

**Effects of Losing Eligibility to AGOA on Foreign Investment of Bole Lemi
and Kilinto Industrial Parks, A Qualitative Case Study**

By Robel Assefa

A research project submitted in partial fulfillment for the degree of Master of
Art in Business Leadership

Addis Ababa University
School of Commerce
College of Business and Economics
Department of Business Leadership

Advisor: Bantie Workie (PhD)

September, 2022
Addis Ababa, Ethiopia



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SCHOOL OF COMMERCE

Declaration

I, the undersigned, declare that this project work titled **Effects of Losing Eligibility to AGOA on foreign investment of Bole Lemi and Kilinto industrial Parks, A qualitative case study** is my original work and has not been presented for degree requirement in any other university, and all the sources used to support this particular study has been appropriately acknowledged.

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This research project has been submitted for examination by my approval as a university advisor.

Name: Bantie Workie (PhD)

Signature: _____

Date of Submission: _____

Statement of Certification

This is to certify that the project, entitled: “Effect of losing eligibility to AGOA on foreign investment of Bole Lemi and Kilinto industrial Parks, A qualitative case study” prepared by Robel Assefa was done under the supervision of Bantie W. (PhD) and submitted in partial fulfillment of the requirements for Master of Business Leadership with the regulations of the University and meets the accepted standards with respect to originality and quality.

ADDIS ABABA UNIVERSITY
SCHOOL OF COMMERCE
BUSINESS LEADERSHIP POST-GRADUATE PROGRAM

**EFFECT OF LOSING ELIGIBILITY TO AGOA ON FOREIGN INVESTMENT
OF BOLE LEMI AND KILINTO INDUSTRIAL PARKS, A QUALITATIVE
CASE STUDY**

By ROBEL ASSEFA

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Chairman of the board

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Acknowledgement

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List of Acronyms

AGOA	African Growth and Opportunity Act
BLIP	Bole Lemi Industry Park
EU	European Union
FDI	Foreign Direct Investment
HR	Human Resource
IP	Industry Park
ISFS	Investors Follow-up and Support Service
IPDC	Industry Parks Development Corporation
KIP	Kilinto Industry Park
US	United States

Abstract

Foreign direct investment is generally acknowledged as the driving force of Ethiopia's economy. It is the source of foreign currency, new technology and knowledge. One of the ways of attracting such investment is providing investors with suitable platform for them to "Plug and Play". This is manifested in the function of industry parks in Ethiopia. Yet, since 2021, the country faced economic sanctions of different kind that reached as far as denying AGOA benefits.

The research reported in this project was initiated to investigate the effect of losing eligibility to AGOA benefits on the foreign investment of the industry parks by considering the cases of Bole Lemi and Kilinto IPs. The methodology adopted was mixed, mainly a qualitative approach supported by quantitative analysis of some data. The research employed data from secondary sources to compare the net FDI inflow pre and post AGOA decisions.

The research has revealed two different results. One is the economic sanction imposed on the country in the form of removing its AGOA benefits has not affected the foreign investment in the two industry parks as the financial reports and interviews indicate. Whereas questionnaire surveys, international economic indicators and literatures indicate there is effect on foreign investment due to the sanction. The research has also reported COVID 19 pandemic and the conflict in the northern part of the country as major contributors to the result stated above. Therefore, along with mitigations, best practice recommendations to study the issue in depth were provided.

Key Words: Foreign Investment, Economