



IMPLEMENTATION OF MANUFACTURING FOREIGN DIRECT INVESTMENT IN
ETHIOPIA: THE CASE OF ADDIS ABABA CITY ADMINISTRATION AND OROMIA
NATIONAL REGIONAL STATE

By

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DECLARATION

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ABSTRACT

Many developing countries are competing to attract foreign direct investment with a belief that it can be a tool for development. The Ethiopian government has opened several economic sectors to foreign investors and issued several investment incentives for foreign investors. Since the market oriented economic reform took place in 1992, emphasis has been given to attracting FDI. In this study, implementation of manufacturing foreign direct investment is analyzed using the case of Addis Ababa City Administration and Oromia National Regional State. The study is based on both primary and secondary data from investors, professional experts, Government officials and local administration of the investment areas, the Ethiopian Investment Agency, UNCTADs database and the World Bank's world development indicators. The period covered in the study is from 2004 to 2013.

The results show that the implementation of FDI has been very low. This may be due to the administrative problem of investment facilitation, provision of land, provision of power supply, and provision of finance, underdevelopment of human capital, low performance of governmental institutions to facilitate investment services, and corruption. The fact that implementation of FDI is low, these has an important implication for policy makers, especially trade and FDI policies must be checked closely in order to make FDI growth enhancing in Ethiopia.

The profitability of any FDI to a given host country depends on that respective country's government role in the overall management of the sector. Finally, the study concludes by providing certain necessary suggestions that may help the government to get due benefits from FDI in manufacturing industries and consequently address some challenges that hampered the process of the implementation and thus strengthen the prospects of foreign direct investment in manufacturing investments.

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List of Acronyms

AGOA	African Growth and Opportunity Act
BRICSA	Brazil, Russia, India, China , South Africa
CSA	Central Statistics Agency
EBA	Everything But Arms
EPRDF	Ethiopian People's Revolutionary Democratic Front
EC	Ethiopian colander
EDRI	Ethiopian Development Research Institute
EIA	Ethiopian Investment Agency
ETB	Ethiopian Birr
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
FMA	Foreign Market Access
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
IPA	Investment Promotion Agencies
IPR	Investment Policy Review

LDC	Least Developed Country
MDG	Millennium Development Goals
MNE	Multinational Enterprise
MOI	Ministry of Industry
NRS	National Regional State
SME	Small and Medium sized Enterprises
SNNP	South Nation Nationality and peoples
SSA	Sub-Saharan African
OSS	One-stop Shop
UNCTAD	United Nations Conference for Trade and Development
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar
WTO	World Trade Organization

CHAPTER ONE

Introduction

1.1 Back Ground of the Study

The United Nations' Millennium Development Goals (MDG) Declaration outlines eight commitments to be reached by developing countries by 2015. It is widely believed that the achievement of these Goals will contribute to improved human development and notable poverty reduction. However, realizing these goals requires a significant level of capital investment. One potential source of this capital investment for LDCs could be Foreign Direct Investment.

Lack of investment has been identified as a fundamental cause of the stagnant production and low productivity in developing countries. The United Nations Food and Agricultural Organization (FAO) estimates that in order to double food production by 2050 (a target that must be attained to feed growing populations and to ensure a basic right to food), developing countries need an additional investment of USD 30 billion per year. However, public investment resources are limited by budgetary pressures and official development assistance to agriculture has been declining over many years. The private sector in developing countries has also tended to have little capacity to fund investment. International investments, therefore, have a potentially important role to play (David Hallam, 2009).

Sub-Saharan Africa has historically received the smallest amount of FDI globally. The region accounted for only 5.1% of total world FDI inflows in 2009, compared to 26.0% for Asia and 11.9% for Central and South America (UNCTAD, 2012). When compared to GDP levels, this figure is less surprising since the region accounts for just 2.44% of World GDP. It is, therefore, reasonable to expect that the region has smaller share of global FDI than other regions. Nevertheless, inward FDI flows as a share of African GDP have increased rapidly over the course of the years, rising from 0.09% in 1980 to 1.84% in 2000, and accelerating even further to 4.22% in 2009 (Juma.M.A, 2012).

This paper examines the factors that enhance or constrain the implementation of foreign direct investment in Ethiopia, and their effect on economic growth in the country. This study looks into the organizational structures and operations of institutions that deal with investment approval and implementation. The analysis is based on a survey in Addis Ababa city Administration and Oromia Regional State.

1.2 Statement of the Problem

The government of Ethiopia currently has set a five year strategic plan (Growth and Transformation Plan) to reduce (eliminate) poverty and increase the per capita income of the population by focusing mainly on the agricultural led industrial development. The development can be achieved through improvement of structural transformation of industrial economy. However, the financial and human capability of the country to handle major investments is far limited and the government seeks to attract foreign investors for the overall growth of the country's agricultural and industrial sectors.

Ethiopia's performance in attracting foreign direct investment (FDI) is poor compared to many African countries.¹ For instance, Ethiopia accounted for only 1.56 percent of the total FDI flows coming to Africa in 2003-2006 while representing 9 percent of the population of Africa. Besides, Ethiopia's per capita inflows were only USD 5 in 2006, compared with USD 39 for Africa countries as a whole (Alexandra and Sophia, 2009).

According to the Ethiopian Economics Association (2007), there are several possible explanations for the increase in FDI inflows to Africa over the past few decades. The Ethiopian government has also issued several investment incentives like customs duty exemption and tax holidays. Since 1992, market oriented economic reforms have taken place and emphasis has been given to attracting FDI especially in the manufacturing sector and regulations on investments have been relaxed significantly. Foreign manufacturing investment activities are exempted from the payment of custom duties and others taxes on imports of capital goods. According to the export

¹UNDP (2007), Asian foreign direct investment in Africa: Towards a New Era of Cooperation among Developing Countries, UNITED NATIONS, New York and Geneva(2007-14), indicate that: South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, Democratic Republic of Congo are Ranking of host countries in Africa, by size of FDI inflows (1980-2005)

performance and the location in which the investment is made, foreign investors' orientation, they are exempted from income tax for 2-9 years period. Foreign investments are also exempted from the payment of sales and excise taxes for export commodities, The governments has also established one-stop-shop (OSS) services for the facilitation of manufacturing investment projects (*Proclamation No.769/2012*). As a result, there has been a significant increase in the inflow of FDI in Ethiopia. But official reports show that the registered and realized capital of foreign investment projects varies widely.

According to the Ethiopian Investment Agency's 10 years report, the total amount of registered manufacturing investment projects from 2004-2013 for the Addis Ababa city administration and Oromia regional state are 1829, out of which the projects that have been implemented are only 432 or (23%). This shows that the problem is not only in attracting investment but also in the delay of timely implementation of approved projects. Although, the Ethiopian government has improved the incentive scheme in order to attract investors. The number of projects that have commenced implementation that are operational is limited; therefore, this study explores the determinant factors that explain the factors affect implementation of foreign direct investment.

1.3 Objectives of the Study

The purpose of the study is to understand the main investment implementation problem in Ethiopia. Private Investment in Ethiopia is grew in the 1990s, together with the opening up of the economy due to the change of government which resulted in the adaption of market oriented economic system. The aim of this research is to identify and analyze determinants of success or failure in implementation of foreign direct investment in Ethiopia. In addition, this study assesses FDI policies, incentives and investment risks, regional distribution of FDI, opportunities and investment administration in Addis Ababa city administration and Oromia regional state, with special emphasis on manufacturing foreign direct investment.

The specific objectives are:

- To examine legal, policy and institutional arrangements in place for FDI in general Ethiopia and in particular in the study area;
- To investigate the performance of FDI in the study area;

- To identify determinant factors or critical factors for success or failure of FDI, and
- To suggest policy and implementation measures to improve the management of FDI and its future implementation.

1.4 Research Questions

Based on the above general purposes and specific objectives, this study will attempt to answer the following basic research questions:

- What legal, policy and institutional arrangements as well as incentive mechanisms are in place to promote FDI in general in Ethiopia and in particular in the study areas?
- How does the foreign investment perform in Ethiopia in general and the study areas, in particular?
- What are the potential and actual socio-economic and other benefits of foreign direct investment in Ethiopia?
- What are the major factors that enhance or hinder the implementation of foreign direct investment in Ethiopia and the study areas, in particular?
- What can be done for future improvements of the implementation of FDI in Ethiopia?

1.5 The scope of the Study

Discussing FDI is a complex and controversial matter that involves a number of interrelated policies, legal, administrative, financial and other issues. Hence, the scope of the study is limited to the Oromia Regional State and Addis Ababa City Administration of Manufacturing Investments. This is because; first there is concentration of investment in these areas. Second, it is easier to get more reliable data, and third the researcher believes that it is important to focus on critical and particular issues in depth than dealing with general and wider areas and issues.

1.6 Limitations of the Study

Limitation, in the context of a study, refers to the possible problems and obstacles that might hinder some procedures and activities of the study during the data collection and analysis phases. Availability of data from different sources might be a challenge. But since all FDI are registered with the EIA and their status is updated yearly, it is used as an alternative source of FDI data.

Another limitation is that it might be difficult to get some data from investors due to the lack of willingness and absenteeism of the appropriate persons such as project managers as well as reluctance of governmental officials to disclose accurate information. Snowball samplings were help to overcome this problem and the emerging nature of qualitative research (Creswell, 2007). This is used to provide an advantage to find out other alternative projects and other responsible experts that work in the same institution. Convincing the participants during the consent agreement can be a means to solve this problem.

1.7 Significance of the Study.

As far as the researcher is concerned, he has not come across a serious and critical research undertaken regarding FDI implementation in Ethiopia. However, there is still an ongoing debate as to whether there is a good environmental condition to implement FDI in Ethiopia or not? This study will thus contribute a great deal to the debate by providing research based evidence regarding the challenges of effectively implementing FDI in the manufacturing sector in Ethiopia.

1.8 Organization of the Study

This thesis has five chapters. Chapter one provides general introduction. Chapter two provides a review of theoretical and empirical literature related to FDI and its implementation. Chapter three focuses on research methods. Chapter four provides data analyses based on the Case Study of the Oromia Regional State and Addis Ababa City Administration of FDI, and Chapter five provides conclusions and suggestions.

CHAPTER TWO

2. Literature Review

2.1 Main Concepts and Definitions of FDI

Foreign Direct Investment (FDI) can be defined as an investment made by a firm or an entity based. According to the World Bank, foreign direct investment is defined as “*an investment made to acquire a lasting management in an enterprise operating in a country other than that of the investor*” (World Bank, 2012). “Foreign direct investment (FDI) is the process whereby a firm in one country provides capital to an existing or newly-created firm in another country”(Jones J. and Wren C., 2006:191).

Foreign direct investment (FDI) has generally been referred to as an engine of growth, especially in a developing country (Ngowi H.P, 2005). It is widely argued that it can potentially play a vital role in the process of economic development. FDI is widely known, for example, to create new jobs and retain old ones, provide needed capital investment, contribute to government treasury, and bring new, advanced and state-of-the art technologies etc. According to Sornarajah M. (2004:7), foreign Investment involves the transfer to tangible assets from one country into another for the purpose of their use in that country to generate wealth under the total control of the owner of the assets. In light of this expectation, many countries are actively bidding to attract more FDI inflows to their respective countries.

However; Ngowi H.P. (2005) argues that the global distribution of foreign direct investment is highly skewed in spite of the efforts made by virtually all countries to attract the inflows. The lion's share has traditionally been flowing into the Triad (the USA, Japan and the European Union – EU). In the recent past, it has been observed however, that a substantial amount of FDI is starting to flow into the emerging markets, especially those in Asia, Central and Eastern Europe. Africa, on the contrary, has been lagging behind in attracting these essential investments for its development in general and poverty reduction in particular (Ibid, p.145). The reasons for lack of attractiveness are many and complex. This shows that there is also a need to know the driving forces behind FDI inflows into the emerging markets of Asia, Central and Eastern Europe. This

can also help to identify some lessons that Ethiopia can learn from these markets in its bid to attract more FDI.

2.2 Conceptual Framework: - Impacts and Opportunities of FDI in Manufacturing Sector,

There are several economic and political factors that can either enhance or detract foreign investment opportunities in the manufacturing sector. According to Namizinga N. (2005) factors that have a positive influence on investment includes the size of the host country market, per capital GDP, GDP growth, cultural similarities between the home and host country, natural resource availability, a favorable exchange rate, and the labor productivity of the sector. Government regulations such as high corporate taxes and foreign ownership restrictions will have a negative impact on the level of FDI in a sector. The level of economic and political risk in a country is also an important factor when foreign firms are deciding on the location of their foreign investment. Most countries seek to promote the FDI by facilitating the policy and legal environment in the way that attracts the flow of foreign investors. Because, the high flow of FDI plays a significant role in increasing productivity by offsetting the investment and technology gap in the host country (Ibid).

The increments of foreign financial flows of foreign investors provide various opportunities for a host country. Few of these opportunities are new technologies, knowledge and international market. Such situation paves the way for the increase in the productivity and total production of manufacturing sector in the country. Growth in agriculture and its productivity are considered essential in achieving sustainable growth and significant reduction in poverty in developing countries. Both developmental and industrial economists view productivity growth in the manufacturing sector as critical if agricultural output is to increase at a sufficient rapid rate to tackle poverty (Ibid).

The positive effects that FDI inflows can have on a host country include such as improved access to export markets, creation of tax revenues. However, FDI inflows can also have detrimental effects. An MNE may have a negative effect on competition and possibly force local firms out of business. Another fear is that MNE activities can result in environmental degradation.

According to Sornarajah M. (2004:50) theoretical conflicts have had an impact on shaping legal attitudes to foreign investment. One of theories maintains that foreign investment is wholly beneficial to the host state while the other maintains that a host state cannot achieve development unless it veers away from dependence on foreign investment. The conflicting economic theories had a definite impact on the articulation of the legal principles, and it is necessary to have an understanding of these theories.

2.2.1 The Classical Theory of Foreign Investment

The classical economic theory on foreign investment takes the position that foreign investment is wholly beneficial to the host economy. There are several factors which are relied on to support this view. The fact that foreign capital is brought into the host state ensures that domestic capital available for use could be diverted to other uses of public benefit. The foreign investor usually brings with him technology, and this leads to the diffusion of technology within the host labor force that is so employed will acquire new skills associated with the technology introduced by the foreign investor. Skills in the management of large projects will also be transferred to local personnel Sornarajah M. (2004) Infrastructure facilities will be built either by the foreign investor or by the state and these facilities will be to the general benefit of the economy. The upgrading of facilities such as transport, health of education for the benefit of the foreign investor will also benefit society as a whole.

The potential for technology spillovers from FDI is a positive externality of FDI that host countries hope to benefit from. Blomström and Kokko (2003) suggest the possibility of technology spillover is one of the major reasons host country governments try to attract FDI inflows. The effects of FDI inflows on host country are reflected with economic growth. Based on this he argues that technology spillovers provide the strongest potential for FDI to enhance host country economic growth (Andreas J. and Jonkoping 2005).

2.2.2 The Dependency Theory

The dependency theory is diametrically opposed to the classical theory and takes the view that foreign investment will not bring about meaningful economic development. It was a theory popularized by Latin American economists and political philosophers. The theory focuses that

most investment is made by multinational corporations which have their headquarters in the developed states and operate through subsidiaries in developing states. The proposition is that the multinational devises global policy in the interests of its parent company and its shareholders in the home country. As a result, multinational corporations come to serve the interests of the developed states in which they have their headquarters.

The fear among workers and labour unions is that investments abroad by source country firms may result in production facilities being closed-down and that workers could be made redundant in the source country. This fear is normally based on the idea of domestic production being shifted abroad in order to take advantage of lower labour costs. The discussion of host country employment effects can therefore not be separated from a discussion of employment effects in the source country (Andreas J. and Jonkoping , 2005).

2.2.3 The Middle Path;

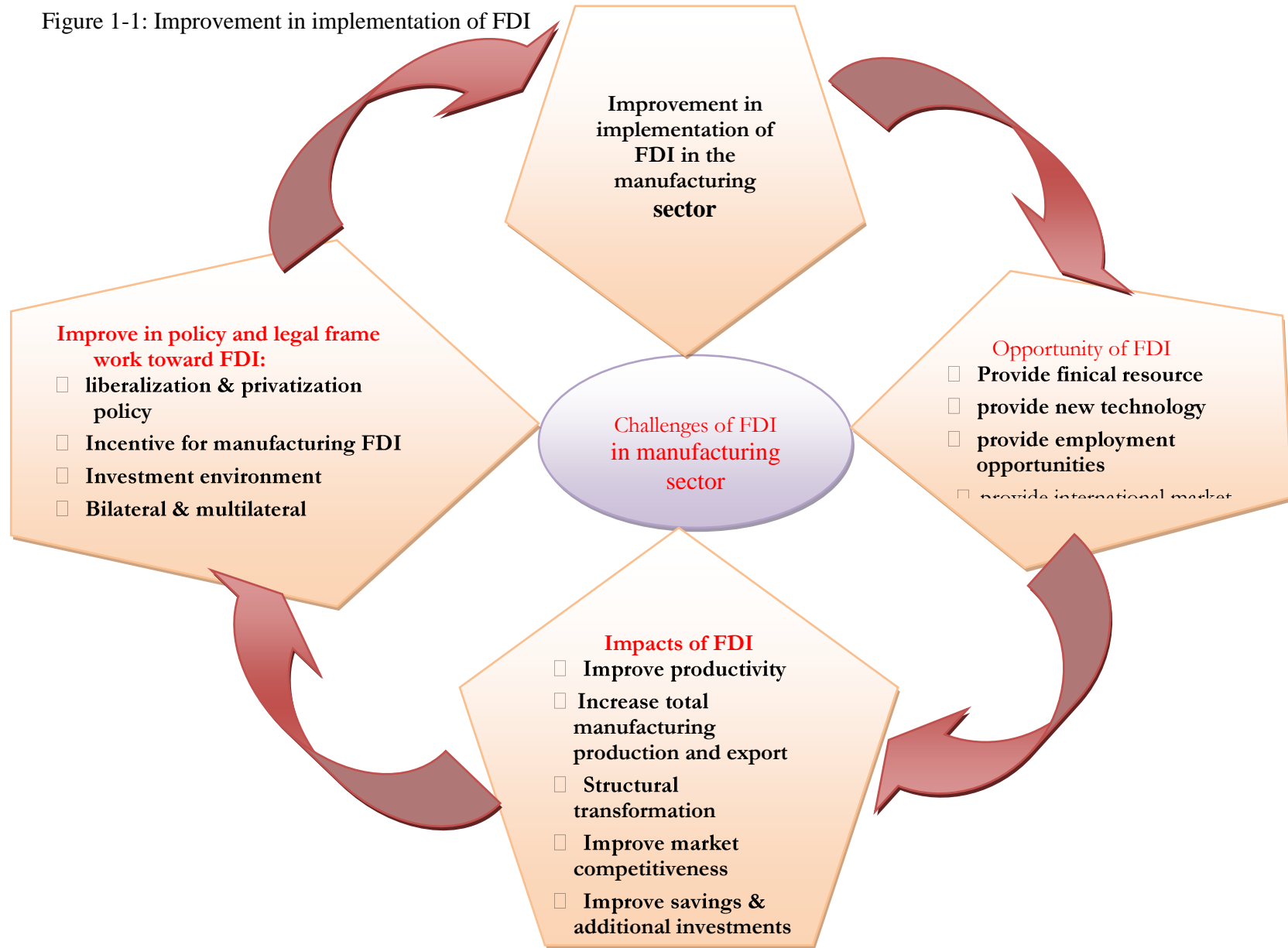
The animosity which is directed at multinational corporations is the bases of among others the dependency theory. This animosity has become somewhat dented in recent times. In an age where communism has proved unsuccessful and the superiority of a free market economy to marshal the means of production is gaining acceptance, theories which are hostile to private initiative as the means of generating growth are unlikely to make headway. With increasing privatization of state companies under way in developed as well as developing countries and the progress of the capital markets in most developing countries, there has been a shift away from ideological predispositions towards foreign investment. Many states have seen more wisdom in a pragmatic approach to the problem than in definite ideological stances. The fear that multinational corporations pose a threat to the sovereignty of developing states has receded with the increasing confidence of the developing states in managing their economies. Multinational Corporations have also left behind the role of being instruments of foreign policy of their home states. On accessions, they have even formed alliances with developing countries to the detriment of their home states. But, some of the larger multinational corporations are capable of conducting foreign policy for their own benefit (Sornarajah M., 2004:50).

Ethiopia has an advantageous geographic position to access global value chains: Addis Ababa is already the air cargo hub of Africa, within non-stop reach of all the major G7 and BRICSA economies. Moreover, with new high-speed road and rail corridors being built to connect Ethiopia to the Djibouti, the sense of landlocked isolation that has historically characterized Ethiopia will be transformed. Ethiopia will be seen as perched on the main trade route from Asia to Europe and the Americas (Henok, A et al. , 2012).

I argue that the short comings have to be controlled by smart and intelligent code for the investors and the respective (host) countries. Besides, the opportunities need to be facilitated with proper policies in the host countries.

My argument for FDI in Ethiopia is based on two facts. First, manufacturing would have the impact in reducing poverty. The Second, the Ethiopian agriculture is at subsistence level and the majority of the small-holders are using backward agricultural practices (traditional technologies) for cultivation, harvesting and storage. To up lift the Ethiopian poor agricultural production and productivity out of backwardness, capital and investment flow have crucial importance. Manufacturing investment can be useful if the land acquisition processes, the socio-economic and environmental vulnerability assessment is handled in the right way. I argue, which is that FDI handling need to improvements, according to impact assessments and global condition for the best utilization of investment in terms of capital, technology, management, etc.

Figure 1-1: Improvement in implementation of FDI



2-1 Improvement in implementation of FDI

2.3 International Trend to Attract FDI

FDI flows (inward) declined to US\$651.2bn in 2002 after attaining a record level of US\$1393bn in 2000. This downturn started from 2001, corresponding to a flow of US\$823.8bn (UNCTAD, 2003). The share of developing countries, which was on average about US\$50bn per year during the period 1985–95, increased to nearly US\$246.0bn in 2000, but went down to US\$162.1bn in 2002, that is nearly 25 per cent of the total (UNCTAD, 2003). In short, one possible reason why the developing countries have not fared well in recent years is a global downward trend.

According to world investment report 2012, *FDI inflows increased across all major economic groupings in 2011*. Flows to developed countries increased by 21 per cent, to \$748 billion. In developing countries FDI increased by 11 per cent, reaching a record \$684 billion. FDI increased by 25 per cent to \$92 billion in the transition economies. Developing and transition economies respectively accounted for 45 per cent and 6 per cent of global FDI. UNCTAD's projections show these countries will maintain their high levels of investment over the next three years (World Investment Report 2012:1).

According to world investment report (2013), at least 53 countries and economies around the globe adopted 86 policy measures affecting foreign investment in 2012. The bulk of these measures (75 per cent) related to investment liberalization, facilitation and promotion, targeted to numerous industries, especially in the service sector. Privatization policies were an important component of this move. Other policy measures include the establishment of special economic zones (world investment report, 2013-13).

Generally policies to control or influence FDI are designed to achieve a range of economic, political and social objectives. Restrictions on FDI in key service sectors such as broadcasting, telecommunications or transport may be designed to address national security or national sovereignty concerns. These policies distort the market signals which drive away foreign investment, and could potentially have a significant impact on trade in services. For example, restricting foreign investment in certain markets may result in less competition in those markets,

higher prices and less diversity and innovation in the goods and services offered. These types of economic costs must be balanced against the perceived benefits of maintaining control over FDI (Bijit Bora, 2002:252).

It is widely argued that there are four main motives for seeking to invest abroad. According to Ajayis (2006) these are broadly described as resource seeking, market seeking, strategic asset seeking and efficiency seeking. In the case of resource seeking, investors locate abroad in order to secure cheaper supplies of raw materials or inputs that are not available at home. Such resources may be natural resources like oil and gas or low-cost input such as labour. The basic reason is to lower production costs and enhance competitiveness in both local and foreign markets. Most resource seeking FDI are usually export-oriented. Market-seeking FDI opens up new markets in the host country or neighboring countries. The main motive is to bring about a reduction in the cost of supplying a market. Efficiency-seeking FDI attempts to produce in as few countries as possible, with each one having advantages in terms of location, endowment and government incentives. Strategic-asset-seeking FDI, on the other hand, locates in a place in order to take advantages of what is available in terms of research and development and other benefits (Ajayi S., 2006:15).

FDI brings much needed physical capital, new technology, managerial and marketing talents and expertise, international best practices of doing business as well as increased competition. These resources may have the potential to be diffused into indigenous firms thereby creating more innovation and productivity growth. FDI contributes more jobs to the local economy by directly adding new jobs and indirectly when local spending increases due to purchases of goods and services by the new increase in employees. All of these, in turn, are expected to have positive multiplier effects for an economy.

The most important determinants of FDI location are institutions and agglomeration economies that override the importance of other economic variables. I also find that a region's FDI is motivated by abundance of natural resources and labour cost. Poor quality of the bureaucracy is found to be a deterrent to foreign investors as they conceive it as a high transaction cost that directly affects the profitability of their investment projects.

(Ajayi S., 2006:47) suggest that "the location determinants are classified into three categories: the first is country-specific advantages such as low-cost labor, large domestic market, skilled labor

force, adequate infrastructure and proximity to the Western European markets. The second are institutions, macroeconomic policy and other policies that facilitate business-operating conditions. The third is the persistent pattern of FDI driven by agglomeration economies. A similar argument is made with respect to the rule of law, which was also found to be an important determinant of FDI in transition economies. Furthermore, foreign investors prefer transition countries that are more open to trade and with fewer restrictions on FDI as the destinations of their investment. We also find that progress on economic reform (external liberalization) plays a large role.”

According to world Investment Report, (2013) the flow of FDI in the past was to developed countries. However, in 2012 for the first time ever developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows. This is partly because of the biggest fall in FDI inflows occurred in developed countries, which now account for only 42 per cent of global flows. Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend (World Investment Report 2013:1). This trend shows that developing countries have built their capacity to attract FDI from time to time.

Report on the Implementation of the Investment Policy of Ethiopia indicates that FDI inflows into Ethiopia have generally shown upward trend though with some volatility since the mid-1990s. The uneven distribution is partly a result of several large projects. The recent world economic conditions have had a negative impact on figures for 2009 and 2010. From 2003-2007, annual average inflows were \$409 million compared to just \$214 million over the 1998-2002 period (UNCTAD, 2011:30).

2.4 Linkage between FDI, Growth and Poverty Reduction

In order to investigate the relationship between FDI and economic growth, different studies have been conducted. According to Remila Kider, (2012:12), FDI was seen by policy makers with uncertainty in the past because it was believed that it may result in hurting infant domestic industries, loss of political sovereignty and deterioration of balance of payment due to the foreign investors’ excessive capital good importation and repatriation of profit. However, recently many have started to encourage FDI due to claims of its positive effects on growth. For example, according to World Bank, “FDI brings with it considerable benefits: technology transfer,

management know-how, and export marketing access. Many developing countries need to be more effective in attracting FDI flows if they are to close the technology gap with high income countries, upgrade, managerial skills and develop their export markets”(World Bank,1993). Caves, (1996) also states that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects.

In addition, there are various channels through which FDI may result in poverty reduction through indirect ways. For example, FDI serves as a source of finance for economic development. According to Juma A.M (2012), FDI has had a significant positive, economic impact on growth thus far. In addition, the coefficient of FDI remains higher than the coefficient of government expenditure in all of the regressions, and suggests that FDI is a better policy alternative to the governments’ own spending.

Africa Investor Report (2011:40) states that the welfare of countries depends in the long term, on the level of productivity performance. If improved productivity performance is associated with reducing poverty and narrowing income gaps, low-income countries need to search for ways to acquire technology. However, the existence of technological differences implies that technology and knowledge are not easily transferable between countries. Increased international exchange through foreign direct investment (FDI) is widely regarded to provide part of the solution to this challenge, although it is far from a *sine qua non* for development.

The contribution of FDI to the economy of one country will be effective if and only if there is a local capability to absorb the technology owned by the foreign company to other similar industries which potentially dictates a large scale participation of local personnel’s in the FDI companies at a critical level. This is more in cases of international joint ventures.

According to Fisseha-Tsion M. and Tsegai B. (2013), like other many developing countries, Ethiopia strongly believes that FDI has a great role in promoting and accelerating socio-economic development and thereby improving the living conditions and standards of its people. However whatever foreign Investors and the relevant foreign investment laws of Ethiopia have in reality achieved their intended objective and substantially alleviated poverty for the vast majority of Ethiopians by creation of job opportunities.

However Over the past two decades, foreign direct investment has become an important source of economic development for Ethiopia (Morisset J., and Johnson A., K.2004). The contribution of FDI in the Ethiopian economy has been hindered by different socio-economic factors. Different writers ² suggest that efficiency-seeking FDI is most likely to lead to economic growth due to the spillover of technology and know-how and introduce the idea that FDI might have different effects on growth in countries pursuing export-promoting versus import-substituting policies, and find that FDI has a higher effect on growth in export-promoting countries.

According to Weissleder L. (2009), it was acknowledged in the literature that over the last two decades, enormous efforts have been made by developing countries to attract foreign direct investment (FDI). FDI is seen as vital ingredient for the globalization efforts in the world economy. Due to change in foreign policy and investment regime post reform era, the Ethiopian economy has been experiencing a steady growth in FDI during past few years. It is commonly assumed that, by accelerating economic growth, FDI is a determining feature in poverty reduction by transforming agriculture. However, there is mixed empirical evidence regarding the relationship between FDI and growth. To promote private investment on agriculture and speed up the transformation process, utmost effort should be applied to attract foreign direct investment on commercial agriculture, especially in areas where FDI is currently small like in Livestock farming, agricultural services, fishing and agro-processing.

Foreign Direct Investment (FDI) is one of the most striking features of the global economy today. Global Foreign Direct Investment (FDI) has reached the all-time maximum level of US\$ 1,833 billion in 2007. In developing countries, FDI inflows reached its highest level ever (\$500 billion) a 21% increase over 2006 (Weissleder L, 2009). Such a high flow of FDI has a great advantage in achieving economic growth in the host countries. Especially in the developing country, FDI provides various opportunities to change the trends and structure of the host country. The contribution of FDI to the development of a country are widely recognized as filling the gap between desired investments and domestically mobilized saving, increasing tax revenue and

²Geda, A. Atnafu G. Meskel, Impact of China-Africa Investment Relations: Case Study of Ethiopia: IAES Working Paper Serious NO. A04/2011, Institute of African Economic Studies. Addis Ababa.

UNCTAD (2006), world investment report: FDI from developing and transition economies, implications for development, United Nations New York and Geneva.

improving management and technology. Given the low domestic savings rate, coupled with the general lack of access to international capital markets, both official assistance and FDI are of great importance to Sub-Saharan African (SSA). It has been reported that development assistance to Sub-Saharan Africa declined from US\$17 billion in 1990 to US\$ 10 billion. Given this, FDI the most important alternative source of foreign capital for these African countries (Astatike and Hirut, 2005). FDI also has the added dimensions that it may serve to transfer technology to the host country, as well as to offer avenues for job creation in areas of which unemployment often remains high(Bennett, 2005).

The Governments in developed and developing countries have exerted great efforts to attract FDI in their domestic economies. They expected benefits of FDI, such as an increase in the supply of capital and promotion of technology spillover will accelerate the development of domestic firms and raise the welfare of the entire country. In this regard, FDI is particularly important for developing countries since it provides access to resource that would otherwise be unavailable to these countries. Due to these benefits of FDI, many developing countries are now actively seeking foreign investment by taking measures like economic and political reform design to improve their investment environment. Further, the changing stance towards FDI has also given rise to a proliferation of investment promotion agencies, special economic zones and other targeted mechanisms by which African countries aspire to attract foreign investors (OECD, 2005).

2.5 Investment Promotion of Ethiopia

Acknowledging that the EIA may be limited by funds or availability of skilled personnel needed to open representative offices in targeted FDI home countries, the IPR recommended leveraging Ethiopian embassies by having commercial attachés visit targeted investors. The EIA has indicated that, although an interesting proposition, this is a relatively low priority. However, some training has been occasionally provided for diplomats by the EIA management. The latest training occurred in 2013.

Each embassy has a Department of Business, Trade, Investment and Tourism. In addition to working with embassies, the EIA relies on high-level government officials and delegations to promote Ethiopia as an investment destination (Report on the Implementation of the Investment Policy Review Ethiopia 2011: 9). Even if this relation is accepted as procedure to attract FDI investment from other countries, there is a quality problem because of the lack of full information, and they have not direct contact and reporting system between EIA and other Ethiopian Embassies.

2.6 One –Stop Shop Service

The concept of a one-stop shop (OSS) came into fashion as a vehicle to deal with administrative barriers and so improve the investment policy environment. The concept of an OSS is very interesting. The basic idea is that an investor would only have to be in contact with a single entity to obtain all the necessary paperwork in one streamlined and coordinated process. The most outstanding and well-known examples include the Economic Development Board of Singapore, the Malaysian Industrial Development Authority, and the Industrial Development Authority of Ireland.

But most important, other ministries and agencies fear that the creation of such an OSS would result in curtailing their authority and mandate. Thus, they quickly lead to intensive turf battles within the government bureaucracy. Without the necessary political support, OSSs have proved to be more a “one more stop” because investors have to interact with one more entity in the process of implementing their projects (Sader F. 2003:44).

An IPA, being the point of first contact and gate of entry for many investors, seems to be the most appropriate candidate to tackle these issues. During the 1980s, the concept of a one-stop shop (OSS) came into fashion as a vehicle to deal with administrative barriers and so improve the investor policy environment. The concept of an OSS is very appealing. The basic idea is that an investor would only have to be in contact with a single entity to obtain all the necessary paper work in one streamlined and coordinated process.

Yet these successful OSSs are exceptions rather than the rule around the world. Practically, all governments that have tried to implement OSSs have encountered considerable resistance by the various government agencies responsible for the administrative procedures.

Finally, the approval process for investments implementation in Ethiopia has been expedited recent proclamation No.769/2012 Art 30/5 legislation enables one-stop shop for investment approvals. Together with pre-approval and post-approval services to foreign investors (facilitation and aftercare services), foreign investors can expect to obtain necessary approvals, within hours.

2.7 Benefits of Foreign Direct Investment

Recently the debate on the expansion of FDI is an issue among the academicians, politicians and the community at large. There is a mixed view whether the investment brings meaningful benefit to the local community or not.

The Governments in developed and developing countries have exerted great efforts to attract FDI in their domestic economies. They expected benefits of FDI, such as an increase in the supply of capital and promotion of technology spillover will accelerate the development of domestic firms and raise the welfare of the entire country. In this regard, FDI is particularly important for developing countries since it provides access to resource that would otherwise be unavailable to these countries. Due to these benefits of FDI, many developing countries are now actively seeking foreign investment by taking measures like economic and political reform design to improve their investment environment. Further, the changing stance towards FDI has also given rise to a proliferation of investment promotion agencies, special economic zones and other targeted mechanisms by which African countries aspire to attract foreign investors (OECD, 2005).

The investment inflow increases capital in the developing world, enhances infrastructures expansion, creates more jobs and skill, increases the availability on domestic food supply, increases access to market and foreign exchange reserve and these contributes to “sustained” and “broad based development” According to World Bank, (2010), foreign direct investment has the following benefits:-

Increasing domestic savings: African countries have low savings rate thereby making it difficult to finance investment projects needed for accelerated growth and development. FDI can fill this resource gap between domestic savings and investment requirements.

CHAPTER THREE

3. Research Methods

3.1 Research design

This study examines the implementation of Manufacturing FDI by focusing on Addis Ababa city administration & Oromia National Regional state of Ethiopia. In this section, a description of the research site, data collection, a discussion of data collection methods, research relationships are presented, data resource and addressed briefly.

3.1.1 Research settings

The study area is Addis Ababa City Administration and Oromia National Regional State as shown in figure 2 below. Both quantitative and qualitative methods of data analysis are used. This paper is entirely based on primary and secondary data. Data are mainly collected based on primary and secondary sources from the Ethiopian Investment Agency (EIA), the Oromia National Regional State Investment Commission, the Addis Ababa City Administration Investment Agency for their respective regions, the United Nations Conference on Trade and Development (UNCTAD) have also been used.

Figure 3-0-1 Location of the Study Regions on the Map of Ethiopia



3.1.2 Data Collection Methods

In this study data collection methods are selected to generate data in order to make sense of the problem of investment implementation in the regions. The expectation here is mainly to observe the activities of the investment in these two regions. The primary methods of data collection are questionnaires, interviews, group discussion and observation. Secondary methods of data collection are document analyses (such as, reports and other publishers) are used.

A. Interviews

The first set of groups of participants including the governmental officials and experts was selected based on the availability and relevance to the purpose of the study. These participants are expected to know the main problem of investment implementation. The second groups of interviewees' were experts selected from Addis Ababa city Administration, Oromia National Regional State and EIA who give investors services on day to day basis. The third group of interviewees was five investors who were selected from Addis Ababa city Administration, and Oromia Regional State whose project status was at pre-implementation Phase, The total numbers of interviewee's were 7, 9, and 5 from government officials, experts and investors, respectively. Investors in the pre implementation phase were selected by their availability, because it is impossible to get investors in this phase.

B. Questionnaires

Primary data were also collected using questionnaire survey. These questionnaires were formulated in such a manner that enables to receive an independent response from Investors and Experts. Two types of questionnaires were used. The first type of Questionnaire was for investors. The second type was for experts' who work at all levels of investment facilitation services. The questionnaires were distributed to manufacturing firms in Addis Ababa City Administration and Oromia Regional State as a study area. The investment projects were selected purposely from those engaged in manufacturing industries. In this study, the questionnaires were distributed to 248 owners/managers from foreign manufacturing industrial projects which were at both the implementation and operation phases, and to 32 experts from government investment facilitations service providing institutions.

C. Document Analysis

Documents are used to support evidence available from other sources (Yin, 2003). Investment annual report, reference books and other relevant documents were analyzed which the researcher believed to have a role in relation to investment implementation. In order to manage the data properly, each document separated and logged by type. Accordingly, data was pulled out from such categories of documents whenever necessary for analysis.

D. Observation

Investment project site were visited to observe how the investment policy is implemented at project level. Moreover, the researcher had a comparative advantage of observing discussions on implementation problems during meetings of regional government investment Agencies officials & experts. The activities and conversations in different workplaces were also observed and recorded.

E. Focus Group Discussion

The researcher uses Focus groups discussion, which is effective for capturing information about social norms and the variety of opinions or views within a population. The richness of focus group data emerges from the group dynamic and from the diversity of the group. Participants influence each other through their presence and their reactions to what other people say. Because not everyone will have the same views and experiences. This is also because of differences in age, gender, education, and access to resources, and other factors.

As describe above from the expected local leaders and experts (52 and 16 respectively) the researcher addressed only 41 local leaders in four focus groups from four Town administrations³ and 12 experts in one focus group. The local leaders are selected by the involvement of their respective institution to facilitate the investment projects in the day to day activities.

³(Gelan, sululeta, sebeta, Burayu).

3.1.3 Research Relationship.

After defending the proposal and incorporating comments from readers and adviser, data collection instruments were prepared. These instruments including interview, questionnaires, documentation and group discussion were tested for instrument reliability by showing to a knowledgeable person and the feedbacks incorporated to improve the instrument. After testing the reliability of all instruments, the next duty was getting permissions to the sites. To do so, support letters were collected from the university and submitted to the concerned bodies of study areas. After getting permission from the officials of the respective study areas, participants were selected and contacted to achieve informed consent. Questionnaires were distributed to and collected from investors by the help of staff members of EIA at project level. Data collection using Interviews, document analysis and group discussions was carried out by the researcher himself.

Since the research design employed both qualitative and quantitative method, it was possible to cite some basic procedures. The list of all projects and their respective owners; governmental offices, and their respective officials and experts were communicated and consulted. Similarly, the different workplaces were identified and listed. Participants were selected both from government offices and individual investors.

The researcher had given training to the data collector on data collection techniques, how to keep the quality of information and its completeness. During data collection, the researcher has done critical supervision and data collection works to make understand how data collector was handling the questionnaires. The filled questionnaires were checked for completeness, accuracy, clarity, consistency on a daily basis until the data collection work was completed. Finally the whole collected data were cross checked for reliability before going to the data analysis processes.

3.1.4 Ethical Consideration

The researcher has conducted the study by taking all ethical standard of a research in to consideration. Participants of the study were first briefed about the purpose of the research and were asked for their informed consent to be involved in the study. The issue of confidentiality was also assured to the participants of the study and implemented accordingly. Respondents were also informed that they could disagree to participate in the study, if they chose to stop, at any time.

In addition to this, ethical considerations were kept while doing the research endeavors. Specifically, while doing this research, there were no persistent procedures. The purpose of the study was explained to the study subjects and official letters were written from the Center for Federal Studies to the respective manufacturing industries and other governmental organizations. Informed consent had been secured from each respondent. Those investors who participated in the study were informed that the information they provided would be confidential and that their identities remain anonymous.

3.2 Sampling

3.2.1 Sampling Strategy

The study used Non probability sampling technique as a major sampling method. Purposive sampling technique is employed to select participants of the study. The research site for this study is the Addis Ababa City Administration and Oromia Regional state with a total of 80% of FDI of the country (EIA ten years report, 2004-2012). These regions were chosen from the whole regional states and two city administration of the country. The first reason why Oromia and Addis Ababa City Administration were chosen is because of the fact that more FDIs are accumulated in these regions which gives the opportunity to investigate the very important problem which appears to be also around this region. The most recent ten years significant FDI data are selected because, it is will managed and administered properly by identifying the real investment projects with their status and performance appropriately.

The second reason was that since the researcher used to be familiar with the investment sector, data collection was not a problem and hence the researcher worked together with the relevant experts in workplaces without disturbing the natural setting of the investment activity. Moreover, the researcher created smooth relationships with the participants. Another reason was that these regions were accommodating a very important sector of investment-manufacturing - a priority area of the government for achieving the GTP targets.

3.2.2 Sample Population

The target population of the study included 656 Investors (implementation and operational phase), and 64 professional experts and government officials (from Investment information and Promotion department, Manufacturing Projects Facilitation and Aftercare department of the EIA; two regional investment offices (Addis Ababa City Administration investment Agency and Oromia National Regional State Investment Commission); and other investment service rendering federal government offices. Moreover, 60 local leaders and community members (15 woreda cabinet members related to investment activities from each 4 Town Administrations of Finefine special zone of Oromia (Gelan, sululeta, sebeta, Burayu), are also included. This made it possible for the researcher to determining the sample size Investors who engaged in manufacturing industries, professional experts and local leaders and community members (656, 64 and 60) respectively. The total number of target population was seven hundred eighty. Out of this, 253 Investors, 55 professional experts and officials and 52 local leaders and community members are taken as samples for this study.

Table 3-1: [Participants with Types and Responses](#)

No	Data Collection Methods	Officials/experts		Investors		Local leaders		Total	
		Sample size	Collected response	Sample size	Collected response	Sample size	Collected response	Sample size	Collected response
1	Interviews	16	16	5	5	=	=	21	21
2	Questionnaires	32	27	248	209	=	=	280	236
3	Focus Group Discussion	16	12	=	=	52	41	68	53
Total		64	55	253	214	52	41	369	310

As can be shown in the above table 3.1 from 780 target population the researcher expected to addressee 369 participants by different engagements (Interviews, Questionnaires and Group Discussion).

3.2.3 Sample Frame

The interviews and group discussions were conducted, and questionnaires administered to the total sample of 369 respondents (64, 253 and 52) from professional experts, investors, and local leaders respectively based on purposive sampling techniques because the researcher chose respondents based on their knowledge of the staff members and investors by each status of investment.

The reason why these were chosen is that they are assumed to use constantly investment policy, rule and regulation, government support, investment environment and opportunities. Investors were included because they are the ultimate sufferers of the practices of investment implementation. Government higher officials and experts participated in interviews to generate more relevant information; selected experts from different investment service render offices including EIA experts were engaged with group discussions to get more information by brain storming.

3.3 Data Presentation

This section describes the process of data analysis, which includes single-case analysis and cross case analysis. For each of the study cases; data generated through questionnaire, interviews, documents, group discussion and observation were coded based on a criteria/scheme developed for analysis purpose of each case (Miles and Huberman, 1994). Each case was analyzed according to the developed themes and their relevance to the research questions.

The data were analyzed and processed both qualitatively and quantitatively. The quantitative data generated from the survey were checked visually for completeness and then coded. Data were tabulated and classified as interactive analytical process with a discrete number of stages. The procedures, at the end of each stage, allowed discussion alternatives to be used to prepare data for a subsequent run or for refinements of the results. Depending on the prepared data, qualitative data analysis techniques were employed to analyze data collected through interviews, group discussion and observation. The data obtained through focus group discussion and direct observation were transcribed and narrated to supplement the data obtained from the survey.

The data collected through questionnaire were categorized, coding and tabulation. It was accomplished in such a way that they allowed the researcher to properly address the research questions posed in connection with investment Implementation in the Ethiopian manufacturing

Industry that used the case of Addis Ababa city Administration and Oromia regional state. The collected data were analyzed using descriptive method of data analysis such as percentage, frequency and the analyzed data were interpreted.

Local community leaders and experts participate in group discussion, government officials and investors participate with interview, the researcher typed and transcripts the most utilized data during the data analysis phase of the research, after data collection, transcripts are coded according to participants' responses to each question and/or to the most relevant themes emerging across the set of focus groups.

3.4 Profile of the Respondents

A total of 21 interviews were made with 7 government officials, 9 professional experts and 5 investors who are in the pre-implementation phase. Higher officials and investors, who were not able to face the challenges and commence implementation, participated in the interviews. The questionnaire mainly targeted the experts and investors.

In addition 280 questionnaires were distributed to 32 experts working in Ethiopian investment agency, and other investment service render government offices, 248 questionnaires to foreign manufacturing investment companies. Out of the total distributed questionnaires; 27 experts and 209 purposive sampling was employed investors responded.

From the expected 16 expert and 52 local community leaders group discussion participants, only 12 experts (from Ethiopian Investment Agency and other service render offices) and 41 local community leaders were engaged. The rationality of selecting these target groups was that they were expected to know more about the current situation of manufacturing investment in Addis Ababa and Oromia National Regional State.

Table 3-2:- Participants' Highest Level of Education

No	Types of Participants	Level of Education			
		Masters or above	B.Sc level	College Diploma and TVET level	Total
1	Government officials	4	3	-	7
2	Experts	9	27	-	36
3	Local leaders	3	23	15	41
4	Investors	50	153	11	214
Total		66	206	26	298

CHAPTER FOUR

4. Data Presentation and Analysis

4.1 Overview of the Ethiopian Investment

4.1.1 Legal, policy and institutional arrangements to attract FDI in Ethiopia

4.1.1.1 Policy Environment

At the beginning of the transition period, the new economic policy took market liberalization directives toward creation of an enabling environment to promote domestic and foreign private investment. The government has undertaken successive measures towards macro-economic and structural reform programs to stabilize the economy and deregulate economic activities, The major reforms undertaken so far include elimination of legal restriction on private investment and limiting the role of the state to selected economic activities; deregulation of labor market through issuance of new labor law; deregulation of domestic prices; devaluation of the national currency against the US dollar, liberalization of interest rate; maintaining financial stability through reduction of government budget deficit; installation of auction system to determine the exchange rate and allowing forex bureau to operate in private and commercial banks; liberalized investment code to promote private investment; and others (Ethiopia: SDPRS, 2002, pp 107).

The government overall objectives lie to increase efficient use of resource; increase the role of market and private sector in the economy; strengthen the legal and regulatory frame work and foster Ethiopia's integration into the global economy; undertake measures to upgrade the country's human capital, infrastructure and provision of basic services.

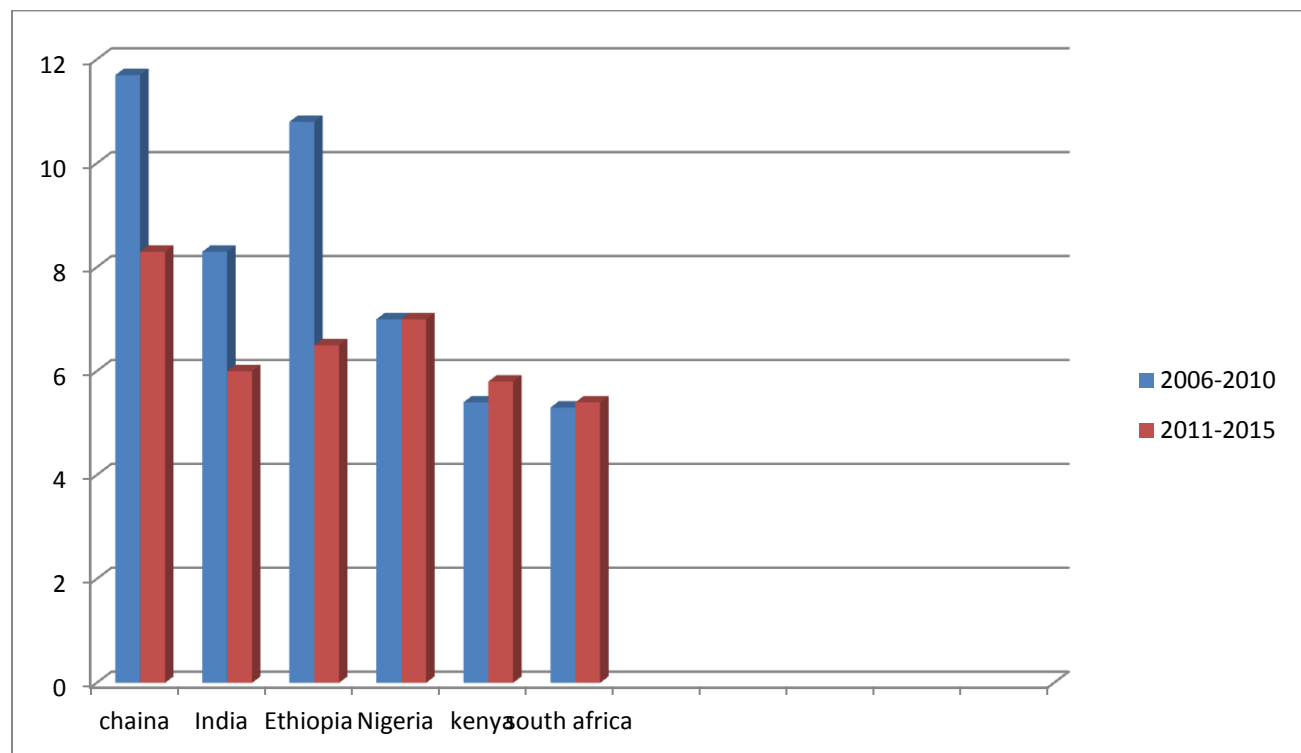
Continued economic growth and employment generation is requiring better private sector investment resulting in economic growth. Sound Government policies that provide room for private

investment and that set regulatory framework which channel private initiative in ways that benefit society as a whole (Tadesse Kuma, 2003)⁴.

It is an undeniable fact that Ethiopia has made a considerable progress in economic and social development since 1992 as a result of the implementation of favorable policies and strategies that are instrumental in improving the national economy. The Rural Development Policy and Strategy, the Industrial Development Strategy, and other sectoral policies and strategies have initiated a new push towards creating frameworks conducive to economic and social development.

