable landscape the area believed to have a significant number of foreign direct investments.

In addition, though the economic impacts of investment flows have positive effects for the country in general and local community in particular; serious negative effects will occur for those losses their productive asset.

Therefore, research that identifies and investigates the socio-economic impact of FDI inflows is expected to play an important role in designing sound strategy and policy so as to maintain the socio-economic contribution of foreign direct investment and overcome its socio-economic problems.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study is to identify and investigate the socio-economic impacts of Foreign Direct Investment inflows in Bishoftu town.

1.3.2 Specific Objectives

Specifically, the study has tried to attain the following objectives:

- To examine the Socio-economic contribution of foreign direct investment inflows
- To identify the major socio- economic problems of foreign direct investment inflows
- To examine attempts made by the government institutions in maximizing the positive as well as minimizing possible negative impacts of foreign direct investment inflows
- To make possible suggestion and recommendations that would enable the concerned town's administration and other concerned body to solve problems and realize the contribution of foreign direct investment inflows to the area.

1.4 Research questions

In light of this, the study was initiated and aimed to answer the following basic questions.

- What are the potential Socio-Economic contributions of foreign direct investment inflows?
- What are the major social and economic problems the local community faces due to foreign direct investment inflows?
- What role do government institutions play to enhance the benefits and as well minimizing possible negative impact of FDI inflows?

1.5 Significance of the Study

The inflows of foreign direct investment requires due attention by state managers, scholars and by other stakeholders for different reasons. One of the ground reasons for this could be the need to reduce the negative impacts of investment in economic, social and environmental effects to attain development. The understanding of the social and economic impacts of any investment activities is very crucial for the success of any development intervention to maximizing its contributions in economic development and poverty reduction.

Therefore, from the findings of this research the following institutions will be benefited. Investment administrative institutions (at study area, Zonal and at commission level) can benefit from this study as it would enable them to take corrective action based on the identified problems. Policy makers can also use the findings of research to make clear directives in managing FDI inflows.

Despite the fact that, there have been various researches undertaken on foreign direct investment, its impact on technology transfer, impact on poverty reduction and determinants of foreign direct investment, the studies conducted on the socio-economic impacts of foreign direct investment inflow is limited. Hence, it is believed that there is a gap to explain and clarify the socio-economic impacts of FDI inflows. This study is therefore hoped to fill this gap.

1.6 Scope of the Study

This study is mainly devoted to the Socio-economic impacts of foreign direct investment inflows in Bishoftu town. The reason for limiting scope in terms of area coverage is that, it is difficult to manage all projects in the zone that are large in number and widely scattered in distance places. As the impact of foreign direct investment extends far beyond economic, one must think in terms of economic, political, social, technological, cultural, and environmental factors and examine all the impacts in order to decipher the true long-term impact of foreign direct investment.

However the methodology for undertaking the research through generating primary data, time and other resource constraints enforces to limit the scope to examine social and economic impacts of FDI.

1.7 Limitation and Challenges of the Study

Examining the impacts of FDI inflows in terms of Economic, Political, Social, Technological, Cultural, and environment is important to decipher the true long-term impact of FDI. However, this study limited only to identify and investigate the Socio-economic impacts of FDI inflows.

On the other hand the study was based largely on employees who have been working in foreign firms and those leave their land by collecting compensation in cash for the assets they dispossessed. Therefore, the selected sample household heads may not adequately represent the characteristics of all employees in the firms and those from displaced community also not adequately represent the whole displaced community. Major information was gathered through questionnaire from respondents of selected projects.

However, getting such data was not an easy task for researcher. As the respondents are employees of the company, the owners of the project were very reluctant to permit for the researcher to communicate with workers. Majority of them were not interested to make known about the status of their projects and what type of products they produce. Their accessibility was also challenging as some investors specially those whose projects are under construction and at pre implementation stage are not available at investment sites.

On the other hand, arranging FGD and conducting interview with selected individuals is also the other problem faced by researcher during the study, because of most of the government officials of the town were busy by meeting most of the time and this task was not facilitated by them and the local community also resist to participate on the focus group desiccation.

1.8 Organization of the Paper

The thesis has five chapters. The first chapter concerned with an introduction part. In this section background of the study, statement of the problem that initiated the study, basic research questions and objectives to be achieved, scope of the study, and limitation of the paper.

The second chapter concerned with review of related literature where by Definitions of foreign direct investment, theories of FDI, empirical survey, and conceptual framework have been briefly discussed. The third chapter discusses about the methodology used in the study while the fourth chapter depicted presentation and analysis of data gathered through primary and secondary sources. The final chapter of this paper is dealt with the summary of major findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

Foreign Direct Investment (FDI) has become an important part of foreign capital flows in developing countries especially since 1990s. The impacts of FDI can be wide ranging since FDI typically encompasses packages of capital as well as technical, managerial & organizational know-how and financing a large proportion of national gross investment in developing countries.

However, the socio-economic impact of FDI is seen as either useful or detrimental and has been a controversial topic for discussion between several schools of thought. This chapter includes definition of FDI, review several theories about the nature and motivation of FDI flows, the impact of FDI on socio-economic development, empirical evidences, conceptual framework and other relevant legal framework help to examine the topic discussion more effectively.

2.1 Definitions of Foreign Direct Investment

There are several ways to define foreign direct investment. According to the United Nations defines FDI as "an investment involving a long term relationship and reflecting a lasting interest of a resident entity (individual or business) in one economy (direct investor) in an entity resident in an economy other than that of the investor/host country"(United Nations 1992,cited in Lindbald,1998).

According to World Bank (2010), foreign direct investments are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. In general, FDI has been defined as the long-term investment made by non-resident of the host country through either creation or acquisition of capital assets in the host country.

On the other hand, FDI includes not only the transfer of investment capital, but also a whole package of physical capital, modern technology, techniques of production, managerial and marketing knowledge and business practices (Korbin 1977, Gillis et al.1992, Thirwall 1994). These definitions of FDI shows the difference between FDI and portfolio investment in that of the latter is the purchase of a host country's bonds or stock by foreigners, but does not involve a controlling ownership(Gillis,et al.1992,p.374;, Meyer and Qu 1995,p.1).

2.2 Foreign direct investment Classification

Foreign direct investment in developing countries can take several forms depending on the contribution of host countries and foreign investors, on the nature of investment projects and on the bargaining power of both developing countries and foreign investors.

Nevertheless, FDI may take the following forms: - Wholly-owned foreign subsidiaries, in which the whole ownership belongs to a foreign firms; Joint-ventures, in which foreign firms share the ownership with a local partner; Finding-out agreements, in which local partners will gradually take over the management and ownership of existing foreign investment as their capacities increase;

Management contracts, in which a foreign firms run the company with little or no equity share; Turnkey ventures, in which foreign firms hand over projects to the host country after starting up and Agreement in production sharing, in which foreign firm and local partner share production rather than ownership. (Oman 1984, cited in chen 1994, p.10; Gillis,et al.1992,p.391)

On the other hand, FDI include Greenfield investment, cross border merger and acquisition, and reinvested earnings. Greenfield investment refers to the establishment of a new firm that in turn enables to create productive assets in a host country. Usually, it is financed by capital coming from the investor's country. A transfer of ownership of local productive assets to a foreign investor is referred as international or cross border merger and acquisition. Reinvested earnings refer part or all of the profit that is not repatriated to the investor's country but reinvested in the host country (UNCTAD, 1998).

In a similar way, again based on the primary motives of the foreign direct investors, FDI can also be classified into the following three groups: market seeking, resource/asset-seeking and efficiency seeking (UNCTAD, 2007). A market-seeking FDI is determined by the growth potential and the size of national market and country-specific consumer preferences. A resource/asset seeking FDI is attracted by availability of low-cost unskilled & skilled labor, strategic natural resources and raw materials. An efficiency-seeking FDI is significantly determined by productivity of labor resource, costs of inputs and intermediate goods.

2.3 Theories of Foreign Direct Investment

Several theories have been developed to explain the nature and motivation of FDI flows, including the mainstream View, the radical view, Vernon's product life cycle model, the industrial organization approach, the transaction cost or international theory and Dunning's eclectic theory. The following review of those theories on the nature and motivation of FDI flows will help to examine the impact of FDI flows.

2.3.1 Mainstream view

The mainstream view, especially neo-classical theory, is generally an adaptation of classical economic theory. The mainstream view puts strong emphasis on economic growth, capital accumulation, promotion free market laissez-faire economics, free trade policies, open market and individual decision-making. The mainstream view of foreign direct investment is rooted in the Hecksher-Ohlin-Samuelson model of international factor movements and argues that the international movements of factors of production, including in FDI, are decided by the availabilities of primary production inputs in different countries.

In this regard, FDI moves from countries where capital is relatively abundant with low marginal productivity to countries where capital is relatively scares and has higher marginal productivity. The argument of the mainstream view is based on the assumptions of a perfectly competitive market, identical production functions in different countries and of FDI movements in response to difference in interest rates (Bos et al. 1974; Lall and Streeten 1977).

2.3.2 Radical view

The radical view lies largely within the neo-Marxist paradigm and includes not only dependency theory but also other views that can be classified as "anti-establishment". Unlike the mainstream view, the radical view, especially dependency theory, has focused on the social relations of production and on the relations between developed and developing countries (Dutt 1992; Todaro 1996). The radical view considers underdevelopment in developing countries as an externally induced phenomenon. It is not original or traditional but is, in large part, the historical consequence of the relationship between developed and developing countries (Frank 1969, p4).

More specifically, radical theorists like Dos Santos, Cardoso, Sunkel, Frank, Amin and Baran have argued that FDI arose in response to the need of northern industrial countries for new markets and/or new sources of cheap labor and other inputs (Baran 1957, pp. 177, 325; Frank 1966 and 1969; Cardoso 1972, pp. 91-92; Amin 1977, pp. 172-173; Helleiner 1989, pp.1453-1454). In their view, FDI is the "basis for a new type of technological industrial dependence to replace earlier forms of dependence" (dos Santos 1970, p.232). While the mainstream and radical views provide general arguments about the motivations for FDI flows, there are several theories which explain in more detail the reason why firms invest overseas.

2.3.3 Vernon's product life-cycle theory

Vernon developed the product life-cycle theory in 1996 to explain the basic evolution of the international production of innovation from export to direct investment overseas.

The theory includes three phases: *The early of development phase*: In this phase, the initial demand is small compared of potential demand, production is skilled and labor-intensive rather than capital intensive, producing small output of the home innovating market.

The growth phase: In this demand for new products is expended in both home and international markets, production techniques become standardized and tend toward large-scale and long-run production. Part of the product produced domestically is exported to meet foreign demand. Some overseas investment by innovating firms will start to meet international demand.

The maturity phase: In this phase, demand in the innovating market is fully met, production technology becomes standardize and during this phase, overseas investment by innovating and foreign firms is likely to reach peak (Parry 1980, pp.27-28).

2.3.4 International Organization Theory

It was first mentioned by Hymer (1960). It explained the movement of FDI in response not to higher interest rates but to finance and to support the international operations of firms. He argued that, the operation of firms abroad is determined by firm-specific advantages such as a firm's market position, patents, access to exports markets and to credit, and technological advantages (Frischtak and Newfarmer 1996).

On the other hand, the market structure of country specific characteristics also decide the location of FDI, structural market imperfection such as tariffs of subsides, income taxes, import restrictions, foreign exchange controls and other regulatory restrictions can be internalized by MNCs. Market imperfection also imposes transaction costs on the transfer of intangible assets like technology.

In order to overcome this problem and maximize the benefit MNCs would invest in overseas markets instead of selling of licensing their technology of patents (Vernon 1960 cited in sun 1998, p.5; Caves 1982; Rugman 1986).

2.3.5 Dunning's Eclectic Theory

According to Dunning's theory, there are three sets of factors that determine foreign direct investment. Ownership advantages include marketing skills, research and development skills or production skills that allow firms to provide goods and services more competitively both in their own countries and in other countries. Location advantages include natural resources, domestic market potential, labor forces, Political stability and government policies. These advantages are the main reasons why firms choose to invest in one country rather than another.

Transaction costs explain why foreign and local firms choose to combine the ownership advantages and location advantages through an internalizing process to overcome the transaction costs such as transport costs, different taxes and charges between countries (tariffs, quota) or other market imperfections (Dunning and Narula 1996, pp.1-2; Bishop 1997, p.11).

These theories, except Dunning's eclectic theory, have considered the nature and motivation of FDI flows from different perspectives, Dunning's eclectic theory. However, has combined those theories together (except the radical view) in an attempt to understand more fully the nature and motivating of FD flows. The thorough understanding of the nature and motivation of FDI flows will support the examination of the socio-economic impacts of FDI flows in the following sections.

2.4 Economic Impact of Foreign Direct Investment

This section examine the argument put forward on the impact of FDI flows on several aspects of socio-economic development such as economic growth: Technology transfer, Human capital formation, integration into global economy, employment creation, and saving. It is generally considered, by many international institutions, politicians and economists, as a factor which enhances host country economic growth, as well as the solution to the economic problems of developing countries (Mencinger, 2003).

Usually FDI is defined as an investment involving the transfer of a vast set of assets, including financial capital, advanced technology and know-how and better management practices. It is carried out by an entity (a firm or an individual) in foreign firms, involving an important equity stake in, or effective management control (UNCTAD, 2007). Since capital formation and technological improvement are the motor of economic growth, FDI is expected to promote host countries' economic growth (Wang, 2009). In 2002, OECD reports that countries with weaker economies consider FDI as the only source of growth and economic modernization. For this reason, many governments, particularly in developing countries, give special treatment to foreign capital (Carkovic and Levine, 2002).

It is common that countries have public agencies whose aim is to attract foreign investments using public funds, which shows that governments are willing to bear some costs to attract such investments (Ford et al., 2008).

Despite the fact that the impact of FDI on economic growth has been widely studied, there are still questions concerning the real effects of FDI, and also concerning the necessary conditions and the channels through which FDI leads to host country economic growth.

In fact, although many studies have confirmed positive effects of FDI, some authors stress that there is still no consensus on the degree of these effects (Blomström and Kokko, 1998; Lim, 2001). Also Pessoa (2007) and Wang (2009) report that the main conclusion to be drawn from several studies is that results are ambiguous.

Among the studies that have concluded that FDI does not cause economic growth are those of Haddad and Harrison (1993), Grilli and Milesi-Ferretti (1995) and Javorcik (2004). Others share the widespread view that FDI generates economic growth, especially Blomström (1986), De Gregorio (1992), Mody and Wang (1997), Nair-Reichert and Weinhold (2001), and Lensink and Morrissey (2006) studies.

However, as Vissak and Roolaht (2005) pointed out, the number of studies that show positive effects of FDI is much higher than those that focus on negative effects. Several explanations have been advanced for the presentation of mixed results. According to UNCTAD (1999), empirical studies show positive or negative effects depending on the variables they use.

Mohnen, (2001) and Asheghian (2004) indicate that it may be caused by lack of analysis of host country domestic conditions. Nair-Reichert and Weinhold (2001) emphasize that it can be caused by potential errors in the estimation method.

Wang (2009) suggests that one possible reason is the use of total FDI, rather than FDI by sector. Given the lack of consensus regarding the effects of FDI in the host country, it is relevant to make a detailed analysis of the existing theoretical and empirical literature on this relationship. On the one hand, the theoretical literature will be useful to explain the mechanisms/channels through which FDI affects economic growth.

The survey of the existing theoretical literature allow to conclude that FDI influences the host country economic growth through the transfer of new technologies and know-how, formation of the human resources, integration in global markets, increase of the competition, and firms' development and reorganization.

On the other hand, an analysis of existing empirical studies will help to explain the ambiguity of results. According to OECD (2002), there are channels through which it is expected that FDI positively affects growth but these channels could also trigger a negative effect. Thus, in the following subsections, this study explores the channels through which FDI can affect the host country's economic growth.

2.4.1 FDI and the transfer of new technologies and know-how

FDI can affect economic growth through the transfer of technology and know-how, and this impact can be positive and / or negative.

According to Frindlay (1978), FDI is a way to improve a country's economic performance through the transmission effect of more advanced technologies introduced by multinationals. In fact, multinational firms are often regarded as the more technologically developed firms.

As stated by Borensztein et al. (1998), multinational firms are responsible for almost all the world's spending on research and development. Also Ford et al. (2008) consider multinationals as a major source of technology dispersion, due to their presence in various parts of the world. The channels of international technology transfer and their importance for growth have been studied extensively in the 1990s. These studies identify three principal channels of international research and development spillovers.

The first is a direct transfer of technology via international licensing agreements (Eaton and Kortum 1996), though recently these provide less important source as the latest and most valuable technologies are not available on license (World Investment Report 2000). Second is foreign direct investment (FDI) that provides probably the most important and cheapest channel of direct technology transfer as well as indirect, intra-industry knowledge spillovers to developing countries (Blomström and Kokko 1997). Several studies offer empirical evidence on the importance of FDI flows for firm's productivity growth in developing countries (Aitken and Harrison 1999, Borensztein, De Gregorio and Lee 1998, Blomström and Sjöholm 1999).

Third channel of technology transfer is through international trade, in particular imports of intermediate products and capital equipment (Markusen 1989, Grossman and Helpman 1991, Feenstra, Markusen and Zeile 1992) as well as through learning by exporting into industrial countries (Clerides, Lach and Tybout 1997).

The growth rate of a country can be explained by the state of the technology it uses. In developing countries economic growth depends on the implementation of more advanced technology brought in by multinationals (Borensztein et al., 1998; Lim, 2001).

The existence of new technologies introduced by multinationals leads to a reduction of research and development (R&D) costs of firms that receive these technologies. So, these firms become more competitive (Berthélemy and Démurger, 2000). Loungani and Razin (2001) argue that the transfer of technology could achieve gains that could not be achieved through financial investments or the purchase of goods and services. FDI is considered by Saggi (2002), Hermes and Lensink (2003), and Varamini and Vu (2007) as a predominant way of increasing economic growth, since the transfer of technology and knowledge of multinationals improve local firms' productivity, which contributes to the growth of Gross Domestic Product (GDP).

The technology transfers are made to the local suppliers of multinational firms on a voluntary basis, to improve the products they deliver to them (Rodriguez-Clare, 1996). These new technologies are transferred in the form of training, technical assistance and other information provided in order to improve production quality and quantity of products that the multinational purchases (OECD, 2002). The same study states that usually multinationals also provide support to their local suppliers in purchasing raw materials and intermediate products, and even in the improvement of its facilities.

However, in sectors of activity with rapid changes in technologies, the main benefits brought by multinationals are the new products and new production processes (Blomström and Kokko, 1998).

Kottaridi (2005) still reports the link that multinationals establish with local research entities, such as public institutes and universities, as a strong source of technology transfer.

The transfer of technology, however, can also bring negative effects. According to Sen (1998) multinationals may have an adverse reaction to host country R&D in order to continue to hold a technological advantage compared to local firms. This author also notes that with the same aim multinationals only transfer inappropriate technologies. Vissak and Roolaht (2005) add that the host country can become dependent on technologies introduced by multinationals. This study also indicates that there is a decline in local firms' interest in the production of new technologies. In these circumstances; the host country dependence on multinationals technology will be perpetuated.

2.4.2 FDI and the Formation of the Human Resources

A second channel through which FDI can affect the host country's economic growth is the formation of the human resources or labor force. This channel may facilitate the occurrence of positive effects but also negative effects.

Zhang (2001a) states that FDI is a source of economic growth because it carries with knowhow in production and management methods, but also with highly skilled workers. Additionally, FDI fosters economic development in the host country by increasing its productive capacity due to the improvement of the labor force. This improvement of the human capital can occur through informal training that workers receive during the observation of new operations developed by multinationals (Loungani and Razin, 2001; Alfaro et al., 2004), and through formal training obtained (De Mello, 1999; Ozturk, 2007).

As mentioned, FDI is a vehicle for the adoption of new technologies in the host country and because of this, it is necessary that the labor force is able to use them. What happens often is the lack of this capacity, which leads the multinationals to provide the necessary training and thus increase capacities in the host country (Borensztein et al. 1998). According to OECD (2002), multinationals are a larger source of training than local firms. The training provided by multinationals has repercussions to the economy of the entire country, since local firms will then hire these workers (Hanson, 2001).

Lim (2001) adds that many employees use new knowledge to create their own firms and then they will transmit their knowledge to the workers of this new firm. OECD (2002) states that multinationals are responsible for improving the training of the host countries, also because they demonstrate to local authorities the need to have a qualified labor force.

As regards the labor force, there also exist negative consequences from FDI inflows. The use of advanced technology by multinationals leads us to predict the need for fewer workers than that used by local firms, leading to the consequent increase in unemployment (OECD, 2002).

Additionally, local firms will feel the reduction in the local authorities' support (Ford et al., 2008). These authors argue that local authorities, verifying that multinationals are a source of training and improving the levels of education in the country, reduce public spending in this area which mitigate the effect of training of the labor force provided by FDI. Another negative consequence is that workers with high education may leave the country, since there are no R&D activities that they can engage in the host country (Vissak and Roolaht, 2005).

2.4.3 FDI and Integration into Global Economy

FDI contributes to the integration of the host country into the global economy, particularly through the financial flows received from abroad (OECD, 2002). This relationship is also demonstrated by Mencinger (2003), who provides evidence of a clear link between the increase of FDI and the rapid integration into global trade. This integration generates economic growth which is increased as the country becomes more open (Barry, 2000). Blomström and Kokko (1998) explain that the local firms' integration in the global market is also made by copying and attaining of knowledge held by the multinationals.

Multinationals have higher knowledge about internationalization because they have already gone through this process. Among the main competitive advantages held by multinationals are the expertise in marketing, establishment of networks, and creation and development of international lobbies.

According to Zhang (2001a), the contact with multinationals networks is a very important factor, since there is a possibility that local firms learn from the operation of these networks or to integrate them.

Local firms can learn from multinationals in several ways. Blomström and Kokko (1998) suggest that some local firms become multinationals suppliers or subcontractors, which leads local firms to export, even if it is often with the multinational brand. The contact with the multinational brand is also useful in order to use the same channels of this brand already established in the international market (Zhang, 2001a).

This will be the first experience in international markets which then serves to export products they developed, with its own brand, to independent customers gained by local firms (Moran, 1999).

Another form of local firms' integration in the international market is through their inclusion in the multinationals strategy. This may lead local firms to follow the multinationals to other markets or even replace other suppliers in multinationals subsidiaries in other countries (OECD, 2002). The OECD (2002) study refers to the trade associations that multinationals are generally prominent members, as important sources to pass knowledge about the world market, because they are a center for exchange of relevant experiences. It also says that in response to requests from multinationals, local authorities can create infrastructures (particularly transportation infrastructures) that will benefit international trade and local firms that also will use them successfully in their internationalization. This fact is evidenced by Gunaydin and Tatoglu (2005) which indicate that these consequences of FDI facilitate the distribution of raw materials that exist in the host country.

In addition, Ford et al. (2008) assert that multinationals tend to include their suppliers in international networks to which they belong, so that local firms are involved in global trade by establishing relations with other international entities.

The type of FDI is also a factor of integration into the global market. When the investment is only made in assembly lines it is clear the increase in imports of components, as well as the increase in exports of final products (Zhang, 2001b).

Makki and Somwaru (2004), report that the increase in exports leads local firms to improve their productivity by better use of their capacity and access to economies of scale. The further integration into the global economy provided by FDI can, however, have negative effects on the host country. Mecinger (2003) suggests that FDI has a far greater impact for imports than for exports, which influences negatively the balance of payments.

This strong impact on imports is due to the fact that multinationals have great need of goods and raw materials, and most of the time; these are not available, either in quantity or in quality, in the host country (OECD, 2002). Another explanation is that the investment made may have as its main objective the supply of the local market and thus does not encourage exports (Ram and Zhang, 2002).

Vissak and Roolaht (2005) note that FDI is the easiest source of spreading economic problems occurring in the world, particularly those that have occurred in the multinationals countries of origin. Host countries become more open economies and more subject to changes in the global economy. But the negative aspects do not stop there. In fact, the purpose of improving the balance of payments through the initial financial flows received is not always achieved in the long run.

These effects can be mitigated or contradicted (in stages of low FDI inflows) through the usual repatriation of multinationals subsidiaries profits to their countries of origin (OECD, 2002; Hansen and Rand, 2006; Ozturk, 2007), or through the payment of licenses and royalties due to the use of technology held by headquarters (Sen, 1998).

Ram and Zhang (2002) and Duttaray et al. (2008) show that in the long run the repatriation (sending home) of profits is higher than the positive impact of the initial investment. The negative impacts caused by these outflows of capital, can be extended if these funds are obtained through credits obtained in the host country (Loungani and Razin, 2001).

2.4.4 Foreign Direct Investment and Employment Creation

The most important factor of shifting poor people out of poverty is access to employment. Insufficient job opportunities are the result of inadequate levels of investment both foreign and local. A key developmental spill over of FDI is local job creation. Given appropriate policies and basic levels of development, FDI can trigger benefits.

On the other hand MNEs are able to provide higher wages and, possibly, working conditions because of their higher productivity which, in turn, is explained by greater technological know-how and modern management practices that allows them to compete effectively in foreign markets and to offset the cost of coordinating activities across different countries. This transfer of technological and managerial know-how across affiliates of MNEs may give rise to direct benefits. But, it may also lead to indirect benefits by increasing the productivity of domestic firms when the productivity advantage spills over from foreign affiliates to domestic firms. Productivity spillovers represent positive externalities to the host country and may explain why policy-makers have sometimes treated foreign investment more favorably than investment by domestic firms.

Although not automatic, increased productivity in domestic or foreign-owned firms may lead to higher incomes, better working conditions and more employment (UNCTAD, 2007).

These direct effects are complemented by indirect or spillover effects. Indirect effects take place through movement of trained labor from foreign firms to other sectors as well as through the increase of employment in domestic subcontractors. The integration of FDI into a local economy results often in a deep social change. Movement of labor and links with domestic sub-contractors enables transmission of business culture, which includes corporate values, organizational structures and management practices (Mirza, 1998).

In competitive labor markets, MNEs may pay higher average wages only to the extent that they employ a more skilled workforce or must compensate workers for undesirable differences in the characteristics of jobs such as lower job security. The presence of certain market failures, however, could provide MNEs with an incentive to offer better pay and working conditions than domestic firms to individuals with similar characteristics doing similar jobs.

First, MNEs may be more likely to pay, so-called, efficiency wages because, MNEs may be willing to pay higher wages than their local competitors in an attempt to reduce worker turnover and thereby minimize the risk of their productivity advantage spilling over to competing firms and MNEs may also be willing to pay higher wages to motivate the workforce as they may face higher monitoring costs related to informational problems.

Second, there may be institutional factors that provide incentives for MNEs to go beyond local labor practices. However, in developing countries where the rule of law is weak, MNEs may be more likely to comply with national labor laws, because of reputational concerns and consumer pressure in their home markets (Halegua 2007).

In general, the effect of FDI on employment can be viewed in three scenarios. Firstly, FDI inflow can increase employment directly through creation of new businesses or indirectly by stimulating employment in the distribution stage of production. Secondly, FDI can maintain employment by acquiring and restructuring the existing firms. Thirdly, FDI can reduce employment through disinvestment and the closure of domestic firms because of the intense competitions.

2.5 Social impact of Foreign Direct Investment

The impact of foreign investment extends far beyond economic growth. FDI can be a catalyst for change to society as a whole. However, there are opposing views as to about the costs and benefits of FDI in countries' overall social and economic development. One group argued that, given appropriate policies and a basic level of development, FDI can play a key role in the process of creating a better socio-economic environment. In contrast, the other group argues that the adverse effects of FDI outweigh its benefits

There is an abundance of literature regarding the impact of FDI on society. A majority of the literature analyzes one side or the other; however, in order to more accurately measure the situation, a more balanced assessment that examines both sides of the debate is necessary.

The benefits of foreign direct investment include transfer of technology; higher productivity; higher incomes; more revenue for government through taxes; enhancement of balance of payments ability; employment generation; diversification of the industrial base and expansion; modernization and development of related industries (OECD, 2002). However, in countries where the comparative advantage is cheap labor, there is the potential for MNCs, whether directly or indirectly, to commit human rights abuses.

This is seen quite often in underdeveloped countries and in countries where there exists either inequalities between men and women or a large discrepancy between the income levels of the poor and the rich. Human rights abuses are violent security measures, discrimination, gender inequality, the failure to provide safe and healthy work environments, the use of sweatshops in manufacturing, and child labor, although this is less typical.

The increase in FDI caused a major loss in employment. As foreign firms began to dominate the economic environment, it became difficult for smaller, less efficient, domestic firms to gain strategic advantages, and many were eventually driven out of production and manufacturing industries. Capital-intensive FDI may fail to create many jobs.

Foreign firms may adopt capital intensive modes of production using technologies developed abroad thus not needing to employ any local people. Females in many industries were crowded out of the work force by males seeking employment.

The losses in employment opportunities forced many women to drop out of the labor force, and they are now finding it difficult to re-enter the labor market. Those that are unemployed face poverty, a loss of social benefits, and a decline in political representation (Kiss, 2003).

FDI has had a strong relationship with natural resources use and extraction (agriculture, mineral, fuel production). Currently, the debate over environmental pollution has centered on MNCs that have been involved in the exploitation of "pollution havens," which refer to countries with lax environmental regulations that seek to attract FDI by undervaluing their environment. This type of exploitation can lead to high levels of pollution and environmental degradation of the host country (Mabey & McNalley, 1998).

On the other hand, FDI has the potential to cause cultural tension between the home country and the host country. In countries with unstable political environments, cultural tensions can have destructive consequences. Study has shown that FDI can affect the political environment of the host country.

In countries with newly instituted political structures, some people may view foreign investment as an extension of imperialism. In other countries where there exists a considerable discrepancy between the incomes of the poor and the elite, FDI will be viewed as favoring the elite. Local entrepreneurs of underdeveloped countries might view foreign investors as seizing valuable resources that belong to the indigenous population. In any of these situations, an increase in FDI can lead to political conflict in the host country (Rothgeb, 2002).

2.6 Empirical Evidence on the impact of FDI

There are a variety of empirical studies that focuses on the influence of FDI on the host country's economic growth which includes many countries with different levels of development, and a more or less long-term analysis. These studies suggest that FDI is an important source of capital, complements domestic private investment, creates new job opportunities, enhances technology transfer, and boosts overall economic growth in host countries. On the other hand, different findings also show that FDI in turn is caused by the economic performance of a country.

Many empirical studies have been done to ascertain the relationship between foreign direct investment and economic growth. In their work, Borensztein et al (1998) find that FDI is an important vehicle for the transfer of technology, contributing more to growth than domestic investment. However, according to these studies, higher productivity holds only when the host country has a minimum threshold stock of human capital.

From the literature it is clear that a country's ability to take advantage of the positive effects of FDI might be limited by local conditions such as the development of the local financial markets, or the educational level of the population of the country which are generally called absorptive capacity.

Alfaro et al (2004), provide evidence that, only countries with well developed financial markets and human capital gain significantly from FDI in terms of their growth rates. The debate on whether FDI directly causes economic growth without preconditions has also been explained in De Mello (1997) that argues FDI leads to growth when there are efficiency spillovers to domestic firms.

The various findings with respect to the FDI growth linkage have significant policy implications for Africa. First, the fact that the FDI-growth linkage is not automatic implies that right policies must be designed by various countries to ensure that FDI is directed to areas and sectors where it will have the greatest impact. Second, the issue of absorptive capacity mentioned in terms of human capital development, and financial development are important. Thus, policy must be all encompassing in order to derive positive impacts. It can therefore be said that whether FDI contributes to development depends on macroeconomic and structural conditions in host countries.

Liu et al (2002) tested the existence of a long-run relationship among economic growth, foreign direct investment and trade in China. Using a co-integration framework with quarterly data for exports, imports, FDI and growth from 1981 to 1997, the research found the existence of a bi-directional causal relationship among FDI, growth, and exports.

Hansen and Rand (2004) investigated the direction of causality between FDI and GDP for a sample that consist 31 developing countries covering the 1970-2000 period.

The authors reported that, FDI was shown to have a lasting effect on the economic growth of the countries. They concluded that FDI causes growth through knowledge transfers and adoption of new technology.

Magnus and Fosu (2007) investigated the causal relationship between FDI and GDP growth for Ghana for the pre- and post Structural Adjustment Program (SAP) periods. The results did not confirm the existence of causality between FDI and economic growth for the entire period as well as the pre-SAP period.

However, it was shown that FDI granger caused GDP growth in the post-SAP period. In their study, Aitken and Harrison (1999) do not find any evidence of a beneficial spillover effect between foreign firms and domestic ones in Venezuela over the (1979-1989) periods.

To sum up, the relationship between foreign direct investment and economic growth seems to be more controversial in the empirical world than in theory. In some cases, FDI causes growth whereas growth doesn't cause FDI. In other cases, economic growth causes FDI while FDI doesn't cause growth. The existence of bidirectional causality is also observed in some country contexts. The result on whether FDI has a lasting effect or a short run effect on economic growth also shows divergence across different empirical literatures in different countries.

As De Melo (1999) points out, whether FDI can be deemed to be a catalyst for output growth, capital accumulation, and technological progress seems to be a less controversial hypothesis in theory than in practice.

Also there are empirical studies in line with the social impact of foreign direct investment. Kiss (2003) and Hippert (2002), examining FDI from a social standpoint, provide a negative perspective on the impact of FDI in developing countries.

Kiss (2003) analyzes the situation in Hungary when the Hungarian government introduced elements of a parliamentary democracy and market economy that eventually led to the social and political exclusion of Hungarian women. The author argues that governments must address gender issues as well as implement official measures and institutional changes to facilitate women's inclusion into production and social systems.

Hippert (2002), examines the effect of FDI on women's health. The author asserts that FDI and Multinational Corporations (MNCs) hamper the economic integrity and sovereignty of the developing world and states that it is women who bear the brunt of human rights abuses because of their social positions in developing countries. The author also discusses solutions to these problems that have failed because they have been primarily "top-down approaches," and proposes that the only plausible solutions are to hold corporations accountable for their employees.

In contrast to the negative view of FDI, Rondinelli (2002) explores the public role and economic power of MNCs and the positive ways in which MNCs can influence governments and provide for the social welfare of host-country citizens. Spar (1999), takes a neutral stance when discussing the complexity of the relationship between foreign direct investment and human rights and the ways in which FDI impacts society both negatively and positively. The author concludes that it is the interaction of governments and MNCs that will lead to economic growth and social prosperity through FDI.

2.7 Conceptual Frame Work of Foreign Direct Investment

To investigate the Socio-economic impacts of foreign direct investment inflows the impact based framework is used. The conceptual framework for this study was illustrated as follows.

However, It also damage host economies by holding back domestic entrepreneurship and using their superior knowledge, worldwide contracts, advertising skills, and a range of essential support services to drive out local competitors and hinder the emergence of small scale local enterprises and technology may actually be inappropriate to local needs.

FDI fosters economic development in the host country by increasing its productive capacity due to the improvement of the labor force. This improvement of the human capital can occur through informal training that workers receive during the observation of new operations developed by multinationals (Loungani and Razin, 2001; Alfaro et al., 2004). However, workers with high education may leave the country, since there are no R&D activities that they can engage in the host country (Vissak and Roolaht, 2005).

FDI contributes to the integration of the host country into the global economy, particularly through the financial flows received from abroad (OECD, 2002). The further integration into the global economy provided by FDI can, however, have negative effects on the host country. Mecinger (2003) suggests that FDI has a far greater impact for imports than for exports, which influences negatively the balance of payments. This strong impact on imports is due to the fact that multinationals have great need of goods and raw materials, and most of the time; these are not available, either in quantity or in quality, in the host country (OECD, 2002).

On the other hand, FDI can affect the host countries' social welfare both positively and negatively. Positive effects could be creating jobs, increasing labor productivity, improving human resources, enlarging foreign relationships, and so on.

In contrast, negative effects could be increases in redundancy, human rights abuses, conflicts between employers and employees. Herman et al (2004), examining the influences of FDI on the society, indicated that there were more negative contributions to the society than positive.

2.8 Foreign Direct Investment in Africa

The flows of foreign direct investment to developing countries have been unevenly distributed. The fast growing Asian economies have greatly benefited from these increases. Of the total of $161.34 billion in foreign direct investment flowed to developing countries during the periods 1983 to 1990, $89.61 billion (55.5 percent of the total) flowed to Asian countries. The large domestic markets together with strong industrial capabilities, good infrastructure and liberal investment policies helped these countries to secure large inflows of foreign direct investment (Ghirmay S. and Marc C., 1998).

FDI inflows to Africa as a whole declined for the third successive year, to $42.7 billion. However, the decline in FDI inflows to the continent in 2011 was caused largely by the fall in North Africa; in particular, inflows to Egypt and Libya, which had been major recipients of FDI, came to a halt owing to their protracted political instability. In contrast, inflows to sub-Saharan Africa recovered from $29 billion in 2010 to $37 billion in 2011, a level comparable with the peak in 2008.

The overall fall in FDI to Africa was due principally to a reduction in flows from developed countries, leaving developing countries to increase their share in inward FDI to the continent (from 45 percent in 2010 to 53 percent in 2011 in Greenfield investment projects) (UNCTAD, 2012).

In the developing regions of East Asia and South-East Asia, FDI inflows reached new records, with total inflows amounting to $336 billion, accounting for 22 percent of global inflows. South-East Asia, with inflows of $117 billion, up 26 percent, continued to experience faster FDI growth than East Asia, although the latter was still dominant at $219 billion, up 9 percent.

In South Asia, FDI inflows have turned around after a slide in 2009–2010, reaching $39 billion, mainly as a result of rising inflows in India, which accounted for more than four fifths of the region's FDI. Cross-border M&A sales in extractive industries surged to $9 billion, while M&A sales in manufacturing declined by about two thirds, and those in services remained much below the annual amounts witnessed during 2006–2009. Countries in the region face different challenges, such as political risks and obstacles to FDI, that need to be tackled in order to build in attractive investment climate.

FDI inflows to West Asia declined for the third consecutive year, to $49 billion in 2011. Inflows to the Gulf Cooperation Council (GCC) countries continued to suffer from the effects of the cancellation of large-scale investment projects, especially in construction, when project finance dried up in the wake of the global financial crisis, and were further affected by the unrest across the region during 2011.

However, Foreign Direct Investment inflows to Latin America and the Caribbean are increased by 16 percent to $217 billion, driven mainly by higher flows to South America (up 34 percent). The Inflows to Central America and the Caribbean excluding offshore financial centers, increased by 4%, while those to the offshore financial centers registered a 4% decrease. High FDI growth in South America was mainly due to its expanding consumer markets, high growth rates and natural-resource endowments (UNCTAD, World Investment Report 2012).

Also, FDI inflow to Africa is unevenly distributed in the sub regions of the continent itself. Solomon (2008) shows that in the range of years (2003-2006), the average inflows to the sub regions is 42%, 18%, 9%, 21% and 10% to North Africa, West Africa, East Africa, Central Africa and Southern Africa, respectively.

Between 2005 and 2007 the overall FDI inflows grew by nearly 80% from $29 billion to reach $53 billion, their highest level so far, despite the global financial crises (UNCTAD, 2008). This is the highest percentage increase of FDI inflows within the developing countries.

According to UNCTAD (2003), FDI in the oil industry remained dominant; the FDI that goes into Africa is concentrated in a few countries. The traditionally biggest recipients of a significant proportion of FDI include: Egypt, Angola, Nigeria and South Africa. The inflows that South Africa has enjoyed in recent times have been attributed mainly to the privatization process and the interest of investors in the South African large domestic market.

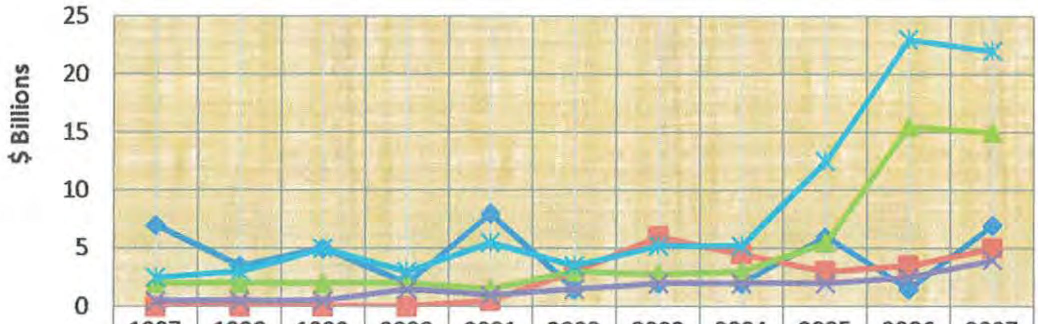
Of the increase in FDI flows to Africa between 1987-90 and 1995-98, 33% went to four oil-producing countries Angola, the Congo Republic, Equatorial Guinea and Nigeria. FDI in the oil industry remained dominant in 2002 with Angola, Algeria, Chad, Nigeria and Tunisia accounting for more than half of the FDI inflows in the year.

In the same year, Egypt, Angola, Nigeria and South Africa had a share of 61.9%. In 2003, the share of Egypt, Angola, Nigeria, South Africa and Tunisia was 70.11% out of the total flow of FDI to the continent. Swings of FDI to these countries have a major impact on the flows of FDI to Africa as a whole. In 2004, Angola, Equatorial Guinea, Nigeria and Sudan (all rich in mineral resources) and Egypt were the top recipients accounting for a little less than half of all inflows to Africa (UNCTAD, 2003).

Sub-Saharan African countries; on the other hand, have not been able to attract foreign direct investment on a large scale. Many factors have restricted these countries from receiving large inflows of foreign direct investment.

They include, among others, high level of external indebtedness, small domestic investment and slow economic growth and hence small domestic markets, poorly developed physical infrastructure and thus difficult and expensive transport and communication links with the outside world, a poorly skilled labor force, continuing civil conflicts, political crises and natural disasters, especially drought (Ibid). Figure 2.2: Below shows the total African FDI inflows between 1997 and 2007 and the regional distribution of the FDI inflows among the five main sub-regions of Africa.

Figure 2.2: African FDI inflows, 1997 to 2007



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
South A	7	3.5	5	2	8	1.5	2	2	6	1.5	7
Centeral A	0	0	0	0	0.5	3	6	4.5	3	3.5	5
West A	2	2	2	2	1.5	3	2.8	3	5.5	15.5	15
East A	0.5	0.5	0.5	1.5	1	1.5	2	2	2	2.5	4
North A	2.5	3	5	3	5.5	3.5	5.2	5.2	12.5	23	22

Source: UNCTAD, 2008 with own computation

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

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

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

2.9 Overview of Ethiopia's Economy, FDI & Regulatory Framework (post-1991)

This section deals with the overview of Ethiopia's economy, foreign direct investment in Ethiopia and the policy frame work (post- 1991).

2.9.1 Overview of Ethiopia's Economy

Ethiopia is a Federal Democratic Republic composed of nine National Regional states: Tigray, Afar, Amhara, Oromia, Somali, Benishangul-Gumuz, Southern Nations-Nationalities and Peoples Region (SNNPR), Gambella and Harari, and two Administrative states: Addis Ababa city administration and Dire Dawa Council.

The structure of the economy can be decomposed into three main economic sectors: the agriculture sector, the industrial sector and the service sector. Agriculture is the mainstay of the Ethiopian economy. In 2010/11 the sector contributes to the GDP of the country is close to 50%, and more than 80% of the population engaged in some form of agricultural activities. Furthermore, agriculture generates 60% of foreign exchange earnings.

Ethiopia is one of the least industrialized economies in the world. In 2010/11 the industrial sector contributes 11% to the GDP, and the growth rate of the sector is very little compared to the agricultural sector. Surprisingly, manufacturing goods export accounted for less than 1% of the total exports.

The service sector is the second largest sector after agriculture. In 2010/11 the service sector accounted for 39% of the GDP of the country, and the employment share of the sector is slightly higher than 10%. The post-1991 period began with the coming to power of EPRDF in 1991 and the adoption of Structural Adjustment Program soon after. To bring socio- economic changes in the country the Federal Democratic Republic of Ethiopia has undertaken many policy reforms since 1991 to improve the participation of private investment in general and FDI in particular in the economy activity.

2.9.2 Foreign Direct Investment in Ethiopia

Since 1991, Ethiopia has opened many economic sectors for foreign investors. The inflow of FDI to Ethiopia has increased from an annual average of $131 million in 1995-2000 to $312 million in 2001-2006 although there are fluctuations. The total FDI inflow into Ethiopia has increased continuously from US$ 135 Million in 2000 up to US$ 545 Million in 2004.

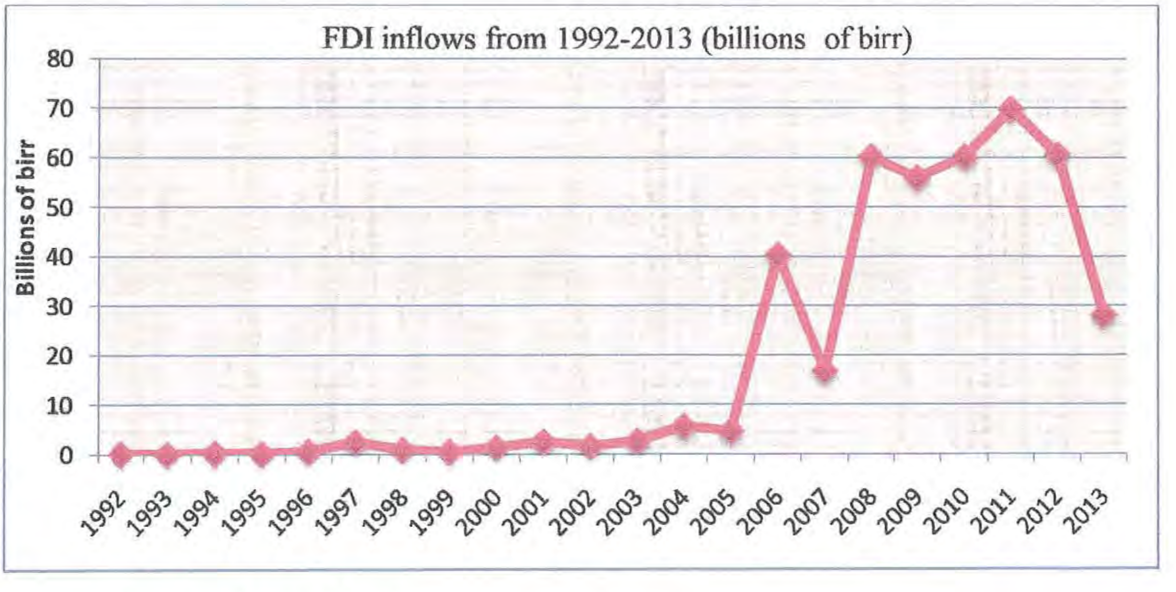
Since then, up to 2007 the yearly FDI inflows have varied between US$545 Million and US$ 265 Million (UNCTAD, 2008). Besides, in 2005, during the country's election crisis time, the FDI flows declined to $221 million from $545 million in the preceding year of 2004 (WIR 2001, 2003, 2006 and 2007, UNCTAD).

The government of Ethiopia has recognized the importance of FDI for the country and opens many economic sectors for foreign investors. Despite the numerous attempts by the government to encourage foreign investors, the flows of FDI are quite low.

The average annual FDI flows to Ethiopia from 2003 to 2006 was only $399 million, which is only 1.56% of FDI flows into Africa. Ethiopia accounted for only 1% of Africa's inward FDI stock, while representing close to 9% of the population of the continent. Ethiopia's per capita inflows were $5 in 2006, compared with $39 for African countries as a whole. FDI as a percentage of GDP of Ethiopia was 0.81% in 2006, compared with 1.6% for African countries as a group (Solomon, 2008).

However, FDI has been grown from 1.4% GDP in 2003/4 to 3% in 2009/10 while DPI decreased from 8.8% of GDP in 2002/03 to 6.6% in 2009/10 (MoFED, 2012). The inflows of Foreign Direct Investment to Ethiopia since 1992-2013 is shown in figure 2.3 below.

Figure 2.3: Foreign Direct Investment Inflows in Ethiopia



Source: EIA, 2013 with own computation

2.9.3 Foreign Direct Investment Regulatory Framework in Ethiopia

Ethiopia's transition from a state-controlled to a market-oriented economy started in 1991 after the current government took power from the former socialist and military government. Since then, the investment code has been revised many times to ensure a wider coverage of the sectors and activities that foreign investors are allowed to participate in. The latest revision has broadened the sectoral coverage to include telecommunications and power sectors. The Ethiopian Investment Agency (EIA) serves as a one-stop-shop for the promotion of foreign investment.

It facilitate, promote ,Coordinate foreign investment, renders information required by investors, approves and issues investment permits to foreign investors ,provide trade registration services to foreign investors and issues operating license to approved foreign investments(EIA, 2008). There is no separate policy governing FDI in the country, and the present regulatory regime governing FDI is a part of the national investment law. Foreign investors can invest in all economic sectors other than some sectors exclusively reserved for national investors and the government.

Sectors exclusively reserved for the government include transmission and supply of electricity, large domestic air transport, postal service excluding the courier services. As FIAS (2001) indicated, "the government rationale for most of the restrictions is based on largely on national security considerations."Investment in telecommunication services and manufacturing of weapon & ammunition is allowed only in joint venture with the government.

To encourage indigenous entrepreneurship and the domestic private sector, the financial sector, import trade, small air transport (less than 20 passengers), commercial water & road transport and several small businesses are reserved for national investors(UNCTAD, 2002).The government is the sole owner of land, and "no land can be obtained or transferred other than on a leasehold basis" (FIAS, 2001).

To improve the status of private investment necessary amendments have also been undertaken. At federal level investment Proclamation No.280/2002 which was reenacted to encourage and promote private investment and ensures efficient administration of investment system was passed in 2002.

The proclamation also states the investment guarantees and protection. In this regard, no investment may be nationalized or expropriated except when required by the public interest. When land is expropriated for investment that required for public interest, adequate compensation shall be paid in advance. Foreign investors are also allowed to remit compensation paid out of Ethiopia in convertible foreign currency.

Foreign companies should obtain an approval from Ethiopian Investment Authority or regional investment authorities to invest in Ethiopia. With regards the initial capital requirement, a wholly foreign-owned enterprise should invest a minimum of USD 100,000. But wholly foreign-owned consultancies and publishing companies can obtain the investment license with USD 50,000. To invest jointly with Ethiopian investors, foreign investors should invest a minimum of USD 60,000 and the national investors should acquire at least 27 percent of the equity.

To encourage export-oriented FDI, foreign enterprises that export at least 75% of their output are not required to meet the minimum capital requirement. Nevertheless, the investment code does not indicate the initial investment is whether in cash or in kind (UNCTAD, 2002).

The major incentives given to foreign direct investors include exemption from payment of export custom duties, income tax holidays from 2 to 7 years depending on the region and the sector of the investment. All imported capital goods and spare parts worth up to 15% of the value of the capital good are exempted from import tariffs and custom duties. In addition, the foreign investors can carry forward their initial operating losses and apply any depreciation methods for their financial statement.

Besides, all foreign investors are exempted from profit tax for two years. This exemption is extended to 5 years for investors exporting at least 50% of their product and supply 75% of their product as input to exporters. With regards investment guarantees, the investment code provides guarantee for repatriation of capital, interest payments on foreign loans, profit, dividends, asset sell proceeds and technology transfer payments. Except in major cases of public interest, the investment code also provides guarantee against expropriation (EIA, 2008; EEA, 2007).

CHAPTER THREE

METHODOLOGY OF THE STUDY

This chapter dealt with overview of the study area and the methodology employed in the study. Accordingly, Description of study area, Types and sources of data, Method of data collection, samples and Sampling techniques, and Method of data analysis were discussed in the section that follow.

3.1 Description of the Study Area

Location

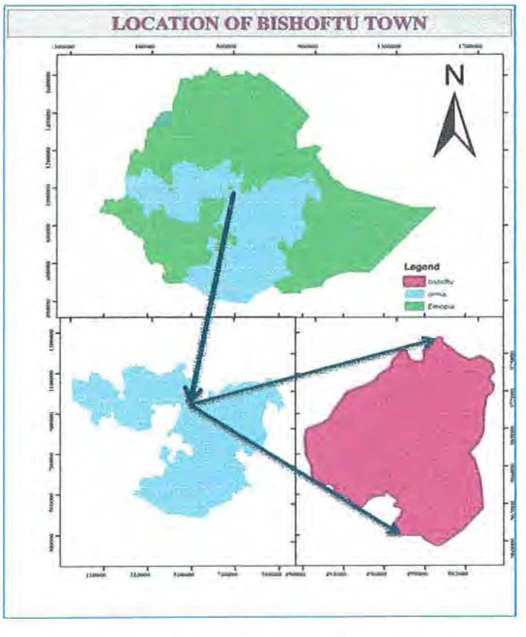
Bishoftu town is located in East Shewa zone which is one of the 18 zones found in Oromia Regional State and geographically it occupies the central part of the region. The zone is organized in to 10 districts and Adama is the capital city of the zone. In the region there are important urban centers both at Oromia and the country level which includes Bishoftu town (OUPI, 2009). Bishoftu town is also located at a distance of 47 km from Addis Ababa at south east along Addis Ababa-Djibouti road. The geographic coverage of Bishoftu town was 3,280 hectares in 1984 and grown to 4,520 hectares in the year 2005.

In the early 20th century as a result of more relative stability on Urban Policy and politics in the country and the construction of Ethio-Djibouti railway-line, new types of towns emerged along the major communication routes. Accordingly, Bishoftu Town was established around 1917 as a center of posting for Ethio- Djibouti rail way (Bishoftu Town Administration, 2001).

According to the natives of the town the name was derived from 'Oromo' term called bishanoftu meaning the "land of water" that it was because of the watery feature of the area (the existence of many lakes surrounding the town) that made them to give this name (OUPI, 2009).

But the name Bishoftu was later changed by the order of Emperor Haile Sellasie I. The reason why Emperor Haile Sellasie gave a new name to the town was due to the topographical similarities between Debre Zeit (Mounts of Olives of the Bible) and Bishoftu. The new name was introduced on the inaugural ceremony of the church of Rufael in 1947 (NUPI, 1999). Previously Bishoftu Town had 15 Kebeles. However, currently the Town has reduced these kebeles into nine and four Sub-Cities for administrative convenience.

Figure: 3.1 Location of Bishoftu town in Oromia Region



Source: Oromia Urban planning Institute (OUPI, 2013)

Population

According to sample surveys conducted by CSO, Bishoftu had a population sizes of 21,220 and 27, 747 in the year 1967and 1970 respectively. Between the two periods, the town experienced a high rate of population growth, about 5.36 percent per annum. The population of the town had grown to 55,655 and 73,372 in the years 1984 and 1994 respectively. According to the 2007 census, Bishoftu Town had a population size of 100,114 (CSA 2007). Moreover, currently the estimation of Bishoftu town Administration based on the inclusion of other six rural Kebeles to the Town the population of the Town estimated to be 200,000 (95,600 male and104, 400 female) with a total area of 15,273 hectares.

3.2 Research Design

A cross sectional survey method was employed to collect important information from individual employees who have been working in foreign direct investment companies. The survey method was based on sample as it is difficult to cover all the whole study population. Thus, the study involved the descriptive research that employs survey method where this type of research is used to collect data that describes the existing events and then organize, tabulates, depicts and describes the data collected.

3.2.1 Types and Sources of Data

In order to get dependable and reliable information, data were collected from both primary and secondary sources. Primary data that includes quantitative and qualitative information has been collected from employees, investors, investment office experts and Municipality, displaced community and other local community.

To achieve this goal questionnaire (both closed and open ended) had been prepared and distributed to employees of the firm that enabled the researcher to collect information about the project. Qualitative information has also been collected from investors or managers of the project since the interview questions were designed in a way to collect qualitative information.

Also, qualitative data of significant volume have been collected from experts, Municipality, displaced people and local community through interview and Focus group discussion. To coordinate focus group discussions and interview sessions, focus group guide and structured interview questions have been prepared and utilized. Secondary data has been collected from different books, statistical reports, research documents, Journals, government reports and other data related to Foreign Direct Investment in the country, at regional level and at the study area and were mainly collected from EIA, OIC, MoFED, and others.

3.2.2 Samples and Sampling Techniques

The study units or population used as a reference in this study were mainly the employees who have been working in Foreign Direct Investment projects. In this study both probability and non probability sampling techniques have been employed. Probability sampling techniques has been used to select respondents from all workers who have been working in selected FDI in Bishoftu town. There are 32 Foreign Direct investment project approved as of June 30, 2013 which, has a total of more than 4,639 workers. As it is difficult to cover all the whole study population, the method is based on sample by taken reliable and representative sample size.

Therefore, to draw the required sample size, the study were employed stratified sampling technique to select the project from which, the sample of respondent draw based on the type of sector under taken by foreign investors. Accordingly, the projects are categorized under manufacturing industry, agro-industry and services sectors. These projects (6) were selected from each stratum by using simple random sampling (lottery method). The selected projects are illustrated in the table 3.1

Table 3.1: *Distribution of projects in sector and selected project*

Types of Projects	*Approved project*	*Selected project*
Manufacturing industry	20	4
Agro-Industry	6	1
Services	6	1
Total	32	6

Source: OIC, 2013, with own computation

Since, the employees in each category/sector have similar characteristics/homogeneity; the researcher was selected six (6) projects proportionally using simple random sampling for each category to draw the sample size of respondent. These selected projects have total employees of 1,482 from which the required sample size were selected. Different sources indicate that drawing appropriate sample size depends on the number factors other than predetermined fixed rules. According to Leedy & Ormrod, (2001), larger samples are needed for heterogeneous populations and smaller samples are needed for homogeneous populations.

However, in most cases 10% or more is taken as an appropriate simple size to draw reliable and representative sample. Therefore, 10 %(148 respondents) has been taken by the researcher is justifiable, adequate and representative sample as the population from which the sample was drawn are homogeneous within their category.

In order to draw this sample size, Systematic sampling and random sampling techniques were employed. The first one is a technique by which selecting one element at random in the sampling frame is performed at the starting point and selects the sample size systematically by applying a predetermined interval. In random sampling techniques each sample frame has equal opportunity to be included in the sample and in this study a lottery method was used.

Accordingly, 148 employees from the three sectors of activity have been selected by employing both methods and questionnaire was distributed as per the selected sample size. A simple random sampling technique was employed to select sample size from projects categorized under agro-industry and service because of the numbers of employees in these category are not large to apply systematic random sampling technique, while systematic sampling techniques was employed to manufacturing industry.

Table 3.2: *Distribution of respondent in each selected sector*

Types of Projects	*Selected project*	*Number of employees*	*Sample size (10%)*
Manufacturing industry	4	1,336	133
Agro- industry	1	88	9
Service	1	58	6
Total	6	1,482	148

Source: *OIC, 2013 own computation*

The questioner were distributed to the above selected sample size (148) respondents. As the study employed data enumerators the researcher addressed all the selected sampled size or all have filled questionnaire and returned to the researcher. However, filling the questionnaire to the researcher has been challenging tasks as most respondents are production workers and most companies are uneager to offer its worker to give information to data enumerators as schedule and this process took over two months.

Purposive sampling techniques has been employed to select focus group discussants and key informant interview as these group of participants are believed to have relevant information in the area of study and the impact of Foreign Direct Investment. FGD was planned to conduct among 14 individuals to be taken from workers, displace people, local communities, and town administration official, experts from revenue and investment office.

However, discussion was held among 10 individuals came from revenue and investment office, local community and experts from revenue and investment office. Interview session was planned to be conducted with 26 individuals who include heads and experts of investment office found at town, zonal and regional level, finance and revenue office investors displaced community.

However, interview was conducted with 22 individuals. Accordingly, it was conducted with six investors, two investment heads found at town and Regional level and eight experts selected from investment offices, five from OIC, and three from Bishoftu investment office. It was also conducted with four farming, people, one expert from finance office and one from revenue office of Bishoftu town.

3.2.3 Methods of Data Collection

The required data for the study were collected from primary and secondary source by using different techniques. As indicated above questionnaire which is both closed and open ended was used to collect information from employees that was selected based on the method stated above. However, structured interview and focus group discussion guide questions have been prepared and used in gathering qualitative information from participants.

Employing four data enumerators has been planned who assist in distributing, collecting and providing necessary support while the respondents fill the questionnaire and filling the questionnaire by asking those who cannot read and write. However, only three individuals have been employed that assist the researcher in distributing, filling and collecting the questionnaire.

Other information gathered through interview and FGD has been managed by the researcher himself. Moreover, the researcher has also undertaken field visits for further triangulation and gets additional reliable information by making photo to identify the realities on the ground.

3.2.4 Method of Data Analysis

Data collected through the above instrument have analyzed both quantitatively and qualitatively after proper organization has been made. The quantitative data mainly obtained through questionnaire and from secondary source have been analyzed and organized by using the statistical package for social science (SPSS) and Microsoft office Excel.

Using this software tabulation and calculation of frequency, table, mean, minimum, maximum, percentages, charts and Graphs have been utilized. Qualitative data gathered through KII, FGD, observation and assessment of the researcher were processed manually to complement data obtained through questionnaire.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter dealt with data presentation and analysis. As it mentioned in chapter one the objectives of this study are to investigate the Socio-economic contribution of Foreign Direct Investment inflows, to identify the major economic and social problems of Foreign Direct Investment inflows, to examine attempts made by the government institutions to maximizing the positive as well as minimizing possible negative impacts of foreign direct investment (FDI) inflows and to make possible suggestion and recommendations that would enable the concerned town's administration and other concerned body to solve problems and realize the contribution of foreign direct investment inflows to the area.

To achieve these objectives the information made available for this purpose was collected using different techniques such as; questionnaire, interview and focus group discussions. Besides, different secondary sources (both published and unpublished) were accessed.

Accordingly, in this chapter demographic profile of respondent, socio-economic profile of respondent, Socio-economic contribution of Foreign Direct Investment at the study area, major economic and social problems of Foreign Direct Investment inflows in the study area the role of government institutions and other related issues were addressed in the discussions as indicated below.

4.2 Demographic and Socio-Economic Profile of Respondents

4.2.1 Demographic Profile of Respondents

In an attempt to examine the socio-economic impacts of Foreign Direct investment in the study area, firm level data were collected from employees of the firms. To collect primary data, questionnaire was distributed among 148 sampled employees. All 148 samples size selected by researcher for filling questionnaire, 148 (100%) have filled and returned it back.

The demographic backgrounds of the selected respondents have varying. Table 4.1 below shows that of the respondents replied to the questionnaire about 58 percent of the respondents is female while the remaining 42 percent are male. This indicates that from the employees of the company, the overwhelming numbers are female and this shows that, the owner of the company did not discernment the women rather than appreciating them get the chance to hired in the firm.

With respect to age of the respondents, the table 4.1 also reveals that, 32%, 46%, 17% and 5% are from 15-24, 25-35, 36-45 and 46 and above respectively. It can be generally concluded that the selected FDI firms are hired young individuals as the proportion of respondents less than 36 years account for more than 78%.Their compositions with age levels are shown in table 4.1 below.

Table 4.1: Sex and Age of Respondents)

Sex	Age of Respondents									
	15-24		25-35		36-45		46 & above		Total	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Male	19	13	29	20	10	7	4	2.5	62	42
Female	28	19	39	26	15	10	4	2.5	86	58
Total	47	32	68	46	25	17	8	5	148	100

Source: Field Survey, 2013

The marital status of the respondents is varying. As it can be understood from the table 4.2 below the marital status of the respondent are explained under four statuses (Single, Married, Divorced and widowed). Accordingly, the overwhelming number 74 (50 %) of the households are married and they have a family to manage. In addition, 68(46%) are single, 5(3%) are divorced and the remaining 1(1%) is widowed. The marital status of the respondent is shown in the table below.

Table 4.2: Marital Status of Respondent

Marital status of respondents	Frequency	Percentage
Single	68	46
Married	74	50
Divorced	5	3
Widowed	1	1
Total	148	100

Source: Field Survey, 2013

With regard to their family size, about 24%, 18%, 7%, 2% of respondents have one child, two children, three children and four & above children respectively that depend on their income while, the overwhelming percentage (49%) of the respondents have no child and administer themselves.

Table 4.3: Family size of the respondents

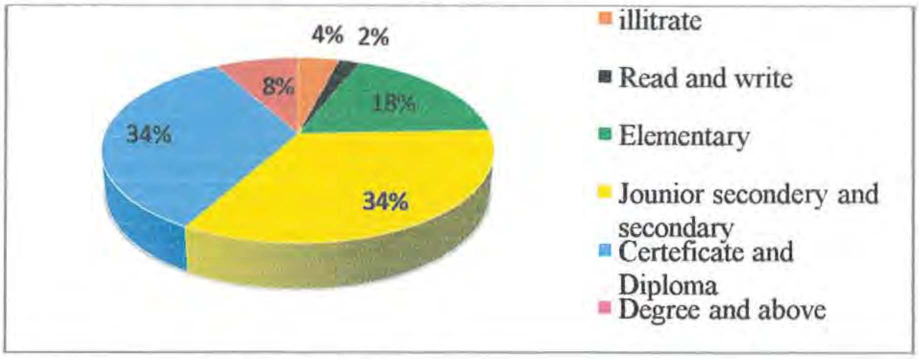
Number of Children	Frequency	Percentage
No child	73	49
One	35	24
Two	27	18
Three	10	7
Four	1	0.7
Five and above	2	1.3
Total	148	100

Source: Field Survey, 2013

Educational level and work experience of the employees have implications on the effectiveness and efficiency of the organization for which they are working for and the salary of employees. In this regard it is generally argued that, employees who are well educated and have related work experience with his/her position will have the capacity to improve the overall productivity of the firm. When we look at their educational status of respondent, the figure 4.1 below shows that 6 (4%) of respondent are illiterate, 3 (2%) can read and write and 27 (18%) have attended elementary school, 50 (34%) of employees who have attended junior secondary and secondary school, 50 (34%) have certificate & diploma and finally, it is only about 12 (8%) of respondent have degree and above level of education.

This clearly shows that the education level of employees is minimal suggesting skill training either by government or business association. However, as argued by many respondents, no significant on job or off job related training have been given by the company themselves and/or by the government to upgrade their capacity that would enable them to improve efficiency and effectiveness of the firm. On the other hand the low level of their educational background, make most of the respondent not to compete for other job other than production worker, messenger, cleaner and guard. The educational level of the employees were shown in the figure 4.1 blow

Figure 4.1: Educational level of Respondents



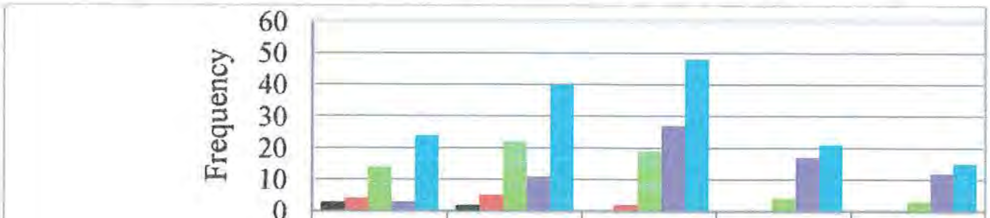
Source: Field Survey, 2013

4.2.2 Socio-Economic Profile of Respondents

Foreign direct investment is playing a great role in generating income for the country in general and for the employees in particular. Thus, the objective of the government to promote both domestic and foreign direct investment in the country is to generate new sources of income for the country. Income from Foreign Direct investment includes income tax from business activities, employment income tax, and income from land rent and lease for the government and for the employees in the form of wage/salary.

In this particular study, the socio-economic profile of the respondent is examined based on the level of their income. To examine the level of income of employees identifying the job categories of the respondent is important because, the income level of employees was determined by the activities they performed for the firms. The sampled respondents are distributed under various activities of the firms. The types of job and the income levels of respondents were shown on the figure 4.2 below.

Figure 4.2: Types of job and income level of the respondent



	less than 600	601-900	901-1500	1501-2000	above 2000
Daily labor	3	2			
Guard	4	5	2		
Production workers	14	22	19	4	3
Others	3	11	27	17	12
Total	24	40	48	21	15

Source: Field Survey, 2013

As can be understood from the above figure 3.4% of the respondents are working as daily labor, 7.4% of the respondents are working as guard, 42% are as production worker and while the remaining significant proportion of respondent 47% involved in various activities such as (supervisor, production head, quality control, teacher, gardener and cleaner).

When we look in to the income level of the respondent 16% respondent are getting less than 600 birr per month, 27% are 601-900 birr, 32% are 901-1500 birr per month, 14% are getting 1501-2000 birr and only 10% of respondents are getting above 2000 birr per month. On the other hand, there is a relationship between the type of jobs they engaged on and the level of their monthly income. This figure depicted that, 5% of respondents and who are working as daily labor and guard are getting less than 600 birr per month, 5% of the respondents and involved on the same job are getting between 601-900 birr and only 1% of respondents are getting between 901-1500 birr, 11% of respondent who are working as production workers and others are getting below 600 birr per month, 68% of respondent whose job title is production and others are getting between 601-2000 birr per month, and the remaining 10% of respondent are getting above 2000 birr. In general, the employees working as production and others are getting higher income than those working as daily labor and guard.

4.3 FDI and Domestic Private Investment Projects in Ethiopia

Since 1991/92, the current government has been encouraging the growth and expansion of both private domestic investment and foreign direct investment. Ethiopia Investment Agency(EIA) which has given the power to support, organize and facilitate the growth of private investment, has tried to attract potential foreign investors since its establishment by applying different methods of promotion. It has used to promote the vast natural resources of the country by trying to attract foreign investments in collaboration with embassies of Ethiopia to different countries.

The inflows of FDI to Ethiopia are significantly improved since 1992/93. Data from EIA indicates that FDI inflows to Ethiopia significantly recorded from East Asian Countries like China and Indian with significant flows also registered from Saudi Arabia. The Turkish investors are also participating in labor intensive manufacturing sector like the textile and Garment industry.

Also, the government tried to organize private domestic investments undertaken by the citizens in the nine regions and two administrative cities of the country (EIA, 2008). The number and Performance of private investments both FDI and PDI in the country, since the introduction of new market based economic policy was indicated in table below

Table 4.4: Performance of Private Investments by Sources (1992-2013)

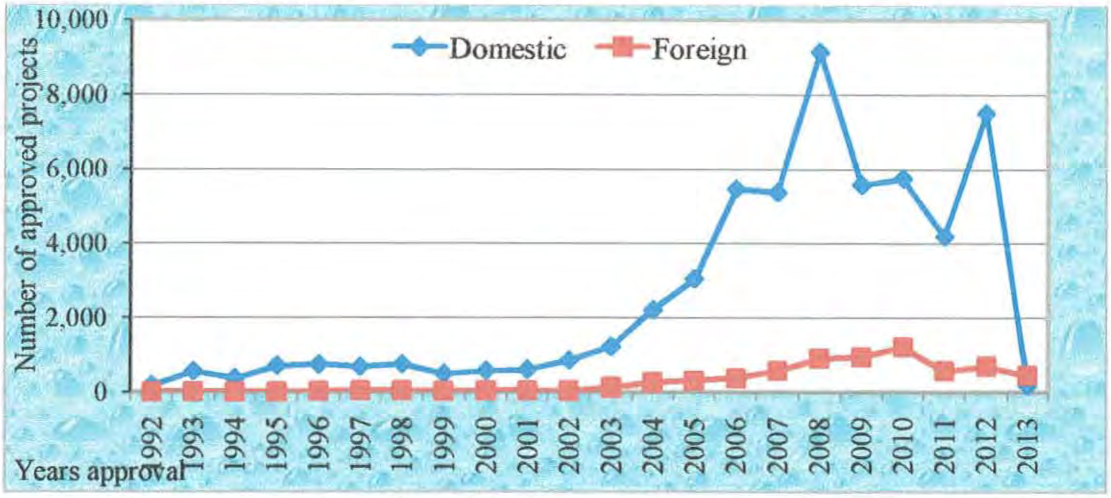
Investment type	*Total projects*	*Projects in Operation & Implementation*	*% of total*	*Pre-implementation stage*	*% at pre implementation*
DPI	56,340	7,513	13.33	48,827	86.67
FDI	6,605	2,329	35.26	4,276	64.74
Total	*62,945*	*9,842*	*15.64*	*53,103*	*84.36*

Source: EIA, 2013 with Own Computation.

As shown in table 4.4 above, the volume of domestic private investment registered in the country during the past two decades is very significant as compared to FDI inflows to the country. From the stock of 62,945 approved projects, the share of domestic private investment account for more than 89.5% while the remaining share (10.5%) was taken by FDI. With regard to their performance, of all projects approved since 1992, only 15.64% are either at operation or are being under implementation. However, the largest proportion of approved projects which accounts for 84.36% are found at pre-implementation stage.

Although the status of projects for DPI and FDI are at lower level, the performance of foreign direct investment seems outperform the domestic private investments. Similar trends have been shown in the study area where larger number of FDI has entered in to practical activities but significant proportion of DPI is also at pre implementation stage. In addition, the participation of both domestic and foreign investors in different socio-economic activities has been increasing during the last two decades. Figure 4.3 below show the trends of both domestic private and FDI in the country.

Figure 4.3: Trends of Approved FDI and PDI in Ethiopia since 1992- 2013



Source: EIA, 2013 with Own Computation

This Figure depicts that in terms of number of projects the participation of domestic private investors overweighs those of the foreign investors. Figure 4.3 above also shows that, the participation of investors have been significantly improved since 2003. This is because the government has given more attention to increase the role of private sector and also this time is the period when the Ethiopian GDP growth has began enter in to the fastest growth among few Sub Saharan African countries that might enabled the country to attract significant number of both domestic and foreign investors in different economic sector.

On the other hand, as can be observed from the figure 4.3 above the number of foreign investment projects have been increasing from time to time. It has reached its peak in the year 2010 by registering 1,208 projects followed by 566, 687 and 452 projects during the year 2011, 2012 and 2013 respectively.

4.3.1 Regional Distribution of FDI

The flow of FDI to Ethiopia has been unevenly distributed among the various regions. The largest FDI recipient regions in the country are Addis Ababa (the capital city), Oromia and Amhara regions take the largest share of FDI flows to Ethiopia. Out of the total FDI projects approved in the country 50.6%, 29.6%, and 3.8%, went to Addis Ababa, Oromia and Amhara region respectively while the remaining regions took only 16% share from all licensed projects.

As it is shown in table 4.5 below, most of the FDI is destined in Addis Ababa, (the capital city). Out of the total 6,605 projects (from 1992-2013) 3,342 of the projects were situated in Addis Ababa. This is because of the regions' better infrastructure, stable political environment and better supply of trained man power. Oromia Region has attracted sizable amount of FDI with respect to the amount of capital invested.

That is, of the total FDI operating in Ethiopia during 1992-2013, 36.69% of the capital was invested in Oromia. This may be due to the regions proximity to Addis Ababa, availability of natural resource (arable land and favorable climate) and large market size as it is the most populous region in the country.

About 13.77% of the total FDI was invested in the Amhara region. Even though the incentive system encourages foreign investors to invest in the least developed regions of the country by providing especial benefits including provision of land free of any charge, their performance in attracting FDI is very poor. For example, there are only 10 projects in Harari and 24 projects in Somali Region since the country opened its door to foreign investors.

These uneven distribution of FDI among regions and cities administration of the country show that the government need to take additional measures to encourage the establishment of more Foreign Direct investment in the relatively underdeveloped regions and locality so that balanced development will be ensured. The distribution of approved FDI by region is shown in table 4.5 below.

Table 4.5: Distribution of approved FDI Projects by Regions and Cities since 1992- 2013

Regions /Cities	*Number of Projects*	*Capital in '000' Birr*	*Percentage*
Addis/A. city Admin.	3,342	101,367,974	24.34
Afar Region	33	3,402,834	0.82
Amhara Region	251	57,344,018	13.77
B.Gumze Region	83	6,464,406	1.55
D/ Dawa City Admin.	59	18,767,031	4.51
Gambella Region	41	12,980,000	3.12
Harari Region	10	1,003,400	0.24
Multiregional	535	41,202,077	9.89
Oromia Region	1,953	152,814,111	36.69
SNNPR Region	192	15,732,186	3.78
Somali Region	24	1,630,334	0.39
Tigray Region	82	3,694,075	0.9
Total	*6,605*	*416,402,446*	*100*

Source: EIA, 2013, With Own Computation

4.3.2 Sectoral Distribution of FDI

The distribution of FDI flows to Ethiopia is fairly diversified into various sectors ranging from the primary including all types of agricultural activities and mining & quarrying to secondary sector or the industrial activities to the tertiary sector including electricity generation, construction, real estate, trade, hotel and tourism, transport service, education and health service.

As can be seen from table 4.6 below, manufacturing accounted for 48.8% of the total FDI followed by agriculture which accounted for 27.4% from 1992-2013, Construction contracting, including water well drilling constitute 10.29% and real estate, machinery and equipment rental and consultancy service constitutes 6.46% of the total FDI flows to Ethiopia. However, the mining, education, tour operation and tourism industries are areas that have not received much FDI in the country with each accounting for less than 1% of the total inflow.

Table 4.6: Summary of Licensed FDI Projects by Sector January, 1992 - August, 2013

Sector	Number of projects	Capital '000' birr	(%)
Agriculture	1,497	113,990,919	27.4
Manufacturing	2,245	203,192,854	48.8
Mining	47	1,045,094	0.25
Education	149	2,314,008	0.55
Health	125	7,027,618	1.68
Tour Operation, Transport and Communication	273	1,030,186	0.25
Real estate, Machinery & *Equipment* Rental and Consultancy Service	1,337	26,931,072	6.46
Construction Contracting Including Water Well Drilling	422	42,863,335	10.29
Electricity(Generation, Transmission & Distribution)	5	472,849	0.11
Others	113	1,495,004	0.36
Total	*6,605*	*416,402,446*	*100*

Source: Ethiopia Investment Agency, 2013

4.4 Foreign Direct Investment in Bishoftu town

Bishoftu town administration is one of grade one level reformed town in Oromia Regional state that found in the East Shewa Zone Administration of the region. Since 1992/93, about 385 investment projects both FDI and DPI were approved in Bishoftu town, where the study was conducted from which, FDI account 32 projects.

4.4.1 Ownership Structure and Status of FDI Firms in Bishoftu

In the study area foreign investors were organized under different forms of organization and have been involved in different sectors. Table 4.7 below describes legal ownership structure of foreign firms in the study area.

Table 4.7: *Legal Ownership Structure of the Firms*

	Ownership Structure		
Sectors	*Sole*	*PLC*	*Total*
Agro-Industry	-	6	6
Manufacturing industry	2	18	18
Service	-	6	6
Total	2	30	32
%	6	94	100

Source: Field Survey, 2013

As can be seen from table above, close to 94% of FDI projects in the study area were organized under PLC while about 6% were run by individual owners. Even if all forms of ownership have their own advantage PLC is generally recognized as source of collection of different human skills and financial resources. More financial and human skill means that an established project can provide more contributions for employment opportunities and more for sources of revenue as the volume activities are also more.

Also, as the investment organized under PLC have potential to collect more financial resources so that there is an establishment of firms capable of employing more labor forces. Moreover, in generating income for the government, projects organized under PLC, SC and Union are expected to contribute more income tax for the Government as their production capacity is high and employed the large number of employees.

Table 4.8: Types and Status FDI Projects in Bishoftu town since 1992

Types of Project	*Status of the Projects*				
	Total approved	Share in (%) percentage	*Operational*	*Under construction*	*Not implemented*
Manufacturing	20	62	12	4	4
Agro- industry	6	19	4	2	0
Social service	6	19	3	3	0
Total	32	-	19	9	4
%		100	59	28.5	12.5

Source: OIC, 2013, with own computation

As indicated in table 4.8 above, the proportion of manufacturing projects approved in Bishoftu town administration which accounts for about 62% has the largest proportion in terms of projects approved while service and agro- industry share 19% and 19%, respectively among all FDI projects approved in the Bishoftu town administration (OIC, 2013).

The implementation status of FDI projects in the study area as shown in table 4.8 above revealed that 59% are found under operation of which the significant proportion or 37.5% went to manufacturing projects that are produce goods for sale. Goods produced with factories started operation comprises metal steel, packed food and water, plastic products, Sacks manufacturing, furniture, paper, shoes and others.

Among services project the foreign firms engaged are hotel, education, lubricant, while dairy farm and milk processing, Abattoir, fodder & diary, fattening, milk, fruit and vegetables were processing and seed cleaning are engaged under Agro-industry. Projects under construction also represents significant number that account for 28.5% and the rest 12.5% of projects have not entered into any practical activities other than holding the land expropriate for investment purposes and this can affect negatively the socio-economy of the country in general and study area in particular.

4.4.2 Source of investment Capital for FDI

With regard to source of financial supply for development projects undertaken by private sectors, Development Bank of Ethiopia is the main source of financial resources. The bank provides loans for commercial Agriculture, Agro-processing, Manufacturing and extractive industries preferably export focused (Development Bank of Ethiopia, 2009).

The bank provides long term, medium term and working capital loan. Borrowers who wish to obtain financing for new priority area projects are required to provide the minimum equity contribution of 30% of the total project cost (ibid). In light of this, firms included in the study were asked about the source of finance for their projects. The following table indicates about proportion of finance from owner's equity and bank loan in financing their projects.

Table 4.9: Sources of investment Capital for Sampled FDI Firms by Sector

Sector	No. of firms	Sources of Investment Capital		% Share of bank	
		Owner equity	Owner & Bank loan	<50%	>50%
Mfg industry	4	2	2	3(5-20%)	1(50%)
Agro-industry	1	-	1	1(10%)	-
Services	1	1	-	-	-
Total	6	3	3	4(5-20%)	1(50%)
%	*100*	*50%*	*50%*		

Source: Field Survey, 2013

As depicted in the above table, 50% of the firms interviewed use bank loan and their own equity for financing their projects and the same proportion (50%) use only their own equity for financing their projects. Though, these firms use both sources of capital for their projects the share of bank loan is very low than the owner equity. Out of the firms use both sources of capital, for their projects, 80% of firms used 5-20% of capital from bank loan while, and 20% used 50% of capital from bank loan.

From this one can understood that foreign direct investment in the study area are significantly use its own equity to run their investment project. This help the country through reducing financial loan supply problem where such shortage of financial loan forbidden many investors to implement their projects as per schedule.

4.5 Economic Contribution of Foreign Direct Investment

The important role that investment, both foreign and domestic plays in the economy of the country is usually taken for granted. The contribution of FDI to the economy in developing economies is quite straightforward. Thus, in the following sections, the socio-economic contributions of FDI inflows to Bishoftu town were examined in line with the study objectives indicated in chapter one.

For this study, the economic contribution of foreign direct investment in the study area were examine in line with employment creation, technology transfer, income generation, increasing saving level of employees, human capital formation and increasing investment capital in the country in general and to the study area in particular.

4.5.1 Employment Creation

One of the most wanted outcomes of foreign investment in least developed countries is its ability to absorb the ever increasing labor force dominated by young age groups. Ethiopia has managed to attract FDI, which has brought along local job creation. In this situation, the Government has created jobs for a number of people by allowing that firm to operate in the country. In order to have a look over this issue, the following table deals with the expected and actual employments created as a result of undertaking of domestic, foreign and public investment projects in Ethiopia since 1992 to 2013.

The table 4.10 below attempts to give the general picture of the implementation of approved domestic, foreign and public investment projects. The data shows below, the average rates of success in implementation of projects approved, securing less capital associated with the implementation of the projects and failure to generate the anticipated rate of employment. In general only 6,569 projects were materialized out of the approved 63,095 projects which are 10.41% when converted to percentage. The investment projects approved were expected to generate about 1,229,542,448,000 birr; however, in practice only 81,350,406,000 birr had been generated. In this aspect, the success has highly fallen and only 6.62% has made out of the total expected hundred percent.

Table 4.10: Total Licensed Vs Operational Investment Projects (1992-2013)

Sector	Total licensed projects				Total operational projects			
	No. of projects	*Capital '000' birr*	*Employment*		*No. of projects*	*Capital '000' birr*	*Employment*	
			Perm.	*Temp.*			*Perm.*	*Temp.*
Agriculture	10,671	255,016,196	644,322	3,142,314	1,579	14,566,637	78,257	550,063
Fishing	16	30,481	847	568	2	4,458	65,627	0
Manufacturing	14,669	341,152,289	793,244	655,312	2,204	35,055,628	60,209	71,771
Mining	219	2,843,858	9,373	7,134	55	518,466	3,800	573
Education	2,260	20,301,894	106,445	48,415	352	2,722,778	14,172	5,345
Health	1,087	17,123,260	49,662	25,719	130	1,098,315	5,766	2,199
Hotels (Including Resort Hotels, Motels and Lodges) and Restaurants	5,488	70,840,232	186,948	169,668	364	2,457,298	8,735	4,983
Tour Operation, Transport and Communication	1,814	12,367,466	30,284	21,311	158	3,575,213	17,411	1,087
Real estate, Machinery and Equipment Rental and Consultancy Service	18,722	167,409,433	288,624	291,927	1,369	10,865,667	25,287	14,876
Construction Contracting Including Water Well Drilling	5,881	156,163,008	203,693	689,847	232	6,925,030	12,418	35,877
Electricity (Generation, Transmission & Distribution)	106	173,763,332	2,191	13,746	9	2,340,397	1,461	91
Other community, social & personal service activities	813	5,860,254	43,162	65,021	62	536,613	613	5,123
Wholesale, retail trade & repair service	1,349	6,670,745	29,771	24,090	71	683,904	1,530	889
Total	*63,095*	*1,229,542,448*	*2,388,566*	*5,155,072*	*6,569*	*81,350,406*	*295,286*	*692,877*

Source: Ethiopian Investment Agency, 2013

By the same token only 295,286 and 692,877 permanent and temporary employments has realized respectively out of the total estimated 2,388,566 and 5,155,072 permanent and temporary employment opportunities respectively. This is equivalent to 12.36% and 13.44% permanent and temporary employments anticipate have materialized while the rest being mere plan. Failure in attaining goals in these areas may be created from two reasons in that as majority of projects are not performing at full capacity, they were not be able to create the total jobs planned.

On the other hand, it has also believed that many firms overstated their plan in an intention to get approval for their proposed projects. Thus if government does not undertake the necessary measurements the growing rate of failure in both capital and employment generation can have a far reaching negative impact on the socio-economy of the country. Also, it is very important to compare the proportion of foreign licensed projects against operational ones. It can help to have a look into how the Ethiopian government is doing to utilize from foreign investment projects. Thus, the numbers of FDI projects which have been licensed against foreign operational ones are presents in the table below.

Table 4.11: Number of Foreign Licensed Projects Vs Operational Projects (1992-2013)

Sector	Total licensed FDI projects				Total operational FDI projects			
	No. of projects	Capital in '000' birr	Employment		No. of projects	Capital in '000' birr	Employment	
			Perm.	Temp.			Perm	Temp
Agriculture	1,497	113,990,919	311,423	893,032	212	9,371,267	38,850	151,424
Manufacturing	2,245	203,192,854	216,713	170,988	616	25,595,775	65,126	30,607
Mining	47	1,045,094	2,202	3,084	12	193,071	451	222
Education	149	2,314,008	6,442	4,795	39	382,072	2,275	803
Health	125	7,027,618	10,319	5,507	38	207,286	1,463	245
Hotels (including resort hotels, Motel & Lodges) and restaurant	392	16,039,506	20,264	12,132	77	1,158,965	2,579	974
Tour Operation, Transport and Communication	273	1,030,186	3,310	4,830	42	91,180	653	352
Real estate, Machinery and *Equipment* Rental and Consultancy Service	1,337	26,931,072	32,242	54,731	392	5,850,225	9,028	8,634
Construction Contracting Including Water Well Drilling	422	42,863,335	37,502	71,830	97	4,586,217	13,412	22,209
Electricity (Generation, Transmission and Distribution)	5	472,849	230	455				
Others	113	1,495,004	3,840	6,616	42	466,782	1,284	5,028
Total	6,605	416,402,446	644,487	1,228,000	1,567	47,902,839	135,121	220,498

Source: Ethiopian Investment Agency, 2013

As can be seen from table 4.11 above, there is a significant gap between the number of FDI projects licensed and those became operational. Out of the total 6,605 licensed foreign investment projects, only 1,567 projects became operational, i.e. about 23.72% of the total approved projects have commenced its operation. This poor rate of implementation can emanate from different factors such as delay in issuing land, policy or procedure conflicts that hinder foreign investors from operating in the country and the bureaucratic procedures that the investors has to go through to facilitate the importation of inputs and production facilities to commence operation.

On the other hand it indicates the presence of weakness on the side of foreign investors themselves. For instance they might be granted the investment license while in reality they do not have the necessary capacity to actively undertake their investment activities. These problems further show the neglect on the side of concerned government authority. That is there could be a situation whereby investors are given investment license without being strongly scrutinized by government body to prove their capacity to successfully invest.

As can be understood from table 4.11 above, there is high discrepancy between expectation and what had actually happened. From expected amount of capital which is 416.4 billion of birr, only 47.9 billion birr, which is equivalent to 11.5% had actually realized out of the huge number of capitals estimated to be occur as a result of the activities of these foreign investment projects. Since the numbers of projects becoming operational are directly related to inflow of capital and job creation, the poor levels of implementation of licensed projects resulting in low capital inflows and job creation into the country.

Accordingly, operational Foreign Direct investment projects in Ethiopia created a total of 355,619 jobs from January 1992 to August 2013, representing 36 percent of actual jobs created by investment activities during this period.

In comparison, domestic and public projects generated 625,179 and 7,365 jobs, respectively. On average, each operational FDI project generated 227 jobs, 86 permanent positions and 141 temporary jobs. Domestic investments resulted in (average 126) jobs, while public projects tended to employee more workers (245). The table 4.12 below shows the employment created by operated domestic, foreign direct investment and public investment at the country level. Even though the number of domestic investment project is larger than the foreign direct investment, the number of foreign operated project and the average number of employees per project is larger than the domestic ones.

Table 4.12: Actual employment created per operational domestic, foreign and public projects in Ethiopia

Description	*Domestic*	*Foreign*	*Public*	*Grand total*
Total operational projects	4,972	1,567	30	6,569
Capital ('000' Birr)	28,553,304	47,902,839	4,894,262	81,350,406
Capital to projects ratio in ('000 birr)	5,742.821	30,569.78	163142.07	12,383.986
Total employment (no. of workers per projects)	126	227	245	151
Permanent workers (no. of workers per projects)	32	86	68	45
Temporary workers (no. of workers per projects)	94	141	177	106
Share of temporary workers (%)	74.6%	62.1%	72.2%	70.2%

Source: *EIA, 2013 with Own Computation*

The table above depicted that; the ratio of capital to project is higher in foreign direct investment than the domestic investment. The ratio of capital to project is 30.6 and 5.7 millions birr per project respectively, which shows that foreign direct investment has positive economic contribution to the country through bringing in capital to Ethiopia while investors investing in a new factory or company.

In general, foreign investments in Ethiopia are an important vehicle for employment creation and may also contribute to decreasing inequality through increased relative demand for unskilled workers. At the study area the actual jobs created were by far differs from the planned once. Out of the total 6,301 job opportunity planned in all FDI firms in the study area, only 4,551 jobs were created which is less than the proposed amount by 27.8% of the plan.

Also, the actual jobs created by selected (6) firms were less than the planned. These firms were planned to create 2,114 job opportunity but, the actual job were 1,482 which is less by 29.9%. This may be created from two reasons in that as majority of projects are not performing at full capacity, they were not be able to create the total jobs planned. On the other hand, it is has also believed that many firms overstated their plan in an intention to get approval for their proposed projects. Even though, the all planed employment opportunity were not created the average number of employment is 247 individual per project.

With regard to the proportion of female employees created by firms the following table shows the proportion of female employees in sampled projects.

Table 4.13: Proportion of Female Employees by Sector of the Sampled Projects

Sectors	No. of projects	Employees		Total	Share of Female (%)
		Male	Female		
Agro-industry	1	68	20	88	22.73
Mfg industry	4	522	814	1,336	60.92
Service	1	30	28	58	48.27
Total	*6*	*620*	*862*	*1,482*	*58.1*

Source: Field Survey, 2013.

As can be observed from the above table,the proportion of female employees to total employees in firms that included in the study is significant.For example, the proportion of females worker to all employees in the selected firm is accounts for about 862 (58.1%) of the total worker. The larger share is exhibited in Manufacturing, Service and Agro- industry respectively. This shows that the participation of female worker in foreign direct investment projects are encouraging.

4.5.2 FDI and Technology Transfer

In the development and sustenance of a community, state, or nation, the advancement of technology is vital for survival. Technology transfer must be recognized as a broad and complex process if it is to avoid creating and maintaining the dependency of the recipient, and if it is to contribute to sustained and equitable development. It has become the most important source of economic growth, competitiveness, wealth, power, prestige, and even independence.

Thus the technology transfer has been of great significance in view of bridging technological gaps and enabling underdeveloped countries to accelerate the pace of development at par with developed nations.

Technology transfer can be stated as an exchange of expertise and technology/knowledge from possessor to the recipient of technology. Foreign direct investments are assumed to create technological transfer in addition to increase productivity; generate incomes and more revenue for government through taxes, enhance of balance of payments ability; generate employment, diversify the industrial base and expansion modernization and development of related industries. It encompasses far than equipment and other so-called "hard" technologies, for it also includes total systems and their component parts, including know-how, goods and services, equipment, and organizational and managerial procedures.

Thus technology transfer is the suite of processes encompassing all dimensions of the origins, flows and uptake of know-how, experience and equipment amongst, across and within countries, stakeholder organizations and institutions. This is an initiative that Ethiopia as a country can benefit from. In this regard whether this benefit is accrued to employees recruited in FDI firms or not, about 148 employees were asked to state their ideas regarding technology transfer and their response was shown in table below.

Table4.14: Sector levels of technology transfer

Did you get experience/know-how from company's technology transfer?		Response				Total respondent
		Yes	Percent	No	Percent	
Types of Sector	Agro-industry	7	5%	2	1.35%	9
	Manufacturing industry	84	57%	49	33.11%	133
	Service	4	3%	2	1.35%	6
Total		*95*	*64%*	*53*	*36%*	*148*

Source: Field Survey, 2013

As it shown in table above, 64% of respondents proved that they got benefits from being employed in foreign direct investment firms in terms of accumulating experiences, able to operate by new machine and they have developed technological know-how that would enable them to run their own business and be employed in other companies with better salary and while the rest 36% did not. At the same time, the question why not is raised for those they said, No' and most of them replied that, the activities they perform for the firm is not performed by the use of machine (such as Guard, Messengers, cleaner and others), they stated that, the company has significant contribution in technology transfer/know-how for the country in general and to its employees in particular.

Moreover, technological transfer is also more feasible in manufacturing industry sector where many Foreign Direct investors have been participated in the study area. Some agro-processing sector such as dairy farm and fruit & vegetables also distributes selected breeds and irrigation system to local community so that they became beneficial from the inflows of foreign direct investment in the area. Also, information gathered from investors confirmed that, FDI firms have technological contribution to the country and to the study area through their specific projects.

The key informant stated that, the inflows of foreign direct investment to the study area benefit in technology transfer and filling skill gap of operating modern and huge machineries. However, some key informant from Town's Administration regional office indicated that, most of foreign firms are used outdated machineries those consume high electric power and pollute the environment. They also stated that, the majority of firms are not trained their employees how to operate the machine and most of young employees became handicap.

Generally, the discussants in a focus group discussion agreed on, even though in significant number of foreign firms use outdated technology and not support their employees by providing on job-training to fill skill gap, the majority of the firms especially those involved on manufacturing industry has a significant contribution of technology transfer/know-how to employees through on-job training and they also improve the culture of work.

4.5.3 Foreign Direct Investment as a means of generating income

The objective of promoting Foreign Direct investment is to generate new source of income for the government, which includes income tax from business activities, employment income tax, and income from land rent and lease in general and for employees in the form of salary and wage. Accordingly, in this particular study, the contribution of FDI in generating income is examined in terms of income it generated for the employees. To look in to this, 148 employees were asked to state their income level before and after they hired in foreign direct investment firms and what changes they observed on their life.

The table below has been shown the income level of respondents before and after they hired in FDI firms. Looking in to this issue was able to understand whether the inflows of FDI in to the area have a contribution in income generating or not. As it indicated in the table below, about 51.3% of the respondents have no source income before getting the chance to hire in FDI firms. This shows that, the life of these respondents were depends on their family. About 3.4%, 13.5% and 20.3% of respondent's income were, less than 200 birr, between 201 and 500 and 501 and 1000 birr per month respectively, while only 11.5% of respondents have got more than 1000 birr per month.

The table below also reveals that, out of the respondents those their income is zero before they employed to the company, 14(18.4%), of respondents have got less than 600, 26(34.2%) were between 601-900 and 31(40.8%) of respondents were between 901 and 2000 birr while, 5(6.6%) of respondents were obtained above 2000 birr per month after they became the employees of foreign firms.

Table 4.15: The previous and current income level of respondents

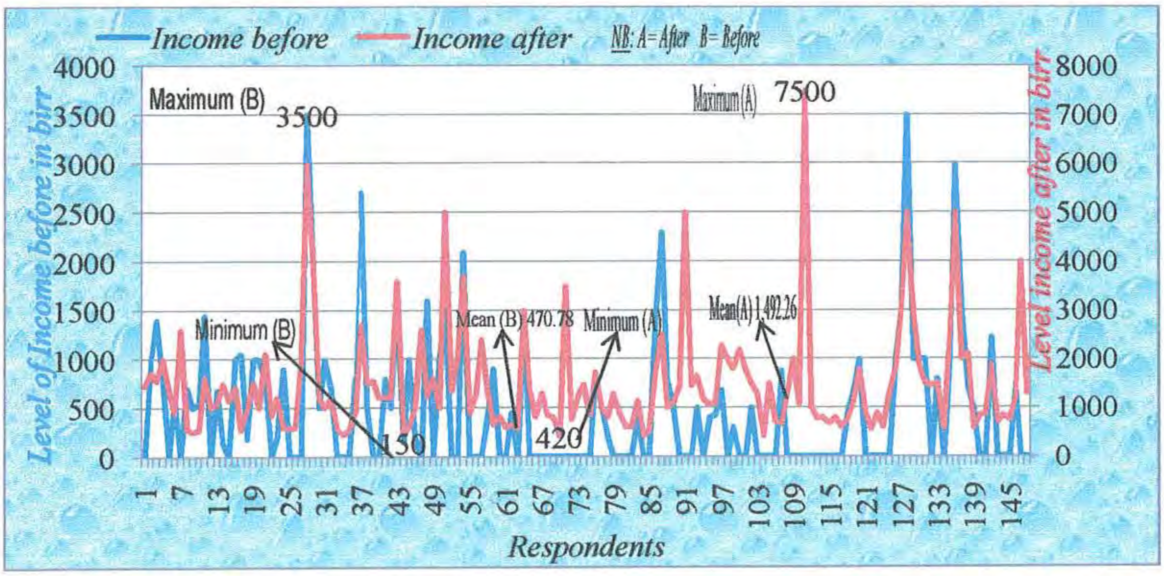
Levels of income			*Income after*					Total
			< 600	601-900	901-1500	1501-2000	> 2000	
Income before	Less than 200 birr	***Count***	1	2	2	0	0	5
		%within earlier income	20%	40%	40%	-	-	100%
		%within current income	4.2%	5%	4.2%	-	-	13.4 %
	201-500 birr	***Count***	3	5	9	3	0	20
		%within earlier income	15%	25%	45%	15%	-	100%
		%within current income	12.5%	12.5%	18.8%	14.3%	-	13.5 %
	501-800 birr	***Count***	3	2	6	2	1	14
		%within earlier income	21.4%	14.3%	43%	14.3%	7%	100%
		%within current income	12.5%	5%	12.5%	9.5%	6.7%	9.5%
	801-1000 birr	***Count***	2	3	5	5	1	16
		%within earlier income	12.5%	18.8%	31.2%	31.2%	6.2%	100%
		%within current income	8.3%	7.5%	10.4%	23.8%	6.7%	10.8 %
	above 1000 birr	***Count***	1	2	1	5	8	17
		%within earlier income	6%	12%	6%	29%	47 %	100%
		%within current income	4.2%	5%	2%	23.8%	53%	11.5 %
	I did not have income	***Count***	14	26	25	6	5	76
		%within earlier income	18.4%	34.2%	32.9%	7.9%	6.6%	100%
		%within current income	58%	65%	52.1%	28.6%	33%	51%
	Total	***Count***	24	40	48	21	15	148
		%within earlier income	16.2%	27%	32%	14.2%	10%	100%
		%within current income	100%	100%	100%	100%	100%	100%

Source: Field Survey, 2013

On the other hand, the above table depicted that, the income level of respondents was varied after they employed in the foreign firms. About 24(16.2%) of respondent's income was less than 600, 40(27%) of respondents were between 601 and 900, 48(32.4%) were between 901 and 1500 and 21(14.2%) between 1501 and 2000 birr per month while, the remaining 15(10.1%) of respondents have got above 2000 birr, which ranges from 2100 to 7500 birr per month.

From these one can understood that, foreign direct investment inflows has a great role in generating income for the local community in the form of wage and salary by employing them as employees. Moreover, in order to generalize the contribution of FDI to employees looking in to the growth income of respondent is important. Thus, the growth income of respondents before they employed in foreign firms and after they employed was shown in the following figure

Figure 4.4: The growth income level of respondents (before & after)



Source: Filed Survey, 2013

With regards to the growth income of employees there was high discrepancy between their previous and current income. As it indicated on the above figure the previous income of respondents were ranged from 150 to 3500 with the mean income of 470.78 birr before they employed to FDI firms while, their current income is ranged from 420 to 7500 birr with the average income of 1492.26 birr and that can also shows minimum and maximum income in both cases.

4.5.4 Foreign Direct Investment and Saving

Increasing the level of saving is the most important strategies to achieve economic development. However, increase saving level voluntarily or by force, have not been very popular in developing countries and, the national saving level of countries in developing country is quite low.

The Ethiopian economy has to grow at least at annual growth rate of 10% for more than two decades so that the country can attain the per capita income level achieved today by average Sub- Saharan African (SSA) countries. However, Ethiopia's gross domestic savings as proportion of GDP is quite low, and it is unlikely to achieve this growth rate by mobilizing the meager domestic savings (EEA, 2000 and 2007).

An alternative source of capital that can be used to fill this gap and bring about sustainable development is foreign direct investment (FDI). Foreign direct investment (FDI) is stated to be an important source of capital formation, know-how, employment generation and trade opportunities for LDCs and called for accelerating FDI inflows into these countries.

According to Hayami (2001) and Todaro and Smith (2003), the contributions of FDI to the development of a country are widely recognized as filling the gap between desired investment and domestically mobilized saving, increasing the tax revenues, and improving management, technology, as well as labor skills in host countries.

For this particular study, the contribution of Foreign Direct Investment to saving was assessed by examining the saving level of individual employees working in foreign firms. Accordingly, 148 employees were requested to state their saving level and their responses were illustrated in following figure.

Fig. 4.5a: Use of income for various purposes

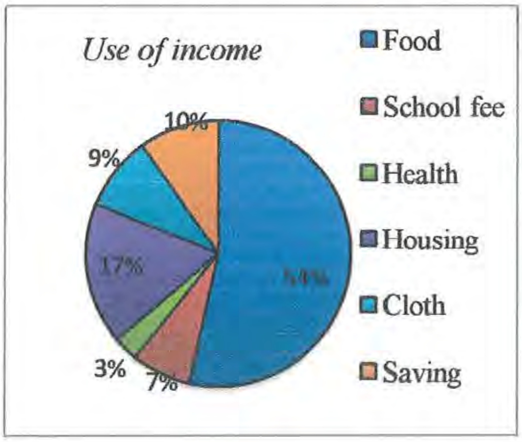
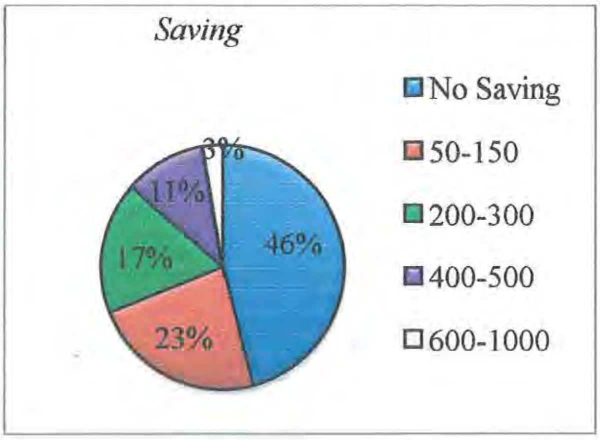


Fig. 4.5b: Saving level of respondents



Source: Field Survey, 2013

The above figure has been shown that, the respondents were used their income for various purposes. As it indicated in the figure 4.5a the employees were used their income for food intake, housing, health, school fee, cloth and saving of which the overwhelming share of their income were used for consumption purpose. As we can understood from the above figure, the shares of income for these means of expenditure were, 3%, 7%, 9%, 10%,17% 54% for health, school fee, cloth, saving, housing and food intake respectively. On the other hand the saving levels of respondents are varying from 50 birr to 1000birr.

Out of the total respondents about 46% are stated that, still they have no any saving and while 54% have save some amount from their income. Before getting employs about 51.35% of respondents were not have any source income and their life were depends on their family and those who have source income cannot be able to meet their needs.

But after employment opportunity is opened by foreign firms 54% the respondents can save 10% of their income beyond meeting their basic needs. In addition about 46% of the respondents have no saving even though they get employment. In general, the result of this study has been shown that, Foreign Direct Investment inflows in the study area have a little contribution in increasing the saving levels in the study area.

4.5.5 Foreign Direct Investment and Human Capital Formation

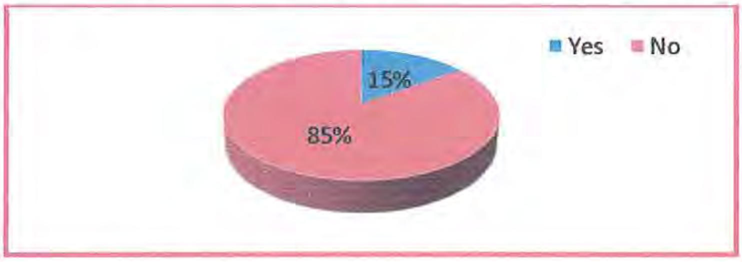
Human resource development (HRD) and foreign direct investment (FDI) are among the key drivers of growth in developed and developing countries. FDI enhances internal human capital through training and on-the-job learning. There is evidence that foreign companies tend to provide more of this training and learning than domestic enterprises, OECD (2002).

From the experience of developed countries training and consultancy is the easy way of acquiring knowledge and new technologies from other high-tech foreign firms to local companies and employees. Additionally, FDI fosters economic development in the host country by increasing its productive capacity due to the improvement of the labor force.

This improvement of the human capital can occur through informal training that workers receive during the observation of new operations developed by multinationals (Loungani and Razin, 2001; Alfaro et al., 2004), and through formal training obtained (De Mello, 1999; Ozturk, 2007).

Moreover, the training provided by multinationals has repercussions to the economy of the entire country, since local firms will then hire these workers (Hanson, 2001). Lim (2001) adds that many employees use new knowledge to create their own firms and then they will transmit their knowledge to the workers of this new firm. In this regard the training from foreign based companies to the employees has been assessed and illustrated in the pie-chart below.

Figure 4.6: Foreign Direct Investment and Training



Source: Field Survey, 2013

As it indicated on the above figure, 15% of respondents confirmed that they had training from their employed companies and while the rest 85% did not. The respondents argued that, the training is important for exercising new production system, accumulating experiences, able to operate by new machine and they have developed technological know-how and managerial skill from foreign to local companies and employees. But they stated that the training is limited in the firms.

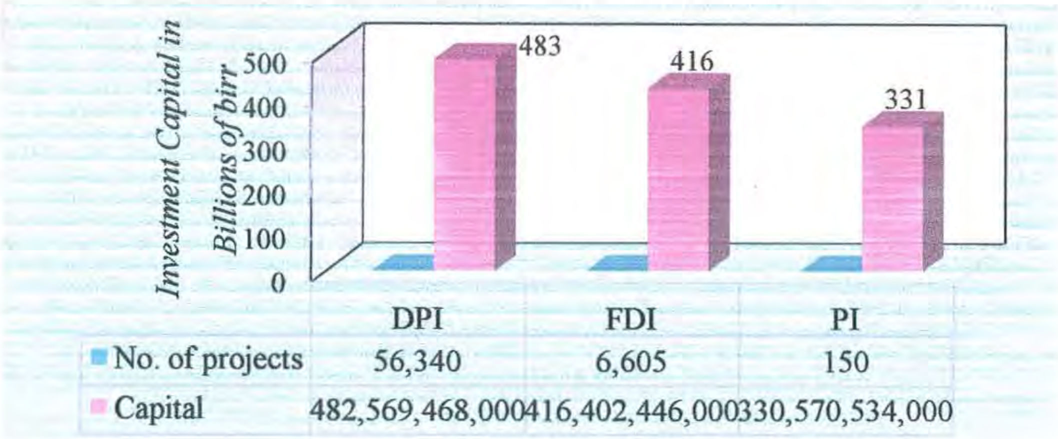
Also, majority of respondents described that a problem associated with the transfer of technology is the lack of training and enthusiasm of the expatriate to teach employees to enable them operates on new machineries by themselves. In general, even though various literature argued foreign direct investment improve the productivity of labor force through training, the result of this particular study shows that the contribution of foreign direct investment in human capital formation was not significant in the study area.

4.5.6 FDI and Integration into Global Economy

Foreign direct investment contributes to the integration of the host country into the global economy, particularly through the financial flows received from abroad (OECD, 2002). In this particular study, the contributions of foreign direct investment in integrating the country to global economy was examined by assessing capital flows to the country in general and to the study area in particular.

Following the policy change in Ethiopia since 1992, about 6,605 Foreign Direct Investors from different countries have taken investment license with registered capital of 416.40 billion birr and distributed within nine regions and two cities of the country. Figure 4.7(a) below show the expected capital contribution of domestic, public and FDI in the country's economy.

Figure 4.7(a): Expected investment capital inflows to the country



Source: EIA with Own Computation, 2013

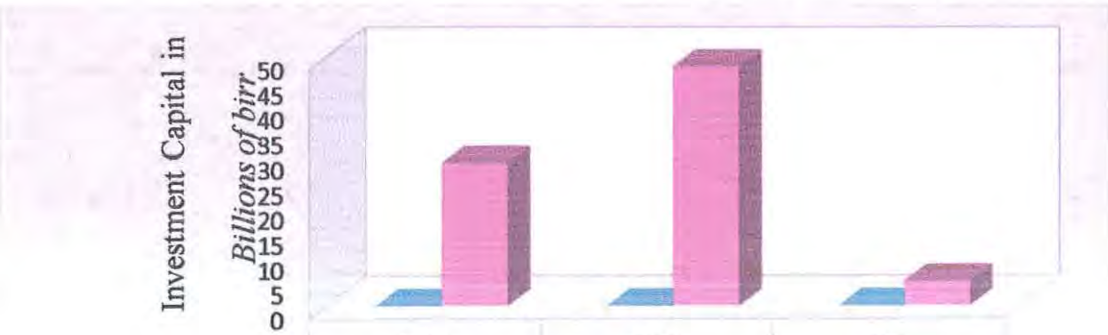
As the above figure shows, the relative proportion of domestic investment constituting 39% of the total registered investment capital in the country. It is larger than the proportion of capitals invested both by foreign and publicly owned enterprises which comprises of 34% and 27% respectively. This is mainly due to the large number of domestic than the foreign sources. However, the ratio of investment capital per foreign direct investment project is (63.04 mill.) while, the ratio of investment capital per domestic investment project is (8.56mill). This shown that, foreign direct investment has more potential to increase the inflows of investment capital to the country.

Another interesting fact that can be observed from the figure above is the difference between the relative size of foreign capital and publicly owned capital. The investment made by domestic and foreign investors are respectively 12% and 7% higher than the investment capital made by government enterprises showing that there is a significant shift towards privatization and the difference between the capital from foreign source and the publicly owned capital is encouraging and an evidence for the gradual increase of FDI in the country.

However, there was a discrepancy between the proposed investment capital and actual investment capital. This is because, most of the licensed projects were not entered in to the implementation and the expected capital could not come to the country as the securing of capital associated with the implementation of the projects.

Moreover, it is very important to compare the proportion of registered investment capital against operational ones. It can help to have a look into how the Ethiopian government is doing to utilize from foreign investment projects. Out of the total 6,605 licensed foreign investment projects, only 1,567 projects became operational, i.e. about 23.72% of the total approved projects have commenced its operation. Thus, the figure 4.7(b) below presents the number of domestic, public and Foreign Direct investment projects which have been come to operational.

Figure 4.7(b): Actual investment capital inflows to the country



	DPI	FDI	PI
No. of project	4,972	1,567	30
Capital	28,553,304,232	47,902,839,453	4,894,262,006

Source: EIA, with Own computation, 2013

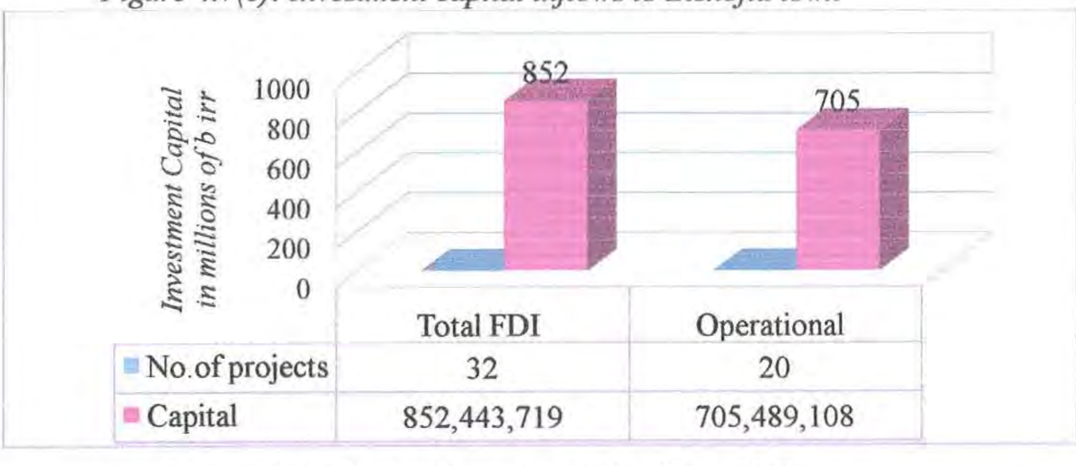
As can be inferred from figure 4.7(b) above, there is high discrepancy between expectation and what had actually happened.

From expected amount of capital which is 416.4 billion of birr, only 47.9 billion birr, which is equivalent to 11.50% had actually realized out of the huge number of capitals estimated to be occur as a result of the activities of these foreign investment projects. On the other hand, the operational domestic private investment generated 28.55 billion birr while public investment generated 4.9 billion of birr.

In addition, foreign direct investment constitutes 58.88% of the actual total investment capital from operational projects in the country while domestic and publicly owned enterprises contributed 35% and 6% respectively. This implies that, foreign direct investment has a potential of generating investment capital to the country than domestic investment.

In the same, the actual contribution of foreign direct investment in generating investment capital in the study area is also varying from the registered ones. In the study area there are 32 foreign direct investment projects were licensed with a registered investment capital of 852.44 million. Thus the contribution of FDI to investment capital inflows in the study area has been shown in the following figure 4.7(c) below.

Figure 4.7(c): Investment capital inflows to Bishoftu town



Source: Bishoftu town investment data base, 2013

As one can understood from the above figure, there are 32 Foreign Direct Investors from different countries have taken investment license with registered capital of 852.44 million birr and distributed under different sector in the town. Out of the total 32 licensed foreign investment projects in the town, 20 projects became operational, i.e. about 62.5% of the total approved projects have commenced its operation. From expected amount of capital which is 852.44 million of birr, 705.49 millions birr, which is equivalent to 82.76% had actually realized.

In general, the result of this study shows that, foreign direct investment has a significant contribution on integrating the country's economy to the global economy through increasing the inflows of capital to the country in general and to the study area in particular. However, as the numbers of projects becoming operational are directly related to inflow of capital, the under implementation of licensed projects also affect capital inflows into the country.

So the government of the country in general and the study area should take in to consideration the issue of under implementation to reduce the gap between expected capital to be generated through FDI and that is actually happening, which in turn affect the socio-economic development of the country.

4.6 Social Contribution of FDI to the local Community

The contribution of foreign direct investment extends far beyond economic and it can be a catalyst for change to society as a whole. For this particular study the contribution of foreign direct investment in providing social services were examined in the following sub section.

It is clear that objective of private sector is generating more profit just to expand its activities. But now a day, social responsibility also enforces organizations to provide social benefits to the local community where private investment are producing goods or providing services. In this regard, assessment was made to identify social services provided by foreign investors to benefit the local community where their projects are located. As they are part of the community, the sampled respondents were requested to state the social services provided by investors for local community and their responses were illustrated in the table below

Table 4.16: Types of social services provided by FDI firms to local community

Services provided	*Frequency*	*Percent*	*Cum. Percent*
Road	9	6	6
Electricity	4	3	9
Water supply	55	37	46
School	13	9	55
Clinics and other health center	17	11	66
Not at all	50	34	100
Total	148	100	

Source: Field survey, 2013

As it indicated on the above table, 66 % of the respondents included in the study respond that, foreign direct investment have provided different kinds of support to local people which comprises of constructing economic infrastructure (roads, electricity) and social infrastructures(Clinic, water provision, and school).While, 34% of respondents did not. In addition, the interview was made with foreign investors to state their contribution in providing social services to local community.

Accordingly, all interviewed investors confirmed that, while their mostly contribution to local community is creation of job opportunity, they reported that, they provided various social services like water supply, school, clinic and others to the local community.

The key informants from town's administration indicated that foreign direct investments support local community through job creation, improving working culture and providing other mentionable services. The information gathered from local community and focus group discussion also proved that foreign direct investment support local community in providing the stated services in addition to job opportunity. Thus, from these facts it is possible to deduce that Foreign Direct Investment inflows to the study area have been supported local community through providing social services.

4.7 The Socio- Economic Problems of FDI Inflows

Foreign Direct Investment has a potential socio-economic contribution to the country in generating employment and technology transfer. However, there are debates about the costs and benefits of FDI in countries' overall social and economic development. Many argue that, given appropriate policies and a basic level of development, FDI can play a key role in the process of creating a better economic environment.

Others also argue that there is a drawback with FDI as it leads to the deterioration of the balance of payments as profits are repatriated and negative impacts on competition in national markets, as foreign investment and globalization continues to increase, developing countries desperately seeking to attract foreign investment can have undesirable outcomes.

In this scenario FDI can have numerous negative effects, such as job loss, human rights abuses, political unrest, financial volatility, environmental degradation, and increased cultural tensions. For this particular study the socio-economic problems of FDI inflows to the study are were identified by examining the current income level of displaced community, gender equity, working environment, social interaction of the communities

4.7.1 FDI inflows and income level of displaced Community

This sub-section presents the situation of income of the communities whose land was taken by investment. Income is the output of livelihood process that comprises both cash and material welfare of the household developing from the contribution of the livelihood activities (Ellis 2000:11).

In line with this, the interview questions were designed and addressed by those leave their land for investment and focus group discussions to assess changes in the asset ownership and economic welfare. The evidence collected from them indicated that current economic status is not comparable with previous living condition. They stated that their current income level is extremely less and the basic cause of this economic change is as the result of leaving their land with inadequate compensation. However, the key informants from Municipality stated that the problem is not a question of adequacy of compensation but utilization.

Hence, since most of the community did not experience owning more money at a time as paid for their assets, they did not think of time value of money and most of them may have consumed it unwisely.

In addition, the information from interview and focus group discussions indicated that the inflows of investment influenced the amount and number of assets including domestic animals owned by the affected communities. The reasons given include: lack of adequate farming land, lack of other permanent sources of income and lack of grazing land for domestic animals.

Moreover, the focus group discussions participants stated that there is unwise use of investment land. They indicated that there are ample of taken from the farmers, but left idle for more than two years. Among the interviewers one indicated that his land was taken before two years ago which is still left idle and Municipality know as the land idle. (See figure below)

Figure 4.8: Investment land taken but left idle for two years

Source: (photo by researcher, 2013)

In line with this, the key informant from Municipality stated that, investment land is given to the investors after making agreement and the agreement is cancelled if the work is not done according to the agreement made.

In our case most of the investors have stopped working after they started some work and this requires identifying why they stop their activity after they started and which in turn need a time. On the other hand, an attempt has been made to examine community awareness, compensation package, and participation, level of satisfaction and attitude of local community towards the inflows FDI to the area. The reviewed literatures reveal that in any development program, community awareness and participation is a central issue so as to insure its sustainability.

With respect to this an attempt has been made to assess whether the community had been aware and participated in the process of investment expansion and determination of the kind and amount of benefit and compensation provided for the assets dispossessed as a result of investment inflows. Key informants from the Town's Administration indicated that there have been work done to create awareness and involve the community in general and the local community to create the contribution of investment in general and the FDI in particular. According to Town's Administration, the local communities were not dislocated due to the inflows of the Foreign Direct Investment and they dislocated during the expansion of the Bishoftu town.

At that time meeting and discussions were conducting with farmers in the expansion areas by Rural and Agricultural Development Bureau and the Municipality paid them the compensation for the assets dispossessed. Then, the Municipality was classified the land for different purpose based on urban land management and urban land use plan. Based on this classification the land was given to both Domestic and Foreign Direct Investment projects.

However, the interview with farming community and the information gathered from focus group is contrary to the response of key informant from the Municipality. Even thought, the farmers were not totally displaced from their land because of investment inflows, the government was taken their land for investment purpose before urban expansion.

With regards to awareness the interviewed farmers stated that they have informally heard the government planning to take their land for investment. In addition, the farmers stated that since we were not properly given awareness and we were not participated in the program we aggressively resisted and we, finally were forced to leave the land and receive the compensation determined by the Regional State. Some of the focus group discussant stated that no government body formally conducted meeting and discussion with them and after sometime they were told to stop farming and leave their land in a small meeting held in the respective Kebeles.

In line with the package of compensations the interviewed responded that, the government promised compensation and benefit packages such as cash payments, job opportunities, access to different social services and organizing them engage other activities to improve their living condition. However, the community who participated in the study stated that they did not actually enjoy all the promised lists of compensation and benefit packages.

In addition, though they received cash compensation, they argued that the payment was not made on time and the amount of money they paid for is very low. In this regard, the focus group discussants stated that, the government failed to provide benefit packages and this failure leads to disappointment.

Furthermore, the focus group discussion indicated that the majority of those compensation paid were not satisfied with the compensation made so far. Contrary to this, the focus group discussions stated that there were very few individuals were eager to get money and were happy during that time. However, due to lack of financial utilization know how those individuals are now in poverty since they exhaustively consumed all the money unwisely.

The key informant from Municipality also argued that there are few individuals who are in a better living condition after getting compensation by engaging in different business activities. According to the focus group discussions these few individuals who engaged in other activities were those who have education and had financial utilization know how.

With regard to level of satisfaction towards the compensation provided, farming communities were not satisfied with the compensation provided. As it can be inferred from focus group discussion, this dissatisfaction emanated from improper calculation of the value of assets dispossessed in general and calculation of the value of their land in particular. In this regard, the cash compensation made was calculated based on the size of the land and the amount of the products per annum from one hectare

Confirming this, the key informants from the Bureau of Urban Finance and Economic Development (BoUFED) of the town stated that, the calculation of the value of rural land is determined by the size of land and amount of product. The payment is made assuming the annual agricultural outputs of ten consecutive years. If the land is urban land and the displaced community has legal document for their land, they will get money for building and other property on the land and same amount of plot of land will given them to construct their building in other place.

In line with participation, some of the key informants from the Town stated that there was small beginning to involve the community in the process. However, a few of them stated that it was challenging to think of community participation for most of the decisions were made by Oromia Regional State.

The interview with communities also reveals that, they were not aware of the criteria and calculation of the value of the dispossessed assets and they have no say on the amount and kinds of the compensation. As a result, the focus group discussion members agree that no one is aware of and satisfied with the criteria used for calculating the dispossessed assets. From this fact it is possible to deduce that the mechanisms and criteria used by the Municipality for the calculation of asset's value lacks transparency.

With regard to questions raised to assess the attitude of the community towards the inflows of FDI, the interviewed farming communities responded that, it is true that the inflows of investment in general and FDI in particular to the area have an enormous contribution. But, as investment inflows increase, the area of land we lost also increase.

On the other hand some of the focus group discussion member whose their land were taken by investment stated that, investment is nothing for me and my family rather it distracting my life and the future of my children. The following box illustrates the feeling of a farmer on the Investment in the study area.

***Box One**: Feeling of the Farmer whose land was taken due to the Inflows of Foreign Direct Investment to the area*

I am 52 years old and I have 7 household members. Before ten years, I have two hectors of land and currently I have one hector. Now I am worried more than ever. At that time the government paid me 124,000 birr on cash base. The money given to me as compensation was finished. I lost my farm land due to investment and my family faced food crises.
Before the land had been taken, all the family members could work on our farm. Now all has gone with our land. Three of my children have stopped going school and working in one company to support us. I started working in one company as Gardner to find other source of income.
In line with this, my comment to the government is that since cash money is the most liquid and could be easily consumed up, they would have been better if it facilitated for all whose their land were taken either to save their money in the bank and /or engage in productive activities in association and design capacitating program to diversify means of life.

Source: Field work, 2013

Generally, the focus group member agreed that, as investment take the productive asset and cash money paid as compensation could be easily consumed up, the inflows of investment in general and FDI in particular to the area were affects those their land was taken, while it benefit other community of the study area and the country as a whole. From this one can understood that, the inflows of FDI to the study area has both positive and negative impact on income of the community.

4.7.2 Social Interaction of the Communities

The inflows of investment change the social makeup of the community. Social assets of the community have changed due to investment.

Information from key informants and focus group discussion revealed that the social assets usually manifested through social institutions such as *Iddir, Ekub, Debo* and '*Jige*' which bring them together in work and on different social issues.

The interview with local community stated that, '*Debo*' and '*Jige*' that brings them to work together were already abandoned because of most of their land was taken by investment and they left with small plot of land and they believe that, working together on a small area of land is not increase productivity. The only social institution that did not vanish was Iddir, security in the case of death.

By confirming this, focus group discussion also stated that community around Bishoftu Town faced challenges on their well known socio-cultural assets which were evidenced in traditional social institutions. Those young who do not have land often work on farm either through contract, crop share, labor and material exchange with those who want to and unable to work. As the inflows of investment to the area increases and the demand for land also increase in the same rate they cannot get the land to generate income which in turn affects social interaction.

Figure 4. 9: Interview with member of community in the study area.

Source: Photo by researcher, AAU, 2013

The following box illustrates the feeling of a member of the community on FDI inflows and changes on social interaction in the study area.

***Box Two**: Opinion of local residence on FDI inflows and Social interaction*

I am 35 and married. This study concerned my family. When the investment come to the area, local community are leave their lands by collecting compensation paid for the assets they have lost. However, they were not given any awareness concerning the contribution of investment, compensation, on what livelihood they are going to rely after leaving their land and financial utilization know-how.

The community who were leave their land by collecting compensation paid have been enjoying the whole day in the town drinking alcohol. Let me tell you something, my father has two hectors of farm land. He gave me half of hector and after a year the area of land close to one hector was taken by investment and paid him 92,000 birr as compensation. What worst thing is that, my father was used almost all money for alcohol drink.

In the morning he came out being normal and when he comes back to home he did no behave well, and currently he becomes mentally disorder. It is not only these, he disturbing the whole family and the neighbors. He always dispute with my mother and they lost previous strong social tie. This is not to blame the investment, but it is to indicate the social problem the community face after they getting compensation and to inform the concerned body to create awareness, providing training on financial utilization know-how and improving community participation.

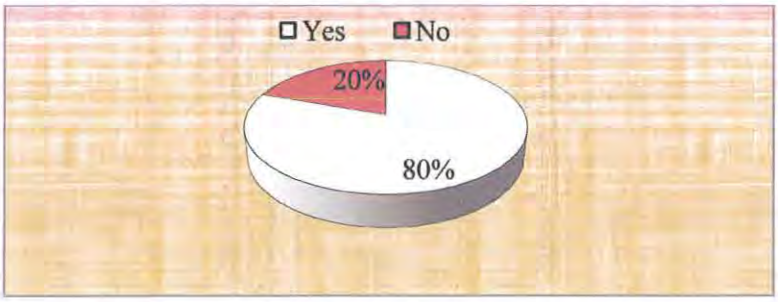
Source: Field Survey, 2013

4.7.3 Legal Provision and working environment to Employees

Labor Proclamation No.377/2003 indicates that the employer need to take all the necessary occupational safety and health measure and cover the cost of medical examination of the worker whenever such medical examination is required by law.

In this regard, sampled respondents were requested to state whether the employer provide personal safety, insurance premium and pension rights. As it indicated in the figure below, about 80% of the respondents stated that the firms where they are working provide all necessary materials and safety facilities that would protect them from possible injuries and accidents. But, the rest 20% of the respondents argued the absence of safety materials and facilities necessary to safeguard them from possible injuries and health problem.

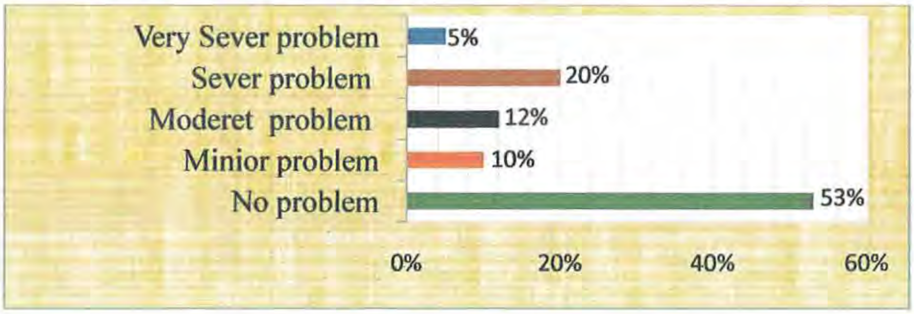
Figure 4.10: % of respondents on provision of safety facilities and medical cost



Source: Field Survey, 2013

The key informant from Municipality stated that, most of the employer did not provide any safety materials and training on how to operate machine for their employees and the majority of young workers are become handicap. As a result, the sampled workers were asked to state whether they face the physical health problem or not and their responses were illustrated in the following figure

Figure 4.11: % of Respondents identifying the level of physical health problem in firms



Source: Field Survey, 2013

As it indicated on the above figure, about 53%, 10%, 12% of respondents stated that in the firms they work, no problem, minor problem and moderate problem respectively. While 20% and 5% stated that, the phyisical health problem in the firm were sever problem and very sever problem respecvely.

On the other hand, the key informant from investment office indicated that the majority of the firms provide saftey materials and medical costs. The members of focus group duscussion also agreed that even though the small number of firms fail to provide saftey facility, the majority of foreign firms provied saftey materials and medical coststo their employees.

4.7.4 Foreign Direct Investment and Gender Equity

In countries where the comparative advantage is cheap labor, there is the potential for MNCs, whether directly or indirectly, to commit human rights abuses. This is seen quite often in underdeveloped countries and in countries where there exists either inequalities between men and women or a discrepancy between the income levels of the poor and the rich. In this particular study the study try to examine gender equity in foreign firms in the study area.