Ethiopia has been one of the fastest-growing countries world-wide since 2003. The growth momentum was sustained in 2012 and 2013, although at a slower pace in the 7%, excluding oil and gas exporters, only China has outpaced Ethiopia in the last eight years (IMF, 2012).

figure 4-1 Ethiopia’s GDP Growth vs. Global Pacesetters and Regional Peers



Source: Calculations based on IMF World Economic Outlook, October 2012, and Central Statistical Agency National Accounts data.

Although forecast growth is well below the ambitious growth projections under the Growth and Transformation Plan (GTP) of between 11.2% and 14.9%, it still places Ethiopia among Africa's and the world's growth leaders over the medium term (Ibid).

Ethiopia has no one policy document with regarding to investment, Because of this no coherence and Institutional and legal frame work and no more integrated approach with different institutions, including the federal and regional government. Different institutions make their activity only according to their mission. All participants of investment facilitator governmental organizations are not making their plan by integration and not evaluate performance with regarded to the achievement of national mission. This is bottle neck for investment implementation. But the major policy issue documents are described about sectoral investment perspectives. The Rural Development Policy and Strategy, which is under implementation in the country, underlines that agriculture-led development will bring about fast economic growth, enable its people become beneficiary of economic growth, and lay solid foundation for industrial development (Rural Development Policy and Strategy 2004). The Industrial Development Strategy focuses on export manufacturing with priority given to textile and garments, leather and leather products, agro-processing, and small and micro-enterprises (Industrial Development Strategy 2004).

Other policies include the strategy of different sectoral development of the public and private investment and the participation of foreign investors, and the government activity mainly with facilitation to private investments. All main Ethiopian Government polices and strategies indicate that the private investment is used as an engine for economic, social and cultural development, FDI also important to increase the different private investment activity, which is beyond the capacity of domestic investors in the case of financial and technological capacity.

[4.1.1.2 The Legal Framework](#)

The development of modern manufacturing enterprises took place mainly in the post World War II period. The evolution of the sector falls into three broad phases: the import-substitution period which lasted from the early 1950s to 1974; the centrally planned economic system from 1974/1975 to 1991; and liberalization and market-orientation since 1991.

The historical development of FDI in Ethiopia dates back during the era of emperor Haile Selasse. Among first legal documents promulgated related to FDI goes back to 1963, the nationalization of land, house and enterprises that followed the February 1974 Revolution give little scope and played minimal role in expanding FDI in the Ethiopian economy.

However during the last days of the Durgue regime an attempt was made in 1983 to introduce an international joint venture law that allowed and encourages FDI in the Ethiopian economy. This was supported by proclamation No.235 of 1983 in which the preamble stipulated that the participation of foreign capital with Ethiopian public capital in joint venture and the transfer of technology through such participation can play a role in the realization of the objective (proclamation No.235/1983).

During the second period, private sector industrial activities, consisting mainly of SMEs, were openly discouraged through restrictive policies, including regulations and direct controls that prevented access to credit and imported inputs by private enterprises. Not surprisingly, therefore, during this phase, the number of officially registered small-scale manufacturing enterprises was reduced.

However, following the government's introduction of a mixed economy system in 1990 many believed that the Ethiopian enterprise and foreign investors could immensely contribute to the country's economy development by making available better and wider supply of goods and services and that the operation of investment activities by these sectors on the bases of expeditions conditions can greatly increase investment generally and promote the country's economic development (special Decree No.17/1990).

Since 1991, there has been significant improvement in the incentive system and the macroeconomic environment with positive implications for manufacturing activities (UNCTAD, 2002). A liberal investment code has been introduced. Domestic price controls have been removed. The financial system has been partially liberalized. Tariffs have been reduced and non-tariff barriers have been removed. A public sector reform program has also been introduced and one of its main objectives being to privatize SMEs that were nationalized in the 1970s.

All these reforms have massively improved the domestic policy environment for SMEs. In fact, the Government has gone a step further in its support for small enterprises by formulating a National Micro and Small Enterprises (MSEs) Development and Promotion Strategy. This is geographic concentration of manufacturing activity in Ethiopia. Over 70 percent of modern sector manufacturing activity is concentrated in the Capital city, Addis Ababa and the surrounding region, in particular along the Finfine Zuria special Zone of Oromia Region (UNCTAD, 2002:104).

The private investment policy has been introduced since May 1992, with the provision of entry and ownership requirements, investment incentives, labor laws, immigration rules, settlement of disputes, guarantee and protection, investment administration as well as access to land. The Government of Ethiopia, in recognition of the role of the private sector in the economy, has revised the investment law over four times for the last twenty years (1992-2012) to make it more transparent, attractive and competitive (proclamation No. 769/2012). The Transitional Government of Ethiopia (TGE) issued investment proclamation No. 15/1992 with a view to encourage, expand and coordinate investment in the country with objective to develop domestic market, wider employment opportunity, strengthen private sector both domestic and foreign investment, encourage use of domestic raw materials, to absorb foreign production technologies, etc.

Under this code, areas eligible for investment incentives were restricted to broad sectoral categories such as agricultural development, agro-processing and manufacturing; large scale capital intensive road and building construction; the development, protection and preservation of natural resources, rural transportation; as well as support machinery, and services to areas eligible for incentives. The incentives provided, were duty exemption of imported capital goods and equipment including spare parts, Proclamation 15/1992 was in force for duration of four years (June 1992 - June 1996).

The shortcomings of this proclamation 15/1992 were: lack of clarity with respect to the areas reserved for the government, Ethiopian nationals and domestic investors as well as areas open for foreign investors; the requirement for foreign investors to deposit in a blocked account US\$ 125,000 per project; lack of clarity of projects eligible for investment incentives and exclusion of education, health, tourism and construction, contracting below grade 1 from the incentive scheme;

the indiscriminate minimum capital threshold requirement of US\$ 500,000 per project for foreign investors (i.e, for wholly foreign owned, Joint Venture and engineering and technical consultancy projects;) and the exclusion of small-scale investment activities (each with an investment capital of less than Birr 250,000) from the incentive scheme.

As a result, the Investment Proclamation No. 37/1996 was issued in June 1996. The main changes introduced include: areas eligible for incentives were clearly specified and were classified into two categories (pioneer and promoted activities) reflecting their importance to the development of the national economy; education, health, tourism, engineering and technical consultancy as well as construction contracting below grade1, were included in the incentive scheme; many small-scale agricultural and manufacturing activities each with an investment capital of less than Birr 250,000 were exempted from the payment of import customs duty on capital goods; the minimum capital requirement of a foreign investor investing jointly with domestic investor(s) was reduced from US\$ 500,000 to US\$ 300,000, and minimum investment capital required of foreign investors investing in engineering or other technical consultancy services was lowered to US\$100,000; some areas of investment that were reserved for government were allowed for involvement of private investors (e.g. large scale hydropower generation above 25 MW for all private investors); and the minimum requirement for foreign investors to deposit in a blocked account US\$125,000 was removed in two years period since enforcement of Proclamation No. 37/1996 starting July 1996.

Further pro.No. 37/1996 was amended in June 1998 by Proclamation No. 116/1998 in order mainly to redefine domestic investors so as to include foreign nationals who were Ethiopian in Birth, to allow private investors to invest jointly with government in defense industries and telecommunication services as well as with the approval of the Council of Minister's, to enable the Federal Investment Board grant additional incentives other than what is provided under the Investment Incentive Regulations. In connection with this proclamation, Regulation No. 36/1998 in June 1998 also amended Reg. No. 7/1996 in order to grant additional incentives to selected activities in the education and health and to investment in telecommunication, defense industries and industrial estates. As a result of the implementation of the above mentioned policies and strategies, agricultural and industrial production, investment and export trade are growing steadily from year to year both in terms of variety and volume. (EIA Guide 2012).

According to proclamation No.280/2002.The minimum capital required of a foreign investor is US\$ 100 thousand per project. However, if a foreign investor invests in partnership with domestic investor(s), the minimum capital required of him is US\$ 60 thousand per project, and investing in areas of engineering, architectural or other technical consultancy services, accounting and audit services, project studies or business and management consultancy services is US\$ 50 thousand where the ownership fully foreign owned, and US\$ 25 thousand where the investment is made jointly with domestic partner(s). A foreign investor reinvesting his profits or dividends or exporting of at least 75 percent of his outputs is not required to allocate a minimum capital.

Now proclamation No. 769/2012 has been introduced for the encouragement and expansion of investment, especially in the manufacturing sector, to enhance and promote the equitable distribution of investments among regions, and for the establishment of industrial zones. This is meant to help to creating enabling and competitive condition, to interrelate manufacturing sectors based on value creation as well as to attract and expand investment.

Proclamation No 769/2012 amended the minimum capital required of a foreign investor, to US\$ 200 thousand per project. If a foreign investor invests in partnership with domestic investor the requirement is US\$ 150 thousand per project. The requirement for investment areas of engineering, architectural or other technical consultancy services, technical testing and analysis or publishing Work shall be US\$100 thousand where the ownership is fully foreign owned, and US\$ 50 thousand where the investment is made jointly with domestic partner(s).

Table 4-1:- Investment Laws and Regulations

Proclamation	Year	Main Issue for creation/amendment	Minimum Capital Requirement for FDI	Regulation
No. 15/92 May 1992	July 1992 -July 1996 (4years)	To encourage, expand and coordinate investment in the country with objective to develop domestic market, wider employment opportunity, strengthen private sector both domestic and foreign investment, encourage use of domestic raw materials, to absorb foreign production technologies,	minimum capital requirement :-	
			• US\$ 500,000 per project for foreign investors	
			Deposit in a blocked account US\$ 125,000 per project	
			Small-scale investment activities (capital of less than Birr250,000) on the incentive scheme.	
			• No clarity with respect to the areas reserved domestic investors as well as areas open for foreign investors.	
			• No clarity of projects eligible for investment incentives,	
No. 37/1996 • June 1996	July 1996 -July 1998 (2years)	<ul style="list-style-type: none"> • Introduced areas eligible for incentives were clearly specified. • many small-scale agricultural and manufacturing activities each with an investment capital of less than Birr 250,000 were exempted from the payment of import customs duty on capital goods; • To redefine domestic investors so as to include foreign nationals who were Ethiopian in Birth, 	minimum capital requirement :-	Reg. No. 7/1996
			➤ Foreign investor US\$ 500,000	
			➤ Jointly with domestic investor US\$ 300,000, ➤ engineering or other technical consultancy services was lowered to US\$100,000;	
			• Some areas of investment that were reserved for government were allowed for participation of private investors (e.g large scale hydropower generation above 25 MW for all private investors);	
			• blocked account US\$125,000 was removed	

			<p>distribution of investments among regions , for the establishment of industrial zones helps by creating enabling and competitive condition</p> <ul style="list-style-type: none"> • To interrelate manufacturing sectors based on value creation as well as to attract and expand investment. 	<ul style="list-style-type: none"> ➤ Engineering or other technical consultancy services was lowered to US\$100,000; for fully foreign owned, and ➤ US\$ 50 thousand where the investment is made jointly with domestic partner(s). ➤ A foreign investor reinvesting his profits or dividends, and exporting of at least 75 percent of his outputs is not required to allocate a minimum capital. 	
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4.1.1.3 Institutional Arrangements of investment

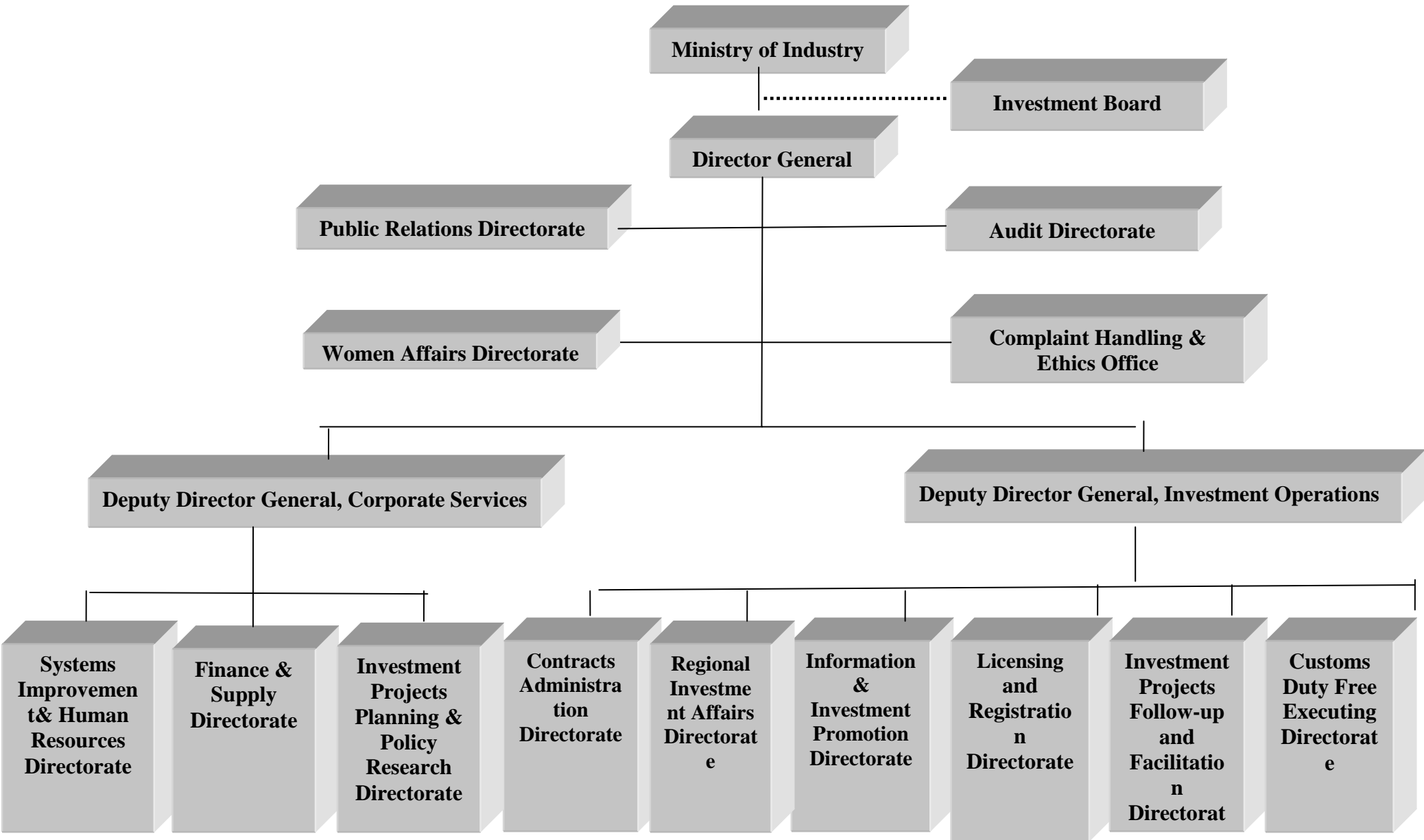
The Ethiopian Investment Agency (EIA) is an autonomous government institution accountable to the Investment Board. The Board is chaired by the Minister of Industry. The EIA is headed by a director general who is also member of the Board. The EIA has restructured itself recently with a view to promoting more FDI and improving the services it renders to investors. The major activities of the EIA and the one-stop-shop services it renders to foreign investors are the following:

- promoting the country's investment opportunities and conditions to foreign and domestic investors;
- Issuing investment permits, work permits, trade registration certificates and business licenses;
- Registering technology transfer agreements and export oriented non-equity-based foreign enterprise collaborations with domestic investors;
- Negotiating and, upon government approval, signing bilateral investment promotion and protection treaties with other countries;
- Advising the Government on policy measures needed to create an attractive investment climate for investors; and
- Assisting investors in the acquisition of land, utilities, etc., and providing other pre and post-approval services to investors.

Regional government has also mandated to promote and support domestic investors, they have the same responsibilities to implement investment, and the structural arrangement of institutions is made according to the regional state investment activities. Article 40(3) of the Constitution of the Federal Democratic Republic of Ethiopia (FDRE) declares that “The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange” (Constitution of FDRE, 1995).

Article 51 of the Constitution provides that regional governments have the duty to administer land and other natural resources according to federal laws. Regional states are mandated for the administration of rural lands in their respective regions.

Figure 4-2 Ethiopian Investment Agency Organizational Structure



The promotion of FDI is made by federal government, but the land provision is made by regional government and the provision of government of utility, other support and services is provided by both level of government with negotiation. FDI in Ethiopia is implemented by the collaboration of federal and regional government, but this intergovernmental relation between regional and federal government is not governed by formal regulation in an integrated way.

4.1.1.4 National Regional state and City Administration Institutional Arrangements of Investment,

Nine National Regional State Government and Two City Administration (Addis Ababa and Deredewa) Institutional arrangements of investment are different according to the volume of total FDI inflows and regional domestic investment. This difference is reflected on the name of institution as well as the number of workers and other resources allocated to these activity shown in table 4.2 below. Regional Government State Investment offices employed on domestic investment, But EIA has responsibility to foreign direct investment and also for all domestic investments that engaged in multiregional activity.

Table 4-2:- The Different Name of Regional Investment Institutions

Name of Regional Investment Institutions				
	Commission	Bureau.	Agency	office
	Oromia Investment commission	Amhara NRS Trade, Industry and Investment Promotion Bureau.	Addis Ababa City Administration investment Agency	Harery NRS Investment, minerals and energy office
		Dire-dawa City Administration Industry, and Investment Bureau	Somalie NRS Investment Agency	
		Afar NRS Trade, Industry, Transport and Investment Promotion Bureau.	SNNP NRS Investment Agency	
		Tigray NRS City Development, Trade and Industry Bureau.	Gambela NRS Investment Agency	
			Benshangule Gumuze NRS Investment Agency	

Source:- Ethiopia Investment Agency,

4.1.1.5 Key Stake holders of Ethiopian Investment Agency.

One cannot think of investment promotion and facilitation to be carried out by a single institution disregarding the involvement of others that have, one way or another, visible stakes. The very nature of investment unquestionably calls for harmonized participation of stake-holders alongside the front-running institution. In view of this, the efforts of EIA require close coordination and active engagement of investment institutions in regional governments, the Ministry of Foreign Affairs, Ethiopian Revenue and Customs Authority (ERCA), the Ministry of Environment and Forestry, the Ministry of Agriculture, the Ministry of Trade, the Ministry of Industry and institutions accountable to it, the National Bank of Ethiopia, the Development Bank of Ethiopia, and other relevant ministries and agencies, among others. The Ethiopian Chamber and Sectoral Associations (ECSA) and its counterparts are definitely close partners from the private sector.

Consequently, there is the National Export Promotion Coordinating Committee, chaired by the Prime Minister and where members include ministers and pertinent officials of government institutions. The main purpose of this national committee is to encourage existing investment ventures and facilitate conditions for production of export items thereby resolving production obstacles. The same is true for the National Economic and Business Diplomacy Coordinating Forum for trade and investment promotion and facilitation activities where a lion's share coordination is played by the Ministry of Foreign Affairs and other relevant stake-holders. The Forum is engaged in paving the way for effective investment attraction by way of creating improved investment climate and environment thereby resolving hurdles. Both these crucial consortia are being in existence by official communique rather than legal statements (proclamations, regulations, decrees and/or directives).

4.2 Data Presentation and Analysis;

Ethiopia, with an estimated population of over 83million (CSA) is the second most populous country in Sub-Saharan Africa next to Nigeria with 50% of workable age group. It is endowed with several agricultural, mineral, and other natural resources. Ethiopia also has one of the world's largest livestock populations. It is used as resource for agro processing industries. Although its recent economic growth performance has been noticeable, Ethiopia is still at a low-level of social and economic development.

However it is widely acknowledged and accepted that over the past twenty years, foreign direct investment (FDI) has come to play an increasingly important role in the economic development of Ethiopia. It is argued that FDI can offer important advantages for the recipient economy. In addition to capital inflows, FDI can lead to transfers of technology and know-how, improve access to international markets and spur competition.

According to 2012/13 annual report, consumption has registered about 82.3 % of GDP and domestic saving has been 17.7% of GDP, but the rate of Investment has reached 33% of GDP (MOFED, 2013). This shows that the gap between investment and saving in Ethiopia is very wide due to low level of income and domestic savings. Realizing the inadequacy of the domestic capital, the country has opened several economic sectors to foreign investors.

According to MoFED (2012), Ethiopian economy witnessed sustainable double digit broad based growth was 11.4 percent moderately higher than the year earlier. Ethiopia's economy is based on agriculture, which accounts in 2010/11, for about 41.10 percent of the growth domestic product (GDP), 90 percent of foreign currency earnings, and 85% of employment. Generally, the overall economic growth of the country has been highly associated with the performance of the agriculture sector.

4.2.1 Sectoral Distribution of Investment in Ethiopia:

The industrial sector, which mainly comprises small and medium enterprises accounts for about 13 percent of GDP. Similarly, the service sector comprised of social services, trade, hotels and restaurants, finance, real state, transport and communication etc. accounts for about 46 percent of GDP.

Real GDP grew by an average of 10.4 percent in year 2010/11, which places Ethiopia among the top performing economies in Sub-Saharan Africa despite world economic meltdown and global financial crises. All sectors contributed this relatively high economic growth. Accordingly, agriculture, industry and services grew by an annual average of 9, 15 and 12.5 percent. GDP by Major Industrial Classification at Constant Basic Prices is about US\$ 559 (MoFED 2013) The Ethiopian economy is structurally dominated by agriculture and related activities. Over 90 percent of the export earnings come from agriculture and related activities including coffee, pulses, and oil seeds.

Table 4-3:- GDP by Major Industrial Classification at Constant Basic Prices (Billions Birr) (2003 EFY Base year series).

Sector	2010/11	2011 /12	2012 /13
Agriculture	212.5	222.9	238.7
Industry	49.8	58.3	69.1
Services	207.2	229.1	251.8
Total	469.4	510.3	559.6

Resource:- MoFD 2013 annual report.

Economic progress until the beginning of the decade has not been satisfactory. GDP grew by 4.56 per cent between 1991/92 and 1999/00, by 6.22 per cent between 2000/01 and 2004/05, and 11.01 per cent between 2005/06 and 2009/10 (MoFED 2013).

According to the overall policy direction of the government indicated in the proclamation No. 769/2012 the government needs foreign investment for the encouragement and expansion of investment, especially in the manufacturing sector, has become necessary so as to strengthen the domestic production capacity and thereby accelerate the economic development of the country and improve the living standard of its people.

when we show the total investment as a National level which is registered by EIA and other regional investment offices, the share of manufacturing investment is not increase more than 23% , even though the past 20 years of total investment, as shown below in table 4.4 indicated that the contribution of manufacturing investment is insignificant, which implies that more attention for the attraction of manufacturing investment other than Agricultural and service sectors,

Table 4.4 Sectoral distribution of FDI In Ethiopia

Summary of Licensed All Investment Projects By Sector and Status Since January 01, 1992 - September 17, 2013 G.C																
Sector	Implementation				Operation				Pre-Implementation				Total			
	No of Projs	Capital in '000' birr	Perm Empl.	Temp Empl.	No of Projs	Capital in '000' birr	Perm Empl.	Temp Empl.	No of Projs	Capital in '000' birr	Perm Empl.	Temp Empl.	No of Projs	Capital in '000' birr	Perm Empl.	Temp Empl.
Agriculture,	598	105,509,781	91,731	391,275	1,579	14,563,177	78,267	550,213	8,520	133,188,425	468,787	2,191,076	10,697	253,261,384	638,785	3,132,564
Fishing	4	105,575	163	202	2	4,458	501	0	26	195,273	2,395	3,061	32	305,306	3,059	3,263
Mining and quarrying	24	410,802	1,406	981	37	518,466	1,976	573	169	1,995,603	6,356	5,858	230	2,924,871	9,738	7,412
Education	120	1,714,284	8,597	3,597	353	2,726,378	14,996	5,351	1,799	16,001,951	83,494	39,602	2,272	20,442,613	107,087	48,550
Manufacturing	1,270	92,049,880	92,349	64,599	2,227	41,793,088	127,673	75,713	11,456	199,985,739	585,240	518,549	14,953	333,828,707	805,262	658,861
Electricity Generation,	8	5,846,906	453	400	9	2,340,397	177	91	89	165,576,029	1,561	13,255	106	173,763,332	2,191	13,746
Health and social work	142	3,123,909	9,822	3,106	132	1,136,815	4,890	2,409	824	13,568,843	35,258	20,559	1,098	17,829,567	49,970	26,074
Hotels and Restaurants	382	3,789,366	14,583	12,733	367	2,464,368	10,811	4,993	4,806	69,516,682	164,572	156,703	5,555	75,770,415	189,966	174,429
Tour Operation, Transport and Communication	137	908,316	1,898	1,064	162	3,589,178	9,072	1,112	1,516	7,862,019	19,323	19,222	1,815	12,359,513	30,293	21,398
Real estate, Machinery and Equipment Rental Service	363	5,612,722	8,467	7,509	1,376	10,887,594	21,944	16,911	17,767	152,912,506	287,144	276,182	19,506	169,412,822	317,555	300,602
Construction Contracting Including Water Well Drilling	172	78,970,379	21,503	68,123	239	7,216,045	26,039	36,413	5,665	70,833,225	158,644	596,804	6,076	157,019,648	206,186	701,340
Wholesale,	61	322,390	1,213	999	111	1,091,936	2,732	6,065	1,267	6,550,077	28,347	23,323	1,439	7,964,402	32,292	30,387
Others*	31	132,894	940	960	23	138,581	795	247	698	4,072,184	39,462	58,148	752	4,343,659	41,197	59,355
Grand Total	3,312	298,497,203	253,125	555,548	6,617	88,470,482	299,873	700,091	54,602	842,258,555	1,880,583	3,922,342	64,531	1,229,226,239	2,433,581	5,177,981

* Includes Recreation and Gymnasium Center, Training Of Media, Photography and Entertainment Courses etc

4. 2.2 Regional distribution of FDI in Ethiopia.

In terms of regional distribution of FDI, all regions have received foreign direct investment. But Addis Ababa and Oromia stood first and second in terms of foreign investment approvals. According to Ethiopian Investment Agency Report (2004 - 2013), from the total 2143 registered Manufacturing Foreign direct investments projects, 1829 (81.6 %) are only in Addis Ababa and Oromia ; 153 projects or (6.3 %) are in Amhara, SNNPR, Tigray and Deriedewa; 20 projects (0.5 %) are in Benishangul-Gumuz, Somali, Afar, and Gambela; and the other 382 projects (11.3 %) are multi regional projects⁵. Hence only the two regions received 82 % of FDI.

According to the Ethiopian investment agency 10 years report, the flow of FDI to Ethiopia has been unevenly distributed among the various regions. Even though the incentive system encourages foreign investors to invest in the developing regions (Gambella, Afar, Somali and Benishangul-Gumuz) of the country by providing special benefits including more tax holiday exemptions which allowed to import more vehicles without customs duty and provision of land with small amount of charge, their performance in attracting FDI is very poor.

The availability of infrastructure, nature and quality of land, trained manpower, market accesses and accesses to raw materials influenced the distribution of FDI across regions. As shown in the table 8 below, Oromia Region has attracted 822 FDI projects with respect to the amount of projects invested. This is, of the total FDI registered manufacturing projects in Ethiopia during 2004-2013, 32% of the projects were in Oromia. This may be due to the region's 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.

The various incentive packages designed by the government could not change such kind of unbalanced distribution of manufacturing investment. Such situation aggravates the existed regional inequality which may hamper the future sustainable development of the country. In these regard, the government must work aggressively on infrastructural development in emerging regions. Designing incentive packages only may not be the solution to regional FDI variation in the manufacturing sector.

⁵ multi regional projects are an investment project that established to serve for more than one region

Table 4-5- Manufacturing Licensed FDI Projects, Estimated Capital and Expected Employment Opportunities by Region of Investment Since 01, January 2004 – 31, December 2013.

Region of Investment	Pre-Implementation		Implementation		Operation		Total	
	No of projects	Capital in '000' Birr	No of Project	Capital in '000' Birr	No of Projects	Capital in '000' Birr	No of Projects	Capital in '000' Birr
Addis Ababa	621	17228384	97	2634294	289	3285787	1007	23148465
Afar	7	994550			2	1800	9	996350
Amhara	43	22885828	20	17083695	12	5728609	75	45698132
B.Gumze	1	1740					1	1740
Dire Dawa	17	2510196	8	15923332	2	21856.47	27	18455385
Gambella	2	6220	1	3044803			3	3051022.5
Harari	3	741900	1	1500	1	2500	5	745900
Multiregional	51	1306576	27	3864756	63	2084797	141	7256128.5
Oromia	552	47074810	127	30686878	143	16186712	822	93948400
SNNPR	23	1476226	1	141810	5	1014707	29	2632742.2
Somali	1	2300	1	10000			2	12300
Tigray	10	550309.5	5	1167616	7	370950.8	22	2088876
Grand Total	1331	94779039	288	74558683	524	28697719	2143	198035441

source:- Ethiopian Investment Agency 10 years report.

But all policy changes gave equal opportunity of FDI in all sectors. There was no special proclamation or regulation to enhance the FDI in the manufacturing sector especially with regards to accesses to land and power. Such situation enables all investors to involve in service and agricultural sector around the capital city or main city. It is hard to invest without much incentive in the areas where infrastructure is very poor.

When investors were asked to rank the top five location factors influencing new site selection, the factors cited most often were: Infrastructure access is the leading concern for in site selection (81% of respondents), followed by accesses to land (79%), market access (ranked in the top five by 77 % of respondents) followed by stable social and political environment (64 %), reliability and quality of infrastructure and utilities (50 %). There is little difference in priorities based upon the location of headquarters or the sector of operation, with the exception of the relative importance manufacturing companies place on access to raw materials and service companies place on national taxes.

4.2.3 Inflow of FDI

As shown in the table 4.6 below, data collected from Ethiopian Investment Agency (EIA) between 2004 and 2013, investment attraction for Ethiopia is not the main problem since the number of approved FDI in manufacturing sector increased from 88 in 2004 to 492 in 2013, which was 22% of average annual development.

During the study period as shown in the table below, the implementation (operational rat) of FDI project has declined from 59 percent in 2004 to (30, 12, 16, and 14 percent) in 2009, 2010, 2011, and 2012 respectively. This shows that the implementation of investment or conversion rate of investment did not improve more than 18% by average. Further, the study revealed that FDI provides 85 thousand employment opportunities and 28.6 billion birr capital investments only from manufacturing operational 10 years investment.

As stated above, the operational projects of FDI is not more than 18%. Because of this, the actual percentage of operational projects is only 14% compared with the number of licensed projects and the percentage of permanent job created within ten years compared with the expected number of employment opportunities are only 24%. The types of projects were mainly agro processing industries. This shows that Ethiopia could not properly use the job opportunities created by investment projects. Hence, more in depth study has to be made

**Table 4-6:- Active Manufacturing Licensed FDI Projects with Estimated Capital and Expected Employment Opportunities by Year
Since 01, January 2004 – 31 December 2013 (G.C)**

Year (G.C)	Pre-Implementation				Implementation				Operation				Total			
	No of roj.	Capital in 000' Birr	Perm Empl.	Temp Empl.	No of roj.	Capital in 000' Birr	Perm Empl.	Temp Empl.	No of roj.	Capital in 000' Birr	Perm Empl.	Temp Empl.	No of roj.	Capital in 000' Birr	Perm Empl.	Temp Empl.
2004	26	77627.1	445	542	10	372904.4	935	556	52	1103297	3179	1018	88	1553828.9	4559	2116
2005	35	1119343	1756	1297	8	372646	592	573	55	646781.9	3736	2500	98	2138770.7	6084	4370
2006	37	1339219	6162	16341	30	22691761	6120	2850	69	6758082	7809	4318	136	30789062	20091	23509
2007	46	784763.4	2700	2571	35	1340485	2102	3058	79	1125819	4213	3487	160	3251067	9015	9116
2008	58	1839617	6456	7919	57	15511438	7758	9519	87	2447995	8618	4588	202	19799049	22832	22026
2009	93	3613416	6515	3837	45	16180373	6661	5541	61	6631682	17583	5488	199	26425471	30759	14866
2010	205	8411195	11810	13724	78	11032984	6938	8741	42	2715941	2969	2038	325	22160119	21717	24503
2011	156	14047746	11618	8445	23	7053002	3785	5084	35	5474400	3642	5054	214	26575148	19045	18583
2012	249	31703441	24817	18034	2	3090	30	7	41	1544181	2497	1982	292	33250712	27344	20023
2013	426	31842672	62247	22881					3	249540	420	34	429	32092212	62667	22915
Gr. Total	1331	94779039	134526	95591	288	74558683	34921	35929	524	28697719	54666	30507	2143	198035441	224113	162027

Source: - EIA 10 years report.

4.3 Factors for Success or Failure of FDI in Ethiopia

4.3.1 Opportunities to Invest in Ethiopia

Main Investment Sectors;

a. Agriculture and Agro-processing - New private investment is sought in the production and processing of agricultural crops. The major food crops grown are cereals, pulses and oil seeds. A broad range of fruits and vegetables and cut flowers are fast-growing exports. Coffee, cotton, tobacco, sugarcane, tea and spices are the main commercial cash crops grown in Ethiopia. Investment opportunities for introducing modern commercial livestock breeding and processing into the largest livestock population in Africa (cattle, sheep and goats), plus significant fresh water fishery and livestock resources are available. Investment is also required in the provision of agricultural support services such as pest and disease control, agricultural machinery, cold storage, etc. A number of crops are grown organically.(EIA guide 2013: 4).

b. Manufacturing: The major manufacturing activities are in the production of food, beverages, tobacco, textiles and garments, leather goods, paper, metallic and non-metallic mineral products, cement and chemicals. Under Growth and Transformation Plan (2010/11-2014/15) of the country, production of textile and garments, leather products, cement industry, metal and engineering, chemical, pharmaceuticals and agro-processing are priority areas for investment.

c. Tourism - Untapped tourism potential, particularly in the historic Northern route, with investment opportunities in hotels, lodges and international restaurants. Historic sites include the old capital of Gondar with its castles, the city of Lalibela and the island monasteries of Lake Tana.

d. Privatization;- Out of 350 state-owned enterprise 305 are transferred to private owner ship. The remaining 45 state-owned enterprises are identified for privatization, with 11 state-owned

enterprises already in the pipeline with in the year 2014, which are mainly in the manufacturing, agriculture/agro-industry, hotels, transport, trade and mining sectors (PPESA 2014) ⁶

4.3.2 Investment Environments

Important issues that determine the investment implementation positively or negatively in Ethiopia are:-

A. Stable Economic Environment:

Ethiopia has been able to achieve macro-economic stability, stable annual economic growth in double digits since 2003, government commitment to private sector, safe and secure working and living environments, identified by the U.N. and the International Chamber of Commerce (ICC) as key assets for investors in Ethiopia.