To look in to gender equity in foreign firms, 148 respondent were asked to state the issue of gender equality in their respective employer firms. Accordingly,134(90.5%) of respondents are replied as no problem,8(5.4%) minor problem and 5(3.4%) as moderate problem while, only 1(0.7%) of responts are stated as sever problem.

Table 4.17: Foreign Direct Investment and gender equity in the study area

Sex of respondent	*No problem*	*Minor problem*	*Moderate problem*	*Sever problem*	*Very severe problem*
	Count	Count	Count	Count	Count
Male	57	3	1	-	1
Female	77	5	4	-	0
Total	134	8	5	-	1
%	90.5%	5.4%	3.4%		0.7%
Cumm. %	90.5%	95.9%	99.3%	99.3%	100%

Source: Field Survey, 2013

The above table depcted that foreign firms in the study area were not discrimate women or females employees were not crowded out of the work force by males seeking employment. In general the result of this study shown that, gender inequality is not a problem in foreign firms in the study area.

4.8 The role of Government Institutions and FDI inflows

Appropriate Government intervention has played a very decisive role in attracting FDI flows indirectly by generating stability in political, social and economic condition or directly by providing investment incentives and favorable environment for FDI. The inflows of FDI in to the countries are depending very much on the political, social and economic stability and service quality of the country. With respect to this an attempt has been made to assess the role of government institution to maximize positive impact and minimize negative impact of FDI inflows in the study area.

To look in to this, qualitative information was collected from government institutions, investors and other key informant through interview and focus group discussion. Key informant from Regional and Town Administration indicated that there have been works done to attract foreign direct investment to the area.

According to key informant from Town's Administration, they have been played this by promoting, facilitating, assisting the investors in all aspects and follow up their activities. The key informants from Regional Investment Commission stated that, they promote the potential and opportunities of the Region to induce the inflows of FDI to the Region and assist the investors to get investment land as per their request.

They also indicated that the Regional Investment Commission provided different incentives such as exemption of capital goods and construction materials from customs duty, exemption of motor vehicles from customs duties, income tax exemption and grace period on land rent payment to investors in collaboration with Ethiopian Revenue and Customs Authority to encourage the inflows of FDI to the country in general and to the Region in particular as the approved project get operational.

In line with service delivery, quality and faster service provision is important in attracting investment, increasing country's benefit and minimizing the cost of doing business in the country. Thus, the foreign firms asked to state the level and quality of service provisions of investment offices. They suggested that, even though doing business in Ethiopia is profitable and guarantee, there are some limitations in area of service provision. The workers who provide services in investment offices are less competent and service delivery is not fast since most of the time office managers are not available.

With regard to follow up, the key informant also stated that after a plot of land for investment purposes get decision continuous follow-up, support and after cares services have been undertaken to encourage the investors to start their activities as per agreement and take necessary legal action on those individuals/firms who do not run their projects as per agreement. However, focus group discussants and interviewees indicated that, follow up and aftercare service functions of investment offices were weak due to lack of adequate resources and logistics. Also, the study was examined the measurement undertaken by the government to minimize the negative impacts of foreign direct investment inflows to the area.

To look in to this, the key informants from investment offices and Town's Administration were requested to state. Accordingly, they stated that, even though the majority of foreign investors doing their investment activities as per agreement, insignificant number firms are not. In addition, those entered into practical activities, have adverse impact in polluting environment, imported out dated machinery, which consume high electric power, they undertaken other project than the project allotted to them and they stopped their activities after they started.

Therefore, these require appropriate government intervention to overcome these problems. With this regards, the key informants stated that, before taking needless action the government always discuss with the investors and identify their problem. Based on discussion made the government attempt to solve the problems that need government support and assistance to start the commencement of their project and take necessary legal action including the cancelation of agreement on those did not entered in to the implementation as per agreement.

In addition, the key informants indicated that, since most of the machineries foreign firm imported to the country is outdated, it can polluted environment and consume high electric power. However, some key informant sated that, before the land allotted the project expected to pollute the environment, the investors informed to prepare EIA (Environmental Impact Assessment) and it should approved by the Regional Bureau of Land and Environmental Protection. In line with, the member of focus group discussants and interviewee confirmed that even though the investors were informed to prepare EIA, they couldn't stop polluting the environment.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Foreign direct investment has a potential socio-economic contributions and it is the important instrument for the globalization of the international economy. Understanding its contribution the Government of Ethiopia has undertaken massive measures to encourage the growth and expansion of private investment in general FDI in particular. In response to this, the number of FDI flows to Ethiopia increased from 3 in 1992 to 6,605 in 2013 from which Bishoftu town administration where this study has been undertaken holds 32 projects.

The very aim of the study was to identify and investigate the socio-economic impacts of Foreign Direct Investment inflows in Bishoftu town. In other words, it aimed at examining the socio-economic contribution of Foreign Direct Investment in the town, the major socio- economic problems of foreign direct investment inflows in the study area and study also intended to examine attempts made by the government institutions in maximizing the positive as well as minimizing possible negative impacts of Foreign Direct Investment (FDI) inflows in the study area.

In Bishoftu Town Administration (study area) 385 projects were approved since 1992/93 to 2013 of which 32 projects have been undertaken by foreign investors. To address the research questions and the objectives mixed methods mainly quantitative and qualitative research were employed. In line with this, the data were collected from both primary and secondary sources.

Primary data that includes quantitative and qualitative information has been collected from employees, investors, investment experts and administrators, displaced community and other local community. To draw the required sample size of respondents at firm level, the study were employed stratified sampling technique to select the project from which, the sample of respondent draw based on the type of sector under taken by foreign investors. Out of 32, Foreign Direct Investment project approved in the town 6 firms were selected to draw the sample size based on stratified sampling technique.

The study also employed both probability and non probability sampling techniques. Probability sampling techniques has been used to select respondents from all workers who have been working in selected (6) foreign firms and non probability sampling technique was also employed to select FGD and KII participants. Data gathered from these sources were used to triangulate data collected from questionnaire. The method of research used is descriptive research as the main aim is to explore the perception of respondents in relation to the study under investigation and the major findings are summarized in the follow sections.

Employment Creation

The actual employment created were by far differs from the planned once both at national level and the study area. Out the total job opportunities planned to create by foreign direct investment licensed since 1991 to 2013 at national level, only 19% had actually realized out of the huge number of job opportunity estimated to be occur as a result of foreign direct investment inflows to the country. In the study area 27.8% had realized from the estimated job opportunity to be occur because of the inflows of FDI to the area.

On the other hand even though they were not be able to create the total jobs planned, the number of job created per FDI project is larger than the DPI both at national level and study area. On average each operational FDI project generated 227 and 247 at national level and study area respectively, while operational domestic private investment project generated 126 jobs on average.

Failure in attaining goals in this area may be emanated from the majority of projects are not commenced operation. On the other hand, it has also believed that many firms overstated their plan in an intention to get approval for their proposed projects.

Technology Transfer

For the development and sustenance of a community, state, or nation, the advancement of technology is vital and foreign direct investments are assumed to create technological transfer. In this regards, about 64% of respondents proved that they got benefits from being employed in foreign direct investment firms in terms of accumulating experiences, able to operate by new machine and they have developed technological know-how that would enable them to run their own business and be employed in other companies with better salary and while the rest 36% did not. The key informant stated that, the inflows of foreign direct investment to the study area benefit in technology transfer.

However, some key informant from Town's Administration and regional office indicated that, most of foreign firms are used outdated machineries those consume high electric power and pollute the environment. They also indicated that, the majority of firms are not provided their employees how to operate the machine and most of young employees became handicap.

On the other hand the level of technological transfer is different based on the type's investment sector under taken in the area. Thus, foreign direct investment involved on manufacturing industry has significant contribution to technology transfer in study area.

Income Generation

The objective of promoting Foreign Direct investment is to generate new source of income for the government in general and the employees in particular in the form of wage and salary. In line with this about 51.3% of the respondents were not have any income before getting the chance to hired in FDI firms and 48.7% of the respondents have got an income between 200 and 1000. On the other hand out of the respondents those their income is zero before they employed to the company, about 75% of respondents have been getting monthly income between 600 and 2000 after they became the employees of foreign firms.

Furthermore, the growth income of respondents before they employed to foreign firm and after they employed is varied. Before employment the Minimum, Maximum and Average income is 150 birr, 3,500 birr and 470.78 birr respectively. But after they gate employment the Minimum, Maximum and Average income is 420birr, 7,500birr and 1,492 birr respectively. In generally, the inflows of Foreign Direct Investment have a potential contribution in income generation to the local community in the form of salary and wage.

Saving

Saving and increasing the level of saving is the most important strategy to achieve economic development.

If individuals do not save enough, the gap between savings and investments cannot be closed. The employees were used their income for different purpose such as food intake, housing, health, school fee, cloth and they also save small amount of money.

Before getting employs about 51.35% of respondents were not have any source income and their life were depends on their family and those who have source of income cannot be able to meet their needs. But after employment opportunity is opened by foreign firms 54% the respondents can save 10% of their income beyond meeting their basic needs. In general, the result of this study has been shown that, foreign direct investment inflows in the study area have a contribution in increasing the saving levels of the respondents.

Human Capital Formation

FDI fosters economic development in the host country by increasing its productive capacity due to the improvement of the labor force. It enhances internal human capital through training and on-the-job learning. In this regards, about 85% of respondent indicated that, the company they are working for is not provide any training while 15% of respondent stated that, foreign company has been providing the employees on job-training.

The majority of respondents argued that, a problem associated with the transfer of technology is the lack of training and enthusiasm of the expatriate to teach employees to enable them operates on new machineries by themselves. The firms were failed to fill skill gap of employees to operating modern and huge machineries.

In general, even though various literature argued that foreign direct investment improve the productivity of labor force through training, the result of this particular study shows that the contribution of foreign direct investment in human capital formation was not significant in the study area.

Integration of Global Economy

FDI contributes to the integration of the host country into the global economy, particularly through the financial flows received from abroad. Since, 1992, about 6,605 Foreign Direct Investors from different countries have taken investment license with registered capital of 416.40 billion birr and distributed within nine regions and two cities of the country. In the study area there are 32 foreign direct investment projects were licensed with a registered investment capital of 852.44 million.

However, there is high discrepancy between expectation and what had actually happened. From expected amount of capital which is 416.4 billion of birr, only 47.9 billion birr, which is equivalent to 11.50% had actually realized out of the huge number of capitals estimated to be occur as a result of the activities of these foreign investment projects. In the study area from expected amount of capital which is 852.44 million of birr, 705.49 millions birr, which is equivalent to 82.76% had actually realized. On average each operational FDI project generated 30.57million birr and 35.27million birr at national level and study area respectively.

Failure in attaining to generate the planned investment capital emanated from, as the amount of capital inflows directly related with the number of projects becoming operational, the under implementation of licensed projects also affect capital inflows into the country.

On the other hand the amount of investment capital the investors stated during the approval of project is not equal to the actual investment capital after implementation of the project.

Social Contribution

The inflows of foreign direct investment have also social contributions beyond economic contribution. In line with this about 66% of the respondents included in the study responded that, foreign direct investment have provided different kinds of support to local people which comprises of constructing economic infrastructure (roads, electricity) and social infrastructures (Clinic, water provision, and school). While, 34% of respondents indicated FDI did provide social support.

Interview with foreign investors indicated that, supports local communities by providing social services in addition to job creation. The information gathered from local community and focus group discussion also proved that foreign direct investment support local community in providing the stated services beyond job opportunity. Thus, from these facts it is possible to deduce that Foreign Direct Investment inflows to the study area have been supported local community through providing social services.

FDI inflows and income level of displaced community

Income is the output of livelihood process that comprises both cash and material welfare of the household. The evidence collected from local farmers indicated that current economic status is not comparable with previous living condition. They further stated that their current income level is extremely less and the basic cause of this economic change is as the result of leaving their land with inadequate compensation.

However, the key informants from Municipality stated that the problem is not a question of adequacy of compensation but utilization. The focus group discussions participants stated that there is unwise use of investment land. They indicated that there are ample of hectares taken from the farmers, but left idle for more than two years.

With regard to awareness, compensation package, and participation and level of satisfaction the focus group discussion members agree that no one is aware of and satisfied with the criteria used for calculating the dispossessed assets. From this fact it is possible to infer that the mechanisms and criteria used by the Municipality for the calculation of asset's value lacks transparency.

Generally, the focus group member agreed that, as investment take the productive asset and cash money paid as compensation is the most liquid and could be easily consumed up, the inflows of investment in general and FDI in particular to the area were affects those their land was taken, while it benefit other community of the study area

Social interaction

The inflows of investment change the social makeup of the community. Social assets of the community have changed due to investment. The key informants and focus group discussion indicated the social assets usually manifested through social institutions such as 'Debo' and 'Jige' Iddir' and 'Ekub' which bring them together in work and on different celebrations are abandoned because the land was taken by investment and they left with small plot of land and they believe that, working together on a small area of land is not increase our productivity and the only social institution left is *Iddir*, security in the case of death.

On the other hand those farmers get compensation for their asset they use for alcohol drinks and disturb the family and neighbor and this can affect the social ties. Thus the inflows foreign direct investment affects the social interaction of community in the study area.

Working Environment

With regard to working environment, Proclamation No 377/2003, the employer need to take all the necessary occupational safety and health measure and cover the cost of medical examination of the worker whenever such medical examination is required by law. In the study area about 80% of the respondents stated that the firm provided them all necessary materials and safety facilities that would protect them from possible injuries and accidents.

But, the rest 20% of the respondents argued that the company did not provide safety facility to protect from possible injuries and health problem. On the other hand key informant from Municipality stated that, most of the employer are not provide any safety materials and training how to use the machine for their employees and the majority of young workers are become handicap.

In line with the existence of physical healthy problem the largest percentagies(75%) of respondents stated as no problem and minor problem. While, 20% and 5% stated that the phyisical health problem in the firm sever problem and very sever problem respecvely. In addition, the member of focus group duscussion stated that the majority of foreign firms provied saftey materials, while small number of firms are not.

Gender Equity

In line with gender equity the highest percentage (90.5%) of respondents stated that, there is no gender related problems in the study area while the remaining10.5% of respondents indicated that gender inequality in foreign firm is a minor and moderate problem. In general the result of this study shown that, gender inequality is not a problem in foreign direct investment firms in the study area.

Government Intervention

Appropriate Government intervention has played a very decisive role in attracting foreign ditrct investment. The key informant at Regional and Town's Admnistration level stated that, they promote the potential and opportunities of the Region to induce the inflows of foreign direct investment to the region, facilitating, assisting the investors to get land as per their request and follow up and provided after care services.

They also indicated that the Regional Investment Commission provided different incentives to investors in collaboration with Ethiopian Revenue and Customs Authority as the project commenced its operation. The interviewee with investors also confirmed that, the government was provided them different investment support and incentives as per their investment type.

Quality and faster service provision is important in attracting investment, increasing country's benefit and minimizing the cost of doing business in the country. However, the service provision of investment office has some limitation. In line with this the interviewed investors argued that doing business in Ethiopia is profitable and guarantee but, there are some limitations in area of service provision.

The workers who provide services in investment offices are less competent; service delivery is not fast because most of the time office manager is not available. Follow up and after cares services is important to encourage the investors to start their activities as per agreement and to take necessary legal action on those individuals/firms were not started any activity as agreement. However, focus group discussants and interviewees indicated that, follow up and aftercare service functions of investment offices were weak due to lack of adequate resources and logistics.

On the other hand, the key informants from investment offices and Town's Administration stated that, the majority of foreign investors doing their investment activities as per agreement, but insignificant number foreign investors are not. In addition, they stated that some projects pollute the environment, imported the outdated machinery, they undertaken other project than the project the land was allotted and they stopped their activities at startup.

Therefore, these issues require the government intervention to facilitate and minimize the problems. To this the government first discuss with investors to solve the problem before taking any legal action. The government has given assistance and different incentives for those make their project operational and cancel their agreement those not commence any activity as per agreement.

With regards to environmental pollution the key informant stated that, before the land allotted to the project the government informed the investor to prepare EIA for the project expected to pollute the environment and the land permitted after it gets approval from Regional Bureau of Land and Environmental Protection and they required to apply the mitigation methods sated in EIA documents.

5.2 Conclusion

In line with the major findings of the study identified under section 5.1 above the following conclusions have been drawn

The number of Foreign Direct Investment project approved since 1992/93 both at national and study area is significant. However the actual employment created were by far differs from the planned once both at national level and the study area. But the number of jobs created per FDI project is larger than the DPI both at national level and study area. On the other hand foreign direct investment has more significant in generating job opportunity in the study area than at national level.

The study identifies several factors that have contributed a lot for the foreign direct investment projects are not be able to create the total jobs planned. The majority of the projects are not commenced operation. Firms are overstated their plan in an intention to get approval for their proposed projects. The study also identifies the inflows of FDI to the country in general and the study area in particular has significant contribution than the domestic investment to job opportunity.

With regard to technology transfer, the study identifies the inflows of foreign direct investment has a significant contribution in technology transfer/know-how. On the other hand, the study identifies that, the level of technological transfer is different between the types of sector in the area. Accordingly, the Manufacturing sector is more significant in technology transfer/know-how than Agro-industry and Service sector in the study area.

The study also identifies the negative impacts of foreign direct investment inflows to the study area in line with technology transfer. Small numbers of foreign firms use outdated machineries for their projects and the use of these machineries require high electric power and these outdated machineries also pollute the environment.

With regard to income generation the study identifies about 51.3% of respondents did not have any source of income before they employed and leading their life depending on others. On the other hand out of the respondents those their income is zero before they employed to the company, the majority have been getting monthly income between 600 and 2000 after they became the employees of foreign firms.

The study also identifies the level of income employees before and after they employed to foreign firms and the results shown that, the employees get minimum income 150birr and maximum 3,500birr with an average income of 470 birr before they employed. But after they gate employment opportunity the minimum, maximum and average income is 420birr, 7,500birr and 1,492 birr respectively. Therefore, the inflows of foreign direct investment have a potential contribution in income generation to the local community in the form of salary and wage.

In line with saving, the study identifies the largest percentage of respondents have no any sources income to save and lead their life before employment. But after they employed in FDI firms most of the respondent can save 10% of their income. Therefore, foreign direct investment inflows in the study area have a little contribution on saving study area. The contribution of FDI on human capital formation is in the study area is not significant.

In the study area the study identifies, foreign firms did not provide any training to improve their productivity. On the other hand the end result of technology recipient is the ability to use, replicate, improve and, possibly, re-sell the technology. However, in the study area due to lack of training employees were not copied with the operation of new machineries. Generally, the inflows of FDI to the study area have no significant contribution on human capital formation.

In line with investment capital the actual investment capital generated differs from the planned once both at national level and the study area. However, foreign direct investment has more significant in generating investment capital in the study area than at national level.

The study also identifies factors that have contributed a lot for the foreign direct investment projects not to be able to generate planned capital. The majority of the projects are not in operation stage. The amount of planned investment capital and the actual investment is also not the same. Generally, the result of this study shows foreign direct investment has a significant contribution on integrating the country's economy to the global economy through increasing the inflows of capital to the country in general and to the study area in particular.

With regard to social services provision, foreign direct investment in the study area has a significant contribution for local community through social infrastructure. On the other hand, the inflows of foreign direct investment affect the current income level of the displaced community. The communities leave the lands by collecting money on cash.

But they did not have experience on financial utilization know-how and they consumed it unwisely. The study also identifies that, the town's administration and Regional government were not create awareness to the community during the investment expansion and the mechanisms and criteria used to calculate the asset's value lacks transparency.

On the other hand the study identifies unwise use of investment land in the study area. Furthermore, the study identifies that, foreign direct investment has a potential contribution for community of the study area and country; while it affects those their land was taken. Generally, the study identifies FDI in the study area has a negative impact on those loss their land and benefit others as a source of income.

In line with social interaction the study identifies that the inflows of foreign direct investment affect social interaction indirect through affecting their income. The study also identifies that, the inflows of FDI to the study area affect social institutions.

In line with working environment and safety facility the study identifies the majority of foreign firms provide materials and safety facilities to protect the employees from possible injuries and accidents while insignificant number are not. With regard to gender equity the study identifies that gender inequality is not a problem in foreign direct investment firms in the study area.

To attract FDI to the country in general and to the study area in particular, the governiment institution played with promoting the potential and opportunities of the Region, facilitating, assisting the investors to get investment land as per their request and follow up their activities and provides different incentives and support.

However, the service provision of investment office is not competitive and the workers in investment offices are less competent, service provision is not fast and most of the time office manager was not available. The study also identifies follow up and after cares services of investment office is very low. As a result, a number of are not started their activity, doing other investment type than the approved project, pollute the environment and imported outdated machinery.

The study also identifies the measurement taken by the government to support the investors and to overcome the problems. Providing different incentives and supports for those commenced their projects as per agreement. On the other hand, different legal action has been taken such as cancelling agreement on those did not start any activity, forced those polluted the environment to apply mitigation methods they stated in EIA document and apply it as per the environmental law.

5.3 Recommendation

The inflows of FDI provide economic benefits such as investment capital, technology transfer, increased employment and a catalyst for change to society as a whole. However, there are factors that impeded FDI from contributing the expected amount and the major socio-economic problems of foreign direct investment inflows to the study area have been observed like as discussed above.

These problems should be addressed by either the regional government or local government of the study area to overcome and improve the socio-economic contribution FDI. To address, the following possible solutions are suggested.

- The number of jobs created by foreign direct investment and investment capital generation are directly related with the number of operational projects. But the number of operational foreign direct investment in the country in general and the study area in particular is by far differing. So the government of the country in general and the study area should take in to consideration the issue of under implementation and give the necessary assistance to realize their activities and generate the promised number and amount of capital to the country in general to the study area in particular.
- Technology transfer has been great significance in bridging technological gaps and enabling underdeveloped countries to accelerate the pace of development at par with developed nations. But in line with technology transfer foreign direct investment in the study area has a little gap. Some of foreign firm are used outdated machinery that consume high electric power and pollute the environment and the government of the region and the study area should enforced the firms to replace the old machinery to the modern one.
- On the other hand technology transfer is based on the capacity and the capability of recipient. In the study area it needs to improve the capacity of employees to operating with new machine. However, in the study area small number of foreign firms was not provided any training their employees. Therefore, to improve this skill gap the Regional investment office, labor inspection offices and the company should work in collaboration to meet the existed gap.