B. Liberalized Economy:

All major economic sectors are liberalized for investment and marketing, Remittance out of Ethiopia from invested capital (dividends and interest) is permitted, Remittance is also permitted for principal and interest payment on external loans, payments associated with technology transfer, proceeds from sales or liquidation of an enterprise, salaries and other payments, 100% foreign ownership of investment is permitted. \$200,000 minimum initial investment required from foreign investors to start a business, reducing to \$150,000 where the foreign investor is in a joint venture with a domestic partner (\$100,000 for consultancy or publishing business). This figure reduces to \$50,000 (in cash or in kind) for foreign investors working in partnership with a domestic investor in the areas of Engineering works or architectural or related technical consultancy services, technical testing and analysis or publishing (Investment proclamation No. 769/2012).

⁶Privatization and Public Enterprises Supervising Agency, annual Magazine,

Table 4-7:- Minimum capital requirement of foreign investors per project.

No.	Types of investment	Capital requirement/USD
1	Wholly owned foreign investment	200,000.00
2	Partnership with domestic investors	150,000.00
3	Areas of engineering works or architectural or related technical consultancy services.	100,000.00
4	Areas of engineering works or architectural or related technical consultancy services by Partnership with domestic investors.	50,000.00

source:- Ethiopia Investment Agency Guide (2013)

C. Security of Investment:

Government guarantees constitutional protection from expropriation. Ethiopia is a signatory to the main international investment related institutions, for example, it is a member of the Multilateral Investment Guarantee Agency (MIGA). Ethiopia is also a signatory of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Ethiopia has also concluded investment promotion and protection agreements from 28 countries⁷. In addition, the country has signed double taxation avoidance treaties with 18 countries⁸, professional one-stop-shop for foreign investment through the Ethiopian Investment Agency (Ethiopian investment guide- 2013).

D. Significant Tax Incentives:

Customs Import Duty - 100% exemption on all import of investment capital goods (plant machinery, construction materials, laboratory and work shop equipments etc.) including spare parts worth up to 15% of the imported investment capital goods; plus exemption for import of

⁷ Ethiopia has also concluded investment promotion and protection agreements with the following countries: Algeria, Austria, Belgium and Luxemburg, china, Denmark, Djibouti, Equatorial Guinea, Egypt, Finland, France, Germany, India, Iran, Israel, Italy,. Kuwait, Libya, Malaysia, Netherlands, Russian federation, south Africa, Spain, Sudan, Sweden, Switzerland, Tunisia, Turkey, united Kingdom, USA, Yemen

⁸ Ethiopia has signed double taxation avoidance treaties with: Algeria, check republic, Israel, Italy, Kuwait, France, Tunisia, Turkey, Yemen , Romania, Russian federation, south Africa,

raw materials needed for the production of export goods. Export Customs Duty - Products and services developed in Ethiopia are exempt from export tax.

E. Tax Environment:

Corporate income tax (tax on profit) is 30%, Excise tax is levied (minimum 10%) on selected local or imported products, Turnover tax at 2% for priority sectors such as tractors, combine harvesting, grain mill etc. and 10% on other sectors, Customs duty on un exempted imports ranges from 0 to 35%, Income tax ranges from 10 to 35% on monthly income of 151 Birr and above, Withholding tax is payable on imports at 3% of cost, 15% VAT is payable. Dividend tax (on income derived from dividends from a share company or withdrawals of profits from a private limited company) at 10%, Royalty tax (on income derived from technology and intellectual property rights) at 5% Capital gains tax - share of companies 30%; business, factory or office buildings 15%; residences 0%. Rental income tax (on annual rental income) between 10% and 35% dependent on level of rental income , Stamp duty - Leasing 0.5% of value; registering title to property 2% of value; contract of employment 1% salary; bonds 1% of value, etc (Proclamation No. 286/2002).

Table 4-8:- Principal Taxes currently in effect

No.	Types of Taxes	Rate
1	Corporate Income Tax	30%
2	Turnover Tax	2% and 10%
3	Excise Tax	10% up to 100%
4	Customs duty	0% up to 35%
5	Income Tax	0% up to 35%
6	Withholding Tax	2%
7	Vat	15%
8	Dividend Tax	10%
9	Royalty Tax	5%
10	Rental income Tax	10-15%
11	Export Tax	Nil (with exception of hides and skins-150%)

F. Market Access:

Ethiopia has strong internal market with second largest population in Sub-Saharan Africa at over 83 million on 2011 ([ICPS 2012 Projection Report](#)⁹). Located in the Horn of Africa at the crossroads between Africa, the Middle East and Asia, within easy reach of the major ports of the Horn, Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) embracing 19 countries with a population more than 400 million. Ethiopia enjoys the benefits of preferential tariff rates on exports to these countries (World investment report 2012).

Ethiopia is an ACP member (African, Caribbean and Pacific Group) and accession to the WTO is under negotiation. It has duty and quota free access into the U.S. (AGOA) and EU (EBA) markets. Export products from Ethiopia to the EU market are entitled to duty reductions or exemptions and are free from all quota restrictions under the terms of the Lome Convention. The trade preference accorded to Ethiopia includes duty free entry of all industrial manufactured products. Under the Generalized System of Preferences (GSP), a wide range of Ethiopia's manufactured products are entitled to preferential duty treatment in the United States, Canada, Japan and most EU countries. The large and fast growing domestic market offers good prospects for investment in the development of consumer goods industries such as food, beverages, tobacco, plastic products, soap and detergents, drugs and pharmaceuticals, paper and paper products and electrical and electronic.

H. Natural Resource Base:

Good rainfall, rich soils, and favorable temperature ranges are some of the natural resource bases of the country. Climate is identified by the U.N. and ICC as “exceptional” offering “an excellent environment for various agricultural activities.” Unexploited mineral deposits, specifically gold, tantalum, platinum, nickel, potash and soda ash, Urban and rural land are available on a leasehold basis. Lease rights over land can be transferred, mortgaged or sub-leased together with on-build facilities. Leaseholders have the right to use urban land for up to

⁹[ICPS 2012 Projection Report](#). The Government accepted this recommendations and decided to conduct an intercensal survey to assess the population of Amhara region and Addis Ababa and the Inter-Censal Population <http://www.csa.gov.et/>

60 years in Addis Ababa and up to 80 years in other smaller towns, with leasehold renewal permitted, generally the range in the country is between 50-99 years depending on purpose and location (factor cost 2013)¹⁰

I. Trainable Labor:

Ethiopia presently turns out more than 50,000 university graduates only from 31 public universities yearly, including business, management, economics, accounting, law and engineering graduates. There are 151 technical and vocational education and training schools in Ethiopia with private universities and colleges flourishing in Addis and regional cities. The average private sector wage is about \$30 per month, with graduate salaries ranging from approximately \$85 to \$105 (Factor cost, 2013).

Expatriate employees are allowed in senior positions, with prior consent from the Ethiopian Investment Agency. Expatriate experts are also permitted, as long as the investor trains his/her replacement within a designated time period.

J. Infrastructure Standards:

Air Transport: Ethiopian Airline, Africa's World Class Airline, which has gained a very good reputation internationally in its 68 years of active services, provides both domestic and international air transport services. Domestic flight services are provided through 17 destinations across the country over 63 destinations worldwide and it operates over 40 cargo destinations spread across the world. It has an outstanding safety records and is one of the few profitable African airlines. The Ethiopian Airlines has an outstanding safety record and modern fleet. Modern air cargo terminal and maintenance hangar in Addis soon to be completed.

Road Transport: Investment in road infrastructure is a high priority, with an expanding road network and international highways linking Ethiopia with its neighbors¹¹. The Government has

¹⁰ factor cost of Ethiopian , EIA yearly book 2013

¹¹International highways also link Addis Ababa and other cities and towns with neighboring countries such as Kenya, Djibouti, Eritrea, Somalia, Sudan and South Sudan.

identified the road sector as top priority for public investment and remarkable progress has been made in the expansion of the road network in the country.

In 2008/09, the total road network, excluding community roads, reached 46,812 km, out of which 45 percent are Federal roads and the remaining 55 percent are rural roads with annual growth rate of 5.5 percent (Road Construction Authority yearly report 2012).

Telecoms: Ethio-telecom is state owned. It is the sole telecom service provider in the country. The Corporation provides national and international telecommunications services using satellite, Microwave links connect all regional cities and a number of smaller towns have automatic telephone services. International communications links are maintained through two satellite earth stations, providing telephone, internet, telex, fax and TV services (Ethio telecom 2013).

Power Supply: Ethiopia has vast hydropower and promising geothermal energy resources, with nine hydro-electric power plants. To date, the aggregate electricity generated is less than 2% of the potential, and developing this area is a Government focus. The main industrial towns are all connected to the national grid, and electricity is relatively cheap. The Government has liberalized the sector, allowing foreign investors to participate in generating electric power by setting up hydroelectric power plants, although national grid transmission and distribution remains with the state-owned Ethiopian Electric Power .

4.3.3 Investment incentive in Ethiopia

4.3.3.1 Fiscal Incentive

The Council of Ministers Regulations No.270/2012 specifies the areas of investment eligible for investment incentives.

- a) Custom Duty: To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following customs duty exemptions are provided for investors (both domestic and foreign) engaged in eligible new enterprises or expansion projects such as agriculture, manufacturing, agro-industries, construction contracting. Some of the custom duty exemptions include:

- 100% exemption from the payment of customs duties and other taxes levied on imports is granted to all capital goods, such as plant, machinery and equipment and construction materials;
 - Spare parts worth up to 15% of the total value of the imported investment capital goods, provided that the goods are also exempt from the payment of customs duties;
 - Investment capital goods imported without the payment of custom duties and other taxes levied on imports may be transferred to another investor enjoying similar privileges;
- b) Income Tax Exemption: If an investor is engaged in new manufacturing, agro-processing, the production of agricultural products and investment areas of information and communication technology (ICT) development, the following income tax exemptions are given:
- Any investor who invests to establish a new enterprise shall be entitled to income tax exemption from 1 to 8 years for Addis Ababa and Finfine Zuria Special Zone of Oromia which surrounds Addis Ababa and 2-9 years for other areas;¹²
 - Any investor who invests to establish a new enterprise in the above other areas shall be entitled to income tax deduction of 30% for three consecutive years after the expiry of the income tax exemption period specified.

Any investor who exports or supplies to an exporter as production or service input, at least 60% of his products or services shall be entitled to income tax exemption for two years in addition to the exemption provided. (Investment Proclamation No.769/2012). Investors who invest in priority areas¹³ to produce mainly export products will be provided land necessary for their investment at reduced lease rates.

4.3.3.2 Non-Fiscal Incentives

The non- fiscal incentives given to all exporters are the following:

- Investors who invest to produce export products will be allowed to import machinery and equipment necessary for their investment projects through suppliers' credit;

¹² other areas are; the regional state of (Gambela , BenshangulGumuze, Afare(except in areas within 15 Kilo meters right and left of the Awash river), Somali, Oromia (Guji and Borena Zone), SNNPR(south Omo Zone, Segen Area peoples Zone (derashe, Amaro, Konso, and Burji), Bench-Maji zone, Sheka zone, Dawero Zone, Kefa Zone, Konta and Basketospecial Woreda).

¹³ Priority areas are: (textile and garments, leather products, agro-processing, chemicals. metals etc.)

- Investors who invest in areas of agriculture, manufacturing and agro-industry will be eligible to obtain loan up to 70 percent of their investment capital from the Development Bank of Ethiopia (DBE) if their investment is sound to be feasible.

4.3.3.3 Loss Carry Forward

Business enterprises that suffer losses during the income tax exemption period can carry forward such losses, following the expiry of the exemption period, for half of the tax exemption period.

4.4 Responses of respondents

This paper is based on the primary and secondary data collected from various stakeholders and publications, reports and data found from Ethiopian Investment Agency. Therefore the following part presets the views of respondents on the challenges and prospects of foreign manufacturing investment in Addis Ababa City Administration and Oromia National Regional State.

4.4.1 Responses of Government Officials' and experts

A. Responses of government officials and professional experts on interviews for how to improve the capacity and performance of promotion to attract more FDI.

Participants of interviews describe that, Ethiopia is on renaissance, relatively stable political social and economical situation in East Africa with different investment opportunities. But investment promotion activities are very poor. To disseminate information globally are not competent with lack of capacity and technology. Some of European and Americans consider Ethiopia devoid of an opportunity for investment. Even if investors come to get investment license, they have not full information about Ethiopian investment law. Due to the above reason, more participants reflected that, Even if it is costly it is important to establish a desk within the Ethiopian embassy only for selected country¹⁴ that can serve as the main source of investment information.

¹⁴ China, India, Turkish, America, Europe, Saudi Arabia, Sudan, etc.

B. The Responses of Group Discussion of professional experts on the Coordination of Governmental institutions.

The group discussion members of experts describe that governmental institutions established to support investment, carry out their activities without coordination, but the cumulative objective of these institutions is one and the same: create good investment environment to FDI for the country economic development. According to the group discussion members' account, the whole government bodies (EIA, Textile and Garments Industry Development Institute, Leather Technology Industry Development Institute, Metal and Engineering Industry Development Institute) are engaged to facilitate allotment of a plot of land, financial loan, electrical power, etc. This shows that those institutions and agencies had no demarcation line to support different industries, because all of them tend to focus with routine activities. Participants on Interviews of this study, especially government officials, described that these problems are recognized by different bodies and they have started to make a Guide line to demarcate the activities accordingly.

C. Government Officials' Responses related to why Ethiopia adopted manufacturing Foreign Investors?

The reason why Ethiopia opted for FDI in manufacturing include, among others, to create wide job opportunity, capital accumulation, technology transfer, increase manufacturing production and productivity for export purpose, proper utilization of resources and to maximize market opportunity. Thus, as can be observed from the responses of the key respondents it is clear that Ethiopia is very much eager and has opened its doors to foreign investors almost in all sectors including the agriculture and service. Out of the total respondents, almost all of them respond that the deal helps to create jobs, manufacturing can bring technology transfer and can bring about capital inflows into the country, while except some of them other believes that the investment of foreign investors in manufacturing enhance to maximize market opportunity and proper utilization of resource.

Therefore, the very aim of Ethiopia's involvement in the manufacturing sector dealings is to create wide job opportunity to abundant workforces and utilization of resources of the country.

In fact the economic liberalization of the country also supports the idea under discussion. The Agricultural Development Led Industrialization (ADLI) policy which believes in the efficiency

and effectiveness of increased industrial production and productivity can lead to growth and economic development.

D. The Response of Professional Experts related to major problems and challenges faced to implement investment in Ethiopia.

The participants responded that, the Challenges of the Investment implementation in Ethiopia are described as follows below table 4.9 The survey participants of Professional experts responded as what the investors did in which challenges to implement investment projects were the following: Accesses to land, accesses to power, lack of coordination between the public utilities, delay of decision making process and environmental protection regulation and approvals responded that the main problems of investment implementation in Ethiopia are related,

Table 4-9- Major problems and challenges faced to implement investment in Ethiopia .

Challenges	Responses of Experts (27)
• Lack Personal skill	10
• Corruption	13
• Knowledge and experience	15
• Delay of decision making process	23
• Accesses to land	25
• Power supply	25
• lack of coordination between the public utilities	24
• Delay of clearing and forwarding process	13
• Availability of domestic raw materials	8
• Transport and logistics infrastructure	10
• Environmental protection regulation and approvals	18
Total	27

Interviews with different government officials’ show that although the government introduced good investment policy to attract FDI, it in practice lacks the supporting mechanism for its practical implication. As a result of problems related to accesses to land, accesses to power, lack

of coordination between the public utilities and decision making process are indicate as investment implementation problem, and the government would be tray to make solve this problem by establishing the one stop shop service in EIA.

4.4.2 Responses of foreign Investors (Implementation and Operation Phase)

A. Response of Investor about Investment Climate That Attract FDI.

The Survey indicates, the factors that influence investors to invest in Ethiopia are Political stability, Low wage costs, Abundance of labor force, Availability of land, Investment guaranty and protection, which is the first five highly encouraging factors of foreign investors accordingly, as shown below on the table 4.10.

Table 4-10:- Factors that Encourage Foreign Investors in Ethiopia.

No	Factors	Highly encouraged
1	Political stability	121
2	Economic stability	50
3	Remittance of funds	23
4	Foreign ownership	14
5	Domestic insurance against expropriation	15
6	Tariff free entry of machinery, equipments, and spare parts.	11
7	Tax holidays allowance	33
8	Availability of land	67
9	Abundance of labor force	98
10	Low wage costs	110
11	Adequate infrastructure	12
12	International market	56
13	Capital market in Ethiopia	23
14	Availability of power supply	7
15	Availability of resource	57
16	Investment guaranty and protection	66

B. Time taken to get investment license in Ethiopia

The response to how long did it take investors to get the investment license shows that 40 investors get their investment license Less than one day, and 58 investors within one day, 43 investors within a week, 54 investor have got their investment license within a month and the other 3 investors say that they took them more than one month.

Table 4-11- Time taken to get investment license from EIA.

No	Time taken to get license	Number of respondents
1	Less than one day	40
2	With one day	58
3	Within one week	43
4	Within One month	54
5	More than one month	3
6	No answer	11
Total		209

As can be evidenced from table 15 above, it is possible to say that, if an investor fulfills all the requirements for investment permit, he/she will be able to be issued with a license within a day.

C. Regional Variation in Investment Climate

Out of 209 respondents, 84 investors from Oromia and 125 investors from Addis Ababa have prioritized their problems according to the regional conditions. As shown below table: 4.12 In the case of Addis Ababa, constraints ranked too harsh are Access to land identified by 64 respondents, Access to Finance 56 , Access to power 53, Clearing and forwarding process 50, and Skills of workers 38, while for the Oromia region Investors, the five major constraints are Access to power 50, Coordination between the public utilities 25, and Access to land 20, Transportation 15 and Skills of workers 10. The rest of the major obstacles seem to have also a different set and rankings.

Table 4-12- Regional Variation in Investment Climate Priorities

Participants by Region	Ranks of Obstacles				
	First Rank	Second Rank	Third Rank	Fourth Rank	Fifth Rank
Addis Ababa City Administration (125)	Access to land (64)	Coordination between the public utilities (56)	Access to power (53)	Clearing and forwarding process (50)	Skills of workers (38)
Oromia National Regional State.(84)	Access to power (50)	Coordination between the public utilities (45)	Access to land (40)	Transportation (27)	Clearing and forwarding process (26)

The major obstacles for both regions are almost the same but the difference is the set of priority of the problem. An access to land is a burning issue for Addis Ababa City Administration, but in the case of Oromia National Regional State accesses to power is a bottle neck for investment implementation.

D. Response of Investors on Challenges of Investment implementation In Ethiopia.

As can be observed from table 4.13, below the first five very important challenges and that delay the implementation of investment in Ethiopia that, the investors suggested are: Accesses to land, accesses to power, lack of coordination between the public utilities, Corruption and ignorance.

Table 4-13- Major Problems and Challenges faced to Implement Investment in Ethiopia .

Challenges	Respondents (209)
• Personal skill	87
• Corruption	133
• Knowledge and experience	80
• Decision making process	80
• Land	180
• Power supply	180
• lack coordination between the public utilities	168
• Clearing and forwarding process	123
• Availability of domestic raw materials	53
• Transport and logistics infrastructure	61
• Environmental protection regulation and approvals	54
Total	209

Moreover, different government service rendering institutions are characterized by lack of transparency, lack of strong one stop shop service, corruption, lack of common investment guide and lack of skill that create a delay in providing land, financial loan, clearance of custom, approval of the document of environmental protection assessment, supply of power, etc. According to the respondents’ suggestion, it is also significant that the problem is more pronounced for new comers and younger businesses.

4.4.3 Responses of Foreign Investors (Pre-Implementation Phase)

A. Responses of foreign investors on Challenges of investment at the pre-implementation phase.

Those investors who were interviewed all in the pre implementation phase agreed accesses to land, and absence of coordination between the federal and regional government service rendering offices as the main problems to start business in Ethiopia. Some of the respondents reflected that newcomer investors may be in a difficult situation in deciding where to start processing for investment implementation if a one stop shop service is not established with the collaboration of both regional and federal government.

Table 4-14- Challenges for Investors to Start Investment Implementation.

No.	Challenges	No. of Respondents
1	Accesses to land	5
2	Accesses to loan	2
3	Accesses to Power	2
4	Availability of resource	1
5	Lack of personal skill	1
6	Corruption	2
7	Decision making process	5

The above table: 4.14 shows the responses of foreign investors whose investment project was in pre-investment phase, accesses to land, lack of efficiency in decision making process are the main obstacles for investment implementation. Availability of resource and lack of personal skill are not big problem, though they considered corruption, accesses to loan and accesses to power as threats or risks for the future implementation. One of the main importance of FDI for the host country is capital inflow, but in the contrary, the response of investors indicate the need of capital loan were reflected as a challenge of investors accesses to loan as a problem.

4.4.4 Responses of Local Community Leaders

A. Responses of local leader are on what type of compensations or share of benefits the local communities given.

To investigate type of compensations or share of benefits of the local communities, 41 of the 52 local leaders participated in a group discussions with the question of, what type of compensations or share of benefits the local communities given? According to article 40(3) of the Federal Democratic Republic of Ethiopia/FDRE Constitution declares that “The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange” (FDRE, 1995). Because of the above reason, land lease by farmers is allowed as far

as registration and approval is given by the Oromia National regional states bureau of agriculture.

Renting of private holdings is different among regional states in Ethiopia. For example farmers in Oromia are allowed to rent out half of their holdings. Article 10 of proclamation No.130/2007?) of Oromia defined the duration as three years for traditional farming and fifteen years for mechanized farming. However, the agreement is valid only if approved by the regional rural land administration bureau. But it is not allowed for the farmer to lease or rent for manufacturing activities and other services (proclamation No.130/2007).

According to local leaders perceptions farmers need to rent their land to manufacturing industry or other services to warehouse building like farming activity for more than fifteen years. This indicates that the amount of compensation given from the government for transferred land to industry is less than the amount of land rent individually.

Some participants of group discussion response in four towns are indicated that the local communities were not satisfied by the amount of compensation after they transferred their land. The local communities were not able to be hired in the manufacturing investment projects that became operational due to lack of the necessary skills. The only job opportunities available for local community members were just temporary labor and security guard positions.

B. Response of local Community leaders on the Consultation of Concerned Government Authority with Local Farmers.

The Study result indicated that from 41 local leaders Group discussion participants reflected that farmers did not participate in any of the consultation processes. But 11 community leaders say that, household participated in the consultation process after the land had been given to the investor and Out of the total local leaders, only 5 people reflects that households participated in one or two round consultation.

This shows that the land acquisition in Oromia region took place without as much as necessary and genuine participation of the concerned stakeholders in the area. Participation has different uses as it increase partnership between the local communities and contributes to the sustainable development of the project, increases sense of ownership, increases commitment of

stakeholders. Often top-down approach is inefficient; ignoring local knowledge and right of the rural farmer. Different implementation problems and resistance from the community encountered as the result of non-participatory nature of the land transfer to investment.

In order to create and enter on positive attitude with local farmers towards foreign investment companies; the role of government is very critical. Because, it is the duty of the government to explain the main advantages of foreign investment companies to the local farmers, create awareness among them, convince and persuade the local community and finally arrive on common consensus with the local farmers before deciding to lease the farmland to foreign investors.

4.4.5 Data analysis which is collected from EIA

4.4.5.1 Conversion Rate of FDI

A1. Expected Vs Operational Foreign Projects

It is very important to compare the proportion of foreign licensed projects against those that are operational. It can help us have a look into how the Ethiopian government is doing to utilize from foreign investment projects. Thus, table 19 below presents the number of foreign investment projects which have been licensed and the number of foreign investment projects that are operational.

There is a significant gap between the number of FDI projects licensed and those became operational. As shown below in table 4.15, out of the total 3677 licensed foreign investment projects, 1534 investment projects are canceled due to the implementation problem. Until December 2013, only 524 projects became operational, i.e. about 14.25 percent of the total approved projects, and 24.45 percent from total active projects have commenced their operation.

Table 4.15 Manufacturing Licensed FDI Projects by Estimated Capital and Expected Employment Opportunities by Year
Since 05, January 2004 - 31 December 2013(G.C)

Year (G.C)	Total Licensed/Approval/				Canceled investment project				Licensed /Activate/ investment Project			
	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.
2004	170	3011619	9241	6616	82	1457790	4682	4500	88	1553829	4559	2116
2005	208	8676227	13622	10333	110	6537456	7538	5963	98	2138771	6084	4370
2006	306	36071844	35373	35103	170	5282783	15282	11594	136	30789062	20091	23509
2007	439	11808967	39299	38703	279	8557900	30284	29587	160	3251067	9015	9116
2008	593	50344036	112712	68574	391	30544987	89880	46548	202	19799049	22832	22026
2009	548	54122024	45642	31651	349	27696553	14883	16785	199	26425471	30759	14866
2010	448	24787004	32349	31754	123	2626885	10632	7251	325	22160119	21717	24503
2011	233	27535462	20590	20276	19	960314.4	1545	1693	214	26575148	19045	18583
2012	301	33509224	27809	20212	9	258512.1	465	189	292	33250712	27344	20023
2013	431	32676212	63407	23065	2	584000	740	150	429	32092212	62667	22915
Grand Total	3677	282542621	400044	286287	1534	84507180	175931	124260	2143	19803544	224113	162027

Source: Ethiopian Investment Agency 10 years report

This low level implementation emanates from different factors such as delay in issuing land and accesses to power, lack of coordination between the public utilities, lack of responsibilities and Decision making process that hinder foreign investors from operating in the country and the bureaucratic procedures that the investors have to go through. 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.

A2. Expected Vs Actual Capital Generated

The other merit on which those who have pro FDI view base their argument on is the capacity of foreign investment to generate capitals that boost local economy through the creation of jobs and stimulation of local business. However, success in this regard depends on how well a nation manages to secure the planned amount of capital that can serve the intended purposes of pumping capital into the economy and empowering local firms.

Again in this case, there is a significant gap between expected capital to be generated through FDI and that is actually happening owing its cause to the factors listed for resulting in poor implementation of licensed projects. Since the numbers of projects becoming operational are directly related to inflow of capital, the factors affecting the implementation of licensed projects also affect capital inflows into the country.

As can be inferred from table 19 above, there is high discrepancy between expectation and that had actually happened. From expected amount of capital which is 198,035,441.000 birr, only 28,697,719.000 birr, which is equivalent to 14.5 percent, had actually been realized out of the huge number of capitals estimated to be created as a result of the activities of these foreign investment projects.

A3. Employment Generation

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. This in fact depends

on the capacity and viability of the investment projects and the governments' active role in making the projects more benefiting to the country. In order to have a look over this issue, the above table 19 deals with the expected and actual employments created as a result of the undertakings of foreign investment projects.

By the same token, only 54,666 and 30,507 permanent and temporary employments have been realized, respectively out of the total estimated 224,113 and 162,027 permanent and temporary employment opportunities, respectively. This is equivalent to 24.39 and 18.82 percent permanent and temporary employments anticipated have materialized while the rest remains a mere plan.

Table 4-15- Implementations of FDI,

		Expected Vs Actual FDI Generated		
		Expected	Actual	%
Projects		2,143	524	24.45%
Capital		198,035,441	28,697,719	14.49%
Employment	permanent	224,110	54,666	24.39%
	Temporary	162,027	30,507	18.82%

Source: Ethiopian Investment Agency (2013).

As shown above in table 4.16, of the actual implementation of manufacturing investment is low, Failure in attaining goals in these areas implies the weakness from the sides of the government in securing capital and generating employment which is very thin and thus a lot needs to be done to improve the situation. If government does not undertake the necessary measurements to curb the declining trend in both capital and employment generation, it can have a far reaching negative impact on the socio-economic situation of the country.

These problems further show the neglect on the side of concerned government authority. But EIA starts from 1 January, 2014 according to investment proclamation 769/2012 sub article 11/1 to select the real investor. That is done a situation where by investors are given investment license when they transfer the minimum capital through national bank of Ethiopia, this being strongly scrutinized by EIA to prove their capacity to successfully invest.

4.4.5.2 Implementation of one-stop shop service:

For effective and efficient investment implementation, OSS are very important opportunities by facilitating all government utilities within one window, but the management of one stop shop is carried out effectively. All service rendering desks should be planning their activity with specific region or sector in a short or medium term timeframe. And the performance of these desks should be evaluated quarterly by the specific department of Ethiopian Investment Agency. But EIA has not yet established a department to carry out this responsibility.

Table 4-16-Response of Government officials and experts on the Importance of structural arrangements of EIA.

Discussion point	Alternative answers	Group discussion experts (12)	Interview, experts, (16)
What is the Importance of structural arrangements of EIA in the case of OSS.	It is important to establish a Department in EIA to lead the OSS (which comes from external and internal)	7	10
	It is good if the whole activities of OSS leading role to give for one department, that have related mandate.	3	6
	It is not important to establish a department, because all service render OSS members are responsible to Different institutions.	2	-

As can be observed from table 4,17 above, it is important to establish a department in EIA to lead the OSS of all desks appropriately. Although the investment proclamation No.769/2012 Art 30/5 legislation, promulgated in September 2012 all services rendering government offices to open a desk in one building, it has not yet been materialized after a year since the adoption of this proclamation. According to the researcher observation only 60% of the expected government

office¹⁵ have opened desks as shown below up to 1 January 2014. But some of them are not showing the willingness to open the desk.

Table 4-17 Service renders governmental office that expects to open desk in OSS.

No	Service render governmental office	Appropriate federal executive organs Open the desk	Appropriate federal executive organs not-Open the desk
1	Land supplier		Not clearly define ¹⁶
2	Supplier of Finance /Loan/	<ul style="list-style-type: none"> ➤ Development Bank of Ethiopia, and ➤ Commercial bank of Ethiopia. 	
3	Residence permits		➤ Immigration and Nationality affairs
4	Approval of environmental impact assessment studies		➤ Ministry of Environment and Forestry
5	Infrastructure/ water, electrical power and telecom service.	➤ Ethio-telecom	<ul style="list-style-type: none"> ➤ Electrical Power ➤ Water supplier

Source:- Researcher study from Ethiopian investment Agency (January 2014).

Table 4.18 above shows that even if there is a proclamation to force those different governmental institutions to open a desk in the OSS, they have different attitude to open a desk and work together. It is reflected by lack of readiness and time taken to open a desk. Ultimately this has led to the fact that Ethiopian Investment OSS is not functional properly.

¹⁵Supplier of Finance /Loan/, Land supplier, Residence permits, Approval of environmental impact assessment studies, Infrastructure/ water, electrical power and telecom service.

¹⁶ At the federal level no governmental institution except the industrial zone development corporation to supply land for FDI.

Chapter five

5. Conclusion

Almost every country in the world now believes that development and reduction of poverty in their diverse meanings, types and interpretations are some of their common objectives. This is often stated in the development policies, programs, investment laws and other public policy documents, budget speeches and pronouncements of leaders of many developing countries. The popular belief among many governments of nearly all African countries was and still is to solve their multifaceted and multi dimensional problems and challenges. Ethiopia is no exception to this.

Foreign private investment the role it plays in the development process, in developing countries in general and Ethiopia in particular, the incentives and guarantees granted to encourage and attract foreign investment and government expectations there from are central themes.

Some of the main reasons why many developing countries encourage FDI may vary from country to country, as far as Ethiopia is concerned, FDI is encouraged to promote the flow of foreign capital, generate employment, transfer of technology and to utilize the country's resources in ways to eliminate or substantially reduce poverty. Some of the main reasons why Ethiopia encourages FDI are thus clear. It is to achieve the above stated objectives.

Some of the main factors that attract FDI to countries like Ethiopia are diverse. They include fiscal incentives such as tax holidays, exemption from many direct and indirect taxes as well as non fiscal incentives. Among the other factors that attract FDI are political and legal stability, investor friendly macro-economic policies, availability of physical and communication infrastructure, access to finance, markets and public utilities such as land, water, electricity and absence of corruption and prevalence of bureaucratic tapes etc.

Although the time and speed taken to get an investment license is important, it is the overall chain and sequences of events that are more important. This is because, one can get an investment permit in half an hour, but if it takes one year to get land and other services, the efficiency of getting an investment permit in half an hour becomes meaningless. The study has shown that even the One stop shop initiative to bring all the relevant service rendering organizations to have their desks and Liaison officers within the premises of the EIA has not been as effective as desired.

5.1 Main findings of the thesis;

Manufacturing is a key factor for Ethiopia's development. That is precisely why the Government policy promotes and encourages manufacturing industries. In view of this the government is highly committed towards attracting both foreign and domestic investors. In the last two decades four investment Proclamations and three Regulations have been adopted to solve and mitigate the various limitations and challenges that occurred over the years. As a result of investment friendly policies, the private investors also have responded positively.

The inflow of capital investment related to manufacturing is increasing. But the conversion rate and the implementation of investments related to manufacturing are decreasing.

The number of companies engaged in operation and implementation phase is much less than the number of licenses and investment permits granted to foreign manufacturing enterprises. Only about 24% of those who got investment permits are in operation.

The actual permanent and temporary employment opportunities created are much less than expected and claimed. For example, the amounts of permanent employment created are only 54,666 out of 224,110 which 24.39%. The amounts of temporary jobs created are only 30,507 out of 162,027 which 18.82% is.

With regards to the inflow of foreign capital, the amount of real capital that entered the country is 28.7 billion Birr out of 198 billion that was expected to flow, this is only 14.49%.

The challenges for creating conducive Investment climate include ignorance and carelessness of the implementing organization and decision making process, lack of access to finance, personal skill, prevalence of corruption, access to land, power supply, lack of good infrastructure road, water etc. the availability of such factors are also some of the factors that to implement FDI.