- Because of investment inflows to the study area the local community loss their productive assets and consequently they exposed to loss of permanent income source and loss of social interaction. These required a comprehensive approach including the promotion of more diversified economic opportunities or non-agricultural activities will be introduced.
- At the time of investment comes to the area the communities were not given awareness and participated in implementation of the process. However, ensuring sustainable development to cope up with the effects of investment expansion, all actors of development particularly the involvement of local communities is indispensable. Thus, priorities should be given to the consent, awareness and participation of the local community in the forgoing program and decision making process before actual implementation of investment project.
- Since the money paid as compensation for dispossessed assets is cash and could be easily consumed up and communities also have no idea on financial utilization know-how and managing of more money, there is also a need to establish an institution that facilitates the provision of technical supports such as training, skill development and education to those communities so as to enable to engage on the diversified economic activity and maintain sustainable economic environment.
- It has been also possible to observe that the land taken from farmers stay without use for more than two years which may in turn affected the productivity of agricultural yields. Learning from these, the Regional Investment Commission and Town's administration should follow up the project since the time of the land allotted to the project and take legal action on those not commenced their activity as per agreement.

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Annexes

Annex 1: Questionnaires to be filled by employees

ADDIS ABABA UNVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF DEVELOPMENT STUDIES
INSTITUTE OF REGIONAL AND LOCAL DEVELOPEMNT STUDIES

Research Questionnaires

Dear Respondents,

This questionnaire is designed by a student of Addis Ababa University College of development studies to conduct research on the socio-economic impact of Foreign Direct Investment (FDI) inflows in Bishoftu town for the partial fulfillment of master's degree in Regional and Local Development Study.

The researcher assures you that your individual response to the question will be kept confidential. Neither your name nor the name of your organization will be used in any document based on this survey. Also the information you are going to provide will be used only for academic purpose. Therefore, you are kindly requested to answer all of the questions honestly and please, return the questionnaire to the researcher or data collector/assistor as per agreed schedule.

Thanks in advance!

General Directions: circle the answer that meets your choice and fill on the blank space for related extra answers.

I. General Information

Company name: ________________

Project type: ____________________

Project Address: Kebele _______________

1. Age
   a. 15-24 b. 25-35 c. 36-45 d. 46 and above
2. Sex: a. Male b. Female
3. Marital status: a. Single b. Married c. Divorced d. Widowed
4. Educational Background: a. Illiterate b. Read and write c. Elementary d. Secondary e. Certificate f. Diploma g. Degree and above

5. Do you have children? If you have children, how many are they? ____________
6. What was your earlier occupation before you engaged in this company?

a. Self employee b. Employee in other company c. Petty trader d. I did not have work

7. How did you get the chance for joining this company?

a. Through company recruitment b. Through government recruitment c. other specify

8. What is your main reason for joining this company? a. To get income for a living b. To get extra income c. Loss of other job opportunity

1. How long has it been since you started work in this company?__________ (Years)
2. How many kilometers the company far from your home? __________(KMs)
3. Do you have transportation fee/service from your employer?
   a. Yes b. No
4. If you have transportation fees and get on cash please specify how much money you get per month for transportation purpose and how much you use for transportation? ____birr
5. If there is no transportation fees or services how much money you expend for transportation cost from your salary? Please specify ______________
6. Are you from displaced family?
   a. Yes b. No
7. If your answer for question number 14 is "yes", how many hectors is taken from your family? a. < 1 hector b. 1-2 hectors c. 2-3 hectors d. 3 and above hectors

II. Economic and Social Benefits related questions

a. <u>Economic benefit</u>

8. How much you earn per month before you where joined this company? a. <200 birr b.201-500 birr c.501-800 birr d.801-1000 birr e. >1000 f. I did not have income
9. What type of job you engage on in this company/firm?
   a. Daily labor b. guarding c. Others specify______________________
10. How much you earn per month after you joined this company?
    a. <600 birr b.601-900 birr c.901-1500 birr d. 1501-2000 birr e.>2000
11. Who else has employed in the company you are working for or another company from your household besides you? ________________________
12. How many of you are employed from your household?_________(number) and total monthly income ___________birr
13. How much are your household gross income now? ________Birr

14. After you became employee of the company what happened to your house hold's overall average income?

a. Highly Increased b. increased c. highly decreased d. Decreased e. No change

15. If your response to question number 22 is increased or highly increased, by how much money your house hold's overall average income increase? _________________birr

16. If your response to question number 22is decreased or highly decreased, how much money your house hold's overall average income decrease? _______________birr

17. Please indicate how much money you spend in relation the following variables:
    i. How much money you spend for Food intake?_______________ birr
    ii. How much money you spend for School fee?________________ birr
    iii. How much money you spend for Health care?_______________ birr
    iv. How much money you spend for Housing?_________________ birr
    v. How much money you spend for Clothing?_________________ birr
    vi. How much money you save?_______birr

18. Do you spend your full- time working in the company? If spend your full- time working here how many hours do you spend per day and how many days do you spend per week? _____________Hours per day ____________ Days per week and your payment for additional (overtime) ________________

19. If you do not spend your full time- working on the activities of the company, are you working in other company? Please specify ______________________________

20. Do you think you are satisfied with your work in the company? a. Yes b. No

21. If your answer for question number 28 is "No", why do you work?
    a. Exit is difficult b. Lack of another alternative c. others specify___________

22. Do you have any relevant skill that helps you to work in this company?
    a. Yes b. No

23. If your response for question number "30" is yes, please specifies what type of skill you have and contribution of your skill to the company and if you not have any skill, how could you get the chance of being the employee of the company?______________________________

b. <u>Social benefit</u>

24. To which of the social services did you get access due to the inflow of foreign direct investment? (Multiple answers is possible) a. Road b. Electricity c. Water Supply d. School e. Telephone f. Clinics & others health institutions

25. Are you sending your children to school than before? a. Yes b. No
26. If no, what was the reason? a. No school near my vicinity b. I couldn't afford school fees for them c. they are on work in support of the family d. others specify_______________
27. Did you get experience/know- how from company's technology transfer?
    a. Yes b. No
28. If your response for question number 35 is "a" please specify what type experience you get____
29. If your response for question number 35is "No", please state why not?____________
30. Have you ever received on-the-job after joining the company?
    a. Yes b. No
31. If your answer for question number 35is "yes", for how long do you trained?
    a. One month b. Two month c. Three month d. Four and above
32. What is the advantage of the training you take?
    a. Make the company profitable c. Improve my attitude towards the training
    b. Improve my skill of using different machineries d. No change
33. What do you benefited from being the employee of this company other than monetary rewards?
    a. Mental satisfaction b. Independency c. Developing the understanding of business ideas d. only monetary reward
34. What is your future plan with the company?
    a. Continue/working with it b. Exit c. I do not have plan
35. If your plan is to continue with the company, what is your reason?
    a. The salary is high & attractive b. Exit is difficult c. lack of other alternative
    c. Because I wasted my time for long
36. If your plan is to exit, what is your reason behind? a. The salary is low b. Because of personal problem c. To join other company

III. Problem Areas

The following are the problems may face you during your entry and stay in this company. Please rate if any of the following issues are problem for the entry and stay in the company. (Check the appropriate level of the problem based on its severity as a problem on a four- point scale where 0-4 represents, 0= no problem, 1= minor problem, 2=moderate problem, 3=sever problem, 4= very severe problem

(Put a right mark √)

No	Major problem	0	1	2	3	4
37.	Access to entry					
38.	Lack of experience					
39.	Lack of access for training					
40.	Lack of transportation services					
41.	Difficulty of work					
42.	Faced physical or health problem					
43.	Over exploitation of labor force					
44.	Gender inequality					

IV. Possible solution

45. Are there any attempts done by anybody to solve the existing problem?

a. Yes b. No

46. If your answer for question number 44 is "yes", who made the attempts?

a. Regional Government b. Town administration c. Company d. Kebele

47. What are the attempts? ____________________

48. In your opinion, how can the above cited problems are resolved? ____________________

Annex 2

Interview question for government

I. General information

1. Office _______________

2. Position if any____

3. Age _____ Sex _____ Marital Status _____________

4. Level of Education_____________________

II. FDI inflows, displacement and compensation process

1. Is there any displacement/dislocation due to foreign direct investment inflows? If there are displacement how many households are displaced and identify those partially or fully displaced____

2. To what extent the local farmers/ urban dwellers were informed and involved in the negotiations over the land deal and challenges of the community in the process of displacement and compensation? ____________________________________

a) Community awareness and participation in the process of displacement and compensation: _____________________________________

b) Mechanisms and fairness of calculating the value of land, buildings and other assets during dislocation:____

c) Whether the community acquired skill and knowledge or capacity created among the different social groups to manage own projects and properly utilize resources after displacement (how to use the money paid for assets):______________________

d) Whether the skill and knowledge developed in the community enabled them to run private / group business ventures (cases if any, both positive and negative): __________

e) Ways and means designed to support the community after displacement (follow up):

____

3. What type of compensations or share of benefits the displaced people were given? Explain ____

4. What was the satisfaction level of the displaced community towards compensation packages provided for the lost assets?____________________________________

a. Causes of compliance (if any): _____________________________________

b. Procedures of compliance application in case of disappointment:______________

c. How was the response of the concerned body?____________________________

III. Current situation of displaced community

1.Would you explain the current living condition of the displaced farmer/urban dwellers community?

a. Source of income: ______________________________

b. Type of jobs or business they are engaged in at present: ________________

c. Social influence and adaptability: ________________________

2. Would you explain changes that occurred in the life of the displaced community in the settlement area (positive and negative)?

a. Created favorable environment for sustainable life: ______________

b. Created opportunities and hopes for the community: _______________

c. Contribution in terms of satisfaction of life compared to previous: ____________

d. Social and economic changes: ______________________

IV. Role of the government institution

1. What are the major duties and responsibilities of your office to enhance the inflow of foreign direct investment in the region/study area/? __________________

2. What tax relief or other incentives are offered to these foreign investors?

____

3. What problems are seen in service provision, what are standards of service provision for each activities and how these standards are kept or achieved?___________

4. What role could the governmental institutions play in improving the life of the community affected by FDI inflows?

   a. Immediate need: ______________________________________

   b. Future intervention: _________________________

V. Over all consequences of FDI inflows

1. Discuss the impact of foreign direct investment (FDI) inflows on social and economy.

   a. Impacts that appeared before actual implementation of the displacement program:

   ____

   b. Impacts that appeared at the time of and / or after the implementation:

   ____

2. Does displacement/dislocation scheme considered different aspects of social and economic activities of the neighboring community?

a. Areas that have historical and social significance to the community: __________

b. Interest of the local community in site selection for resettlement: ______________

c. Set criteria for beneficiaries' identification: ____________________

d. Infrastructure accessibility and conduciveness of the selected site for the people & other services: ____________________

3. Would you explain the general problems, fears, prospects, incentives and other aspects of FDI, displacement and compensation for dislocated community around Bishoftu?

____

4. Would you explain the legal guarantee that ensures the right of displaced people to get fair compensation for the asset lost as a result of FDI inflows? ____________________
5. Are there any related infrastructural developments to be built by the foreign investors in the agreement? Explain ____________________

VI. FDI's contribution related questions

i. Economic contributions

1. Do you think the company has technological contributions for the country and peoples of study area? If there are technological contributions, state types of technologies and how do you rate its modernity in comparison with the technologies in the developed world? ____________________
2. How do you see the importance of the company for other similar or local companies and local community in serving as a source of technological knowhow far from the direct contribution of your products and services? ____________________
3. Is there any local business or activities that were created as a result of foreign direct investment inflows in the town/locality? Please explain what type of business or activity it is. ____________________
4. What revenues do the regional states receive from sales or rentals of land deal?

   ____
5. Discuss the impacts of FDI on economic growth of the Region in general and the study area in particular? ____________________
6. Is there any technology transfer from FDI to local community/to the region? If any please specify: ____________________

ii. Social contributions

1. Construction of social infrastructure:-

   Heath center/clinic (number)__________ School (number)__________

   Potable water (number)__________ Road (km) __________

2. What is the total cost for the construction of these social services in value of money? ______________________birr
3. Dose the company maintains the safe & health work environment and keep gender equality? If you have information, please don't hesitate to state(positive or negative): ____
4. Is there any training the company provide to the local community so as to transfer his/her production technology? If it provide, what does its result look like?______________
5. How do you explain the overall role of foreign direct investment (FDI) in improving society's living condition in the study area? ________________________________
6. What role foreign direct investment played to enlarge foreign relation?___________
7. What major positive and negative impacts observed so far?___________________

8. What are the social and economic problems the societies face because of FDI inflows?

- Social problem:____
- Economic problem: ____

VII. More information

If you may have more information with regard to foreign direct investment inflows and its socio-economic impact, please don't hesitate to state _________________________

Thank you!

Annex 3
Interview questions for investors/manager of the project

I. *General information*

1) Name of the company______________________________
2) Sex of owner or manager of the firm____________ Age____________
3) Location of the company's project in Bishoftu (kebele) ___________________
4) Size/m^2 or hectare of land in that specific area_____________________
5) How long did it take you to get the investment license?

Weeks: _______ Months______ Years: __________

II. *Project description*

2. Sector of activities your firm engaged in____________
3. Would you entered in to practical activities? Please, specify when you entered in to practical and if you did not yet start any activity why not?___________________
4. Status of your firm's project______________________________
5. Please, state when you established the firm_______________
6. Types of products produced or proposed to be produce:-
   i. ____
   ii. ____
   iii. ____
   iv. ____
7. Amount/ percentage of your market plan
   A) Export :_____________(%)
   B) Inland sale_______________ (%)
8. Percentage of your production to be sold to that specific local community: ____(%)
9. What is the source of financial resources to your investment/business?

   Owner's equity ☐ Bank loan ☐ Loan from friends ☐

   Bank loan and owner's equity ☐ others specify____________________
10. If your financial sources are more than one, please also specify their proportion in percentage (%) _______
11. What are the sources of raw materials (inputs) for your firm's product?

    Domestic source ☐ foreign sources ☐ both domestic as well as foreign sources ☐
12. If your sources of raw materials are both foreign as well as domestic sources indicate their proportions/share. Domestic _____% Foreign _____%

13. Where is/are the sources of market for your products? (where consumers of the product located) If the sources of markets for your product are both foreign and domestic, please, specify their proportion in percentage

Domestic----------% Foreign--------%

III. Economic and social contributions

i. Economic contributions

7. Do you think your company has technological contributions for the country and peoples of study area? If there are technological contributions, state types of technologies and how do you rate its modernity in comparison with the technologies in the developed world? ____________________

8. How do you see the importance of your company for other similar or local companies and local community in serving as a source of technological knowhow far from the direct contribution of your products and services? ____________________

9. Is there any local business or activities that were created as a result of your investment in that specific town/locality? If there, please explain what type of business or activity it is.____________________

10. Have you offered or planned to offer any training to the local community so as to transfer your production technology? If you offered for how long did you provide it and what does its result look like?____________________

11. How do you explain the importance of your company in generating revenue for the country? ____________________

12. As a whole how many people are currently working in your company?

Casually __________ permanent__________ male__________ female__________

13. What percentage of the total workforce is from the local community? __________(%)

14. What is the minimum wage you pay for the blue-collar or day workers per day? ________birr/U salary for white-collar/professional per month __________birr/U$

15. What positive economic impacts do you think your investment brought to the Bishoftu town? ____________________

ii. Social contributions

6. In addition to job creation, are there any supports to local community/ related infrastructural developments to be built by your company?

i. Healthy center____________________

ii. School________________________________

iii. Road__________________________________

iv. Electricity_______________________________

v. Water ________________________________

7. Amount of money you cost for these construction /social infrastructure development?

____

8. Does your firm/company cooperate with local communities with the intention of helping them to improve their productivity? If any what type of cooperation do you have with community please specify: ________________________________

9. What positive social impacts do you think your investment brought to the Bishoftu town?

____

10. What actions you take over to improve the productivity of your workers and to develop their skills? ______________________________________

11. To what extent your company/firm maintains the safe and health work environment and keep gender equality?______________________________

IV. *Service delivery and incentives*

1. How did you compare Ethiopian's investment policy and service delivery with other countries that you are familiar with? ________________________________
2. How did you get the service provisions of the investment offices and others that are found at different levels of administration? ___________________________
3. Please comment on the service provisions of investment office to what extent they are transparent, responsive, and accountable to their activities and respect the rule of law?

____

4. Have you taken any incentive packages that have been permitted by country's laws? If you were benefited from permitted incentive packages, which incentives have you taken? Explain____
5. Please state any problem that you think in area of service delivery and incentive in Oromia Region in general and Bishoftu town in particular _______________________
6. State any favorable conditions or opportunities in investing in the area both for impending and existing investors.____

Thank you!!!

Annex 4

Interview Questions for key informant for displaced peoples

1. Farmers/ urban dweller address________________________________
2. Name of projects the farmers/ urban dwellers leave their land________________
3. Location of the project______________________________________
4. Size of land they leave due to the coming of the project

Hector/s	M^2

5. Amount of compensation for land/other asset in birr_____
6. Do you think the displacement / dislocation scheme considered your or others different aspects of social and economic activities?
7. Is there any support from the government in kind in addition to compensation? If any please specify?________________________________
8. For what purpose did you used the money you paid for?
   Agricultural activity ☐ Business ☐ Building ☐ Consumption ☐
   Others (specify________________________________
9. Before leaving your land for investment purposes, what type of activity you perform on the land?________________________________
10. After you have get compensation, what kind of activities you engaged on? If any please enlighten your economic level in relation to the past and if no why this append please specify?________________________________
11. Have you been aware in advance that the government is going to take your land for investment purpose? (explain your filling) ________________________
12. What were packages of benefits promised to you? (Specify :) ________________
13. What was your level of satisfaction towards compensation given or promised to give you?________________________________
14. Did you get support and sort of training on how to use the compensation paid for you in order to maintain comfortable life?________________________
15. How do you state the attitude you have towards the inflow of foreign direct investment?________________
16. How do you compare the income levels before and after in coming of FDI?__________
17. What are the advantages you get from the inflows of FDI?__________________

18. Did you get any support from government/ investors to improve your living conditions? If is so, what are these supports? ____

19. Do you think that the FDI contributed for the well being of your own and your family? If any please specify____

20. Do you have more assets now than before displacement? If you do not have what is the reason? Please specify____

21. Did you get compensation for your building in dislocation? If you do not get, what source of income did you use for the dislocated house reconstruction?____________________

22. What are the overall socio-economic impacts of foreign direct investment you observe? (negative as well as positive)____

Annex 5

Focus group discussions guide questions

As a guide to lead focus group discussants, the following major questions will be addressed. In order to understand the idea of discussants questioning questions will also be used during the discussion session.

1. What are the contributions the government and local communities got from the inflows of foreign direct investments?
2. Are there any challenges people faced due to the coming of foreign direct investment? If any would you please suggest some possible solutions to cope up with the challenges?
3. Have you been aware in advance that the government is going to take the land for investment and how did society reacted when they were asked to leave?
4. What packages of compensations is given to land dispossessed?
5. What was your state of satisfaction towards compensation packages provided for the land dispossessed, appropriateness, fair distribution and mechanisms of implementation and solution in case of disappointment?
6. What were other benefits and technical supports provided for you so as to enable you sustain your life better? (state if any)
7. What social and economic changes do you observe as a result of foreign direct investment inflows (positive and negative)?
8. Have you got any training and technical support or acquired skill and knowledge enable you to create, organize, manage and control your own project? (If any list down).
9. To what extent government institutions and stakeholders work cooperatively towards enhancing the activities of foreign direct investment? What are the problems and efforts undertaken to the problems?
10. What were the issues or problems you discuss more among each other on the impact of the foreign direct investment?
11. What negative impact did you observe on the social and cultural aspects of the community?

Annex 6: The distribution of foreign direct investment in Bishoftu town

S_No	Promoters Name	Sector	Project type
1	Abyssinia Profile	Manufacturing Industry	Steel production
2	INOVA Package	Manufacturing Industry	plastic factory
3	Interlakes Ins.Sch.	Service	School
4	Mr.Keith Virgil school	Service	School
5	Luksar PLC	Manufacturing Industry	Plastic Shoe Fac.
6	Maranata Farms	Agro-industry	Poultry farm and processing
7	New creation	Service	Training center
8	OXFORD	Manufacturing Industry	Polyteen mfg
9	Export Trading plc	Agro-industry	Seed cleaning for export
10	Rift Valley Water	Manufacturing Industry	Water Purification
11	Sonafric Industries PlC	Manufacturing Industry	Paper Factory
12	Alfa Fodder &Dairy Farm	Agro-industry	Fodder & Dairy farm
13	Ethiopian Steel Profile	Manufacturing	Steel mfg
14	Stelly RIM PLC	Manufacturing Industry	Steel production
15	Suriyaa Ind.PLC	Manufacturing Industry	Chemical factory
16	Abyssinia Cold Rolling	Manufacturing Industry	Cold rolling
17	Tulips Cosmetics & Pha. Plc	Manufacturing Industry	Cosmetic & ph.
18	Pawlo Payonit	Service	Hotel
19	Hang Wa Resource	Manufacturing Industry	plastic
20	LUBCON PLC	Service	Lubricant
21	NOVIS PLC	Agro processing	Agr. Ind.
22	KS Welding	Manufacturing Industry	Steel manufacturing
23	EDF	Manufacturing Industry	Furniture Pro.
24	Pak construction	Service	Training center
25	Sheba Steel	Manufacturing Industry	Steel manufacturing
26	Sheba Gas	Manufacturing Industry	Gas Prod.
27	Sheba cables	Manufacturing Industry	Cable & wire
28	Mr. Pooli Howared	Agro-industry	Grain mill factory
29	Holland Dairy PLC	Agro-industry	Milk Pro.
30	Grace Confectionary PLC	Manufacturing Industry	Candy
31	Abyssinia Gas	Manufacturing Industry	Gas Prod.
32	Karlo Taraliko	Manufacturing industry	food industry

Source: Bishoftu town investment office data base, 2013