The main reasons for the low conversion rate of investment projects are: a) failure of service rendering institutions to pay special attention to provide the necessary support for investors; b) inability to timely allocate land for the different types of investments at regional level; c) absence of a good system of investment promotion Agency at Federal level that enables them to provide effective one stop shop Service for investors; d) lack of full information on Ethiopian foreign investment policy and law within and outside the country; e) lack of required skilled man power in some investment areas; f) lack of competence and capacity of the EIA to support, supervise, monitor and control the investment projects in general and the manufacturing sector in particular g) prevalence of complex customs procedures and; h) corruption.

The establishment of one Stop shop Service under the 2012 Investment law reflects the Government's commitment to attract FDI. However, since each service rendering governmental organization and institution that is expected to open a window or office in the building of the EIA have not road network, have not been very effective. Moreover, although availability of good road network system is also an important factor in attracting the location of factories and hence should have been a part of OSS, nonetheless it is outside the OSS framework.

The amount of land allocated to manufacturing is mainly based around Addis Ababa and its environs. Such land or area is not free from settlements. It has been owned and used by individual or communally by local farmers and rural communities as a farm land. However, when arrangements are made by the government to allocate land to foreign investors, local farmers and communities are neither consulted properly or not adequately compensated thereby leading to many undesirable misunderstandings and complaints between the communities and the manufacturing projects.

Even if one may not seriously object at the amount of compensation given, since they do not get training to manage their compensation, they tend to waste it in consumption rather than investing it to generate income for themselves and their families which ultimately and in the long term turn them to become jobless and penniless. Thus while the overall objective of encouraging FDI is to promote and improve the quality of life of Ethiopians in reality, however, it does not appear to have achieved its intended objectives.

The regional states are the only providers of land for foreign investors. But all investment promotions and bilateral investment treaties are facilitated by the Federal Government. Similarly privatization of the investment sector are run and managed by the Federal Government itself. But, the opportunities of investment vary depending on their regional resource, which includes availability of land, the need and interest of regional states themselves. Despite what the Ethiopian Constitution and what the bilateral investment treaties provide, things are operating well. However, this scenario is working satisfactorily because the leaders of Federal and Regional States belong to one ruling party and hence the potential contradictions are avoided. However, conflicts and misunderstandings could arise if the leaders of the Regional states that entertain a different policy from the Federal Government on such issues.

5.2 Suggestions

5.2.1 Policy frame work;

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

2. There should be a much stronger relationship, cooperation and consultation process between the Government, investors and the communities.
3. The compensation of land to farmers should be fixed in advance according the level of local development.
4. Compensation to dispossessed farmers should assure lead to sustainable livelihoods of the farmer and his family.
5. There is also a need to provide support and advice to compensated farmers how to manage their compensation to ensure their quality of life.
6. There should be strong coordination between Federal and regional investment authorities and Bureaus to strength IGR.
7. With respect to Addis Ababa and Oromia Regional state, it is recommended that the top officials of the Region and City Administration should be board members of the Ethiopian Investment Board. Moreover, it also recommended that the investment community should have representation within the Board.

5.2.2 Institutional framework;

1. With respect to institutional framework, it is recommended that there should be an organ within EIA whose task is to monitor and implement the one stop shop strategy and to lead the whole service render departments in the OSS appropriately.
2. There should also be coherence, coordination and integration between all those Ministries, Agencies and institutions that deal with investment and related issues.
3. EIA should establish branch offices in countries where Ethiopia has good and extensive trade and investment relationships such as China, Turkey, India, Europe and the Americas etc these should be attached with the Embassies.

5.2.3 Administrative framework;

1. With respect to administrative framework, it is recommended that one stop shop strategy requires additional restructuring such as road construction to be more competitive one stop shop.
2. The Ethiopian investment board should have a mandate to decide, if there is an important institution to include as a member of OSS, each service renders governmental office that to open a desk in the building of investment agency.
3. Even if the government provides investment incentive to FDI projects not more foreign manufacturing investment projects are found in least developed regions of the country, The regional variation of manufacturing FDI aggravates the regional inequality existed in the country. The government must work more on the infrastructural development beyond the

provision of various incentive packages. In addition, in order to exploit the manufacturing industry properly, the government must support the regions to develop the comparative advantage of the regions and encourages FDI according to regional investment opportunities and need.

4. It is important to establish online ICT linkage between the federal and regional Government to exchange information with regard to the investment opportunities, investment implementation data and other FDI information.
6. Adjustment of customs clearance procedures is important according to the need of government and private investment to effective implementation and to solve delay, simple administrative issues should be solving by the responsible body of customs clearance to minimize the paper work and to provide effective and efficient services.
7. To capacitate the Ethiopian investment agency for a significant support and control of investment projects accordingly, it is good to give attention and recognition by full file logistic problem.

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ANNEX – 1

QUATERNARY

Part One: Questionnaire related to Relevant officials/expert persons from Ethiopian Investment Agency and other Investment service rendering office.

This questionnaire is designed with the intention of gathering information about the actual performance of foreign direct investors in manufacturing industries in oromia regional state and Addis Ababa city Administration. The information that you will provided will only be used for academic purpose and will be kept confidential. Therefore, do not hesitate to provide credible and valid information.

A. Profile of the Respondent

1. Position in the government office : _____
G. Director _____, Director _____, Team leader _____ ,
Senior expert _____, junior expert _____
2. Years of experience in investment facilitation: _____
3. Please indicate the highest level of education that you have completed?
 Masters or above B.Sc level. College Diploma and TVET level

B. Investment facilitation services

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

2. In which regional state are these Manufacturing Industries more concentrated?

3. What does the inflow of foreign direct investment in general and in manufacturing sector in particular look like?

4. Out of the total registered FDI projects How many of them in percentage are operational as of today?_____
- _____
5. what are the major problems and challenges that they have faced after receiving investment permit until implementation stage? (please specify in order of priorities)
- _____
- _____
6. Among the public utilities and services which ones are the most difficult to accesses by foreign investors (land, water, electricity ...)
- _____
- _____
7. Where are the administrative bottle necks that cause delays?_____
- _____
- _____
8. Do you believe that investors faced corruption practice in the administrative structure of public utilities?
- a. Yes b. No
9. Which public utilities/ institutions/ is the most corrupt?
- _____
- _____
10. Do you believe the delay in the implementation phase is due to:
- a. lack of knowledge and experience
- b. Ignorance
- c. corruption
- d. Decision making process

11. Do you observe there are problem with regards to legal frame works, and administrative legal process? _____

12. The degree of coordination between the public utilities is :

- a. very high
- b. high
- c. reasonable
- d. low
- e. very low

13. To what extent is the lack of availability of domestic raw materials and other inputs a problem?

- a. very high
- b. high
- c. reasonable
- d. low
- e. very low

14. To what extent are custom tariffs, import taxes, and custom duties imposed by governments a problem in the implementation phase?

- a. very high
- b. high
- c. reasonable
- d. low
- e. very low

15. To what extent are the clearing and forwarding process a cause for delay to the implementation process?
- a. very high
 - b. high
 - c. reasonable
 - d. low
 - e. very low
16. To what extent is an access to efficient and effective finance /loan/ a cause for delay in the implementation process?
- a. very high
 - b. high
 - c. reasonable
 - d. low
 - e. very low
17. To what extent are the transport and logistics infrastructure and facilities a problem for the delay in the implementation?
- a. very high
 - b. high
 - c. reasonable
 - d. low
 - e. very low
18. To what extent do lack of adequate financial services and transactions contribute to the delay of implementation?
- a. very high
 - b. high
 - c. reasonable
 - d. low

e. very low

19. To what extent are the environmental protection regulation and approvals a cause to delay in the implementation process?

a. very high

b. high

c. reasonable

d. low

e. very low

20. Why do foreign investors prefer or directed the specific regional state?

21. To what extent the are local farmers were informed and involved in the negotiations over the land deal?_____

22. What type of compensations or share of benefits do the local farmers were given? Explain,

23. How does the process of land deal take place between the federal and regional governments?_____

24. What major positive and negative impacts are observed so far when land deal takes place?_____

25. How long did it takefor investors to get the business license?

days_____ Weeks: _____ Months_____ Years: _____

Part Two:- Questionnaire to Foreign Investors

This questionnaire is designed with the intention of gathering information about the actual performance of foreign direct investments in manufacturing industries in oromia regional state and Addis Ababa city Administration. The information that you provided will only be used for academic purpose and will be kept confidential. Hence please, do not hesitate to provide credible and valid information.

A. Background of Investor

1. Name of the company: _____
2. Home country of the company: _____
3. Address (office) in Ethiopia: _____
4. Location of the company's manufacturing industry: _____

B . Motives for investment:-policies, incentives, opportunities.

1. To what extent did the following national policies and conditions influence your decision to enter Ethiopia (put a right mark √)

Item of National policies/opportunities/incentives	Highly encouraged me	Highly discouraged me	No effect on my decision
Political stability			
Economic stability			
Remittance of funds			
Foreign ownership			
Domestic insurance against expropriation			
Tariff free entry of machinery, equipments, and spare parts.			
Tax holidays allowance			
Availability of land			
Abundance of labor force			
Low wage costs			

adequate infrastructure			
international market			
Capital market in Ethiopia			
Availability of power supply			
Availability of resource			
Investment guaranty and protection			
Others (if any)			

2. Please provide details why any of the above factor/s prevented you from making your decision to enter Ethiopia. _____

3. Please specify the most important factor have highly encouraged you to make your decision to enter Ethiopia: _____

C. Investment facilitation services

1. How long did it take you to get the investment license?

Hours _____ Days _____ Weeks: _____ Months _____ Years: _____

2. Is there any government body that carefully monitors your activity and addresses or facilitates the problem that may arise between you and the local community?

A) Yes: _____ B) No: _____

3. If your answer to question “2” above is ‘Yes’ which particular government authority Performs so? _____

4. What are the major problems and challenges that you have faced after receiving investment permit until implementation stage? (please specify in order of priorities)

5. Which public utilities and services are the most difficult to have an access to?

6. What are the factors that attracted you to invest in the region where your project is located?

6.1 _____

6.2 _____

6.3 _____

6.4 _____

6.5 _____

7. Are there any administrative bottle necks that cause the delay in implementation of FDI projects? _____

8. To what extent is the lack of personal skill a problem in your enterprise with respect to implementation? _____

9. Do you think that corruption is practiced in the administrative structure of public utilities?

Yes

b. No

10. Which public utility institution do you think is the most corrupt?

11. What do you think the reason for the delay in the pre implementation phase of FDI project is?

1. lack of knowledge and experience

2. Ignorance

3. corruption

4. Decision making process

5. lack of responsibilities

6. Others (if any)

12. Do you observe any problem with regards to investment policy and legal frame works, administrative and institutional processes? If yes, please explain,

13. The degree of coordination between the public utilities is :

a) very high

b) high

c) reasonable

d) low

e) very low

14. To what extent do the lack of availability of domestic raw materials and other inputs are problems?

a) very high

b) high

c) reasonable

d) low

e) very low

15. To what extent do the custom tariffs, import taxes, and custom duties imposed by governments become problems in the implementation phase?

a) very high

b) high

c) reasonable

d) law

e) very law

16. To what extent does the clearing and forwarding process remain a cause for delay to the implementation process ?

a) very high

b) high

c) reasonable

d) law

e) very law

17. To what extent does to access to efficient and effective finance becomes a cause for delay in the implementation process?

a) very high

b) high

c) reasonable

d) law

e) very law

18. To what extent do the transport and logistics infrastructure and facilities are a problem for the delay in the implementation?

a) very high

b) high

c) reasonable

d) law

e) very law

19. To what extent does the lack of appropriate technology contribute to the delay in the process of implementation?

- a) very high
- b) high
- c) reasonable
- d) low
- e) very low

20. To what extent do the environmental protection regulation and approvals become a cause to delay in the implementation process?

- a) very high
- b) high
- c) reasonable
- d) low
- e) very low

21. How long did it take you to get the business license?

days: _____ Weeks: _____ Months _____ Years: _____

Part three: Initials question for group discussion with project affected local leaders and community members

Guide: -Presented below are the main questions asked during the group discussions.

C. Profile of the Respondent of group discussion member?

- Name _____
- Region : _____
- Town : _____ Kebele _____
- Educational back ground:-
Masters or above____, B.Sc level. _____, College Diploma and TVET level____.
Other_____.

D. Investment facilitation services.

1. For what purpose was the land in your locality used before contracting to the foreign Manufacturing Industries?
A) Agricultural production B) residential E) Others
C) Biodiversity conservation D) small business
2. Has there been any improvements and better livelihoods for you and your family observed after the land was transferred to foreign investors?
A) Yes B) No
3. If your answer to question “2” above is ‘A’, which one of the following were observed?
A) Employment, D) Technology transfer
B) Contract farming E) All of them has been observed in the locality
C) Increased local agricultural output
4. Do you believe that the local peoples have generated more income than the income from previous sources?
A) Yes B) No C) Indifferent
5. If your answer to question “4” above is ‘B’ or ‘C’ would you please elaborate why the case is so: _____

6. To what extent are the local people informed and involved in the negotiations over the land deal? _____

7. What type of compensations or share of benefits the local communities given?

Explain, _____

8. How does the process of land deal takes place between the federal and regional governments? _____

9. How does the process of land deal takes place between the local leaders and community members? _____

10. What major positive and negative impacts are observed so far related to land deal; when they are takes place? _____

ANNEX . 2 : Ten years Investment Data

Manufacturing Licensed FDI Projects by Estimated Capital and Expected Employment Opportunities by Manufacturing/Sub-sector/Since 05, January 2004 - 31 December 2013(G.C)

Manufacturing Sub-sector	Total Licensed/Approval/				Canceled investment project				Licensed /Activate/ investment Project			
	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.
Basic Metals	27	1787369	1759	1118	7	56780	187	157	20	1730589	1572	961
Chemicals and Chemical Products	320	25354139	27600	36928	121	16886782	12227	13388	199	8467357	15373	23540
Coke, Refined Petroleum Products and Nuclear Fuel	7	742816	800	420					7	742816	800	420
Electrical Machinery and Apparatus	188	6984243	11265	9038	83	809042.9	3784	3377	105	6175200	7481	5661
Fabricated Metal Products, Except Machinery and Equipment	253	19574105	18851	17630	112	5221973	8990	6808	141	14352132	9861	10822
Food Products and Beverages	726	42624886	107025	65913	256	10866904	68352	23116	470	31757982	38673	42797

Furniture, Manufacturing	224	2831690	9237	7903	98	651054.2	3951	4380	126	2180636	5286	3523
Machinery and Equipment	133	2616394	8311	4091	61	475521.2	2946	1609	72	2140872	5365	2482
Medical, Precision and Optical Instruments, Watches and Clocks	36	1236355	2361	2099	15	491787.1	1208	1036	21	744567.7	1153	1063
Motor Vehicles, Trailers and Semi-Trailers	100	2853941	8230	3573	28	317950	1359	1090	72	2535991	6871	2483
Office, Accounting and Computing Machinery	15	118409	723	693	5	18900	294	336	10	99509	429	357
Other Non-Metallic Mineral Products	560	16499656	69888	72257	299	39767746	35249	45476	261	77211193	34639	26781
Other Transport Equipment	10	59980	316	210	3	51800	211	116	7	8180	105	94
Paper and Paper Products	92	1478084	4771	2958	51	531442.9	2555	1822	41	946640.7	2216	1136
Radio Television and Communication Equipment and Apparatus	20	122867	741	741	5	30750	107	140	15	92117.66	634	601
Rubber and Plastics Products	335	6517073	20461	15016	118	1052550	5227	5718	217	5464523	15234	9298
Textiles	235	34026516	54930	21236	98	1788864	15735	7253	137	32237652	39195	13983
Tobacco Products	1	193400	15						1	193400	15	
Wearing Apparel, except fur apparel	186	4733320	25052	10763	102	753581.6	7910	5446	84	3979739	17142	5317
Wood, Products of Wood;	31	678770.4	2793	2023	9	274278	1557	796	22	404492.4	1236	1227

except Furniture												
Publishing, printing and reproduction of recorded media	19	31844.41	203	225	3	7476.36	26	60	16	24368.05	177	165
Recycling	30	5698576	1974	1227	9	3023606	752	229	21	2674969	1222	998
Tanning, dressing of leather, & footwear	129	5298905	22738	10225	51	1428391	3304	1907	78	3870515	19434	8318
Grand Total	3677	282542620	400044	28628	153	84507180	175931	124260	2143	198035441	22411	162027

10 years EIA report

Manufacturing Licensed FDI Projects by Estimated Capital and Expected Employment Opportunities by Investment Status

Investment Status	Total Licensed/Approval/				Canceled investment project				Licensed /Activate/ investment Project			
	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.	No of proj.	Capital in '000' Birr	Perm Empl.	Temp Empl.
Implementation	363	76845545	40545	42357	75	2286862	5624	6428	288	74558683	34921	35929
Operation	535	29295811	55379	31309	11	598092	713	802	524	28697719	54666	30507
Pre-Implementation	2779	176401265	304120	212621	1448	81622226	169594	117030	1331	94779039	134526	95591
Grand Total	3677	282542620	400044	286287	1534	84507180	175931	124260	2143	198035441	224113	162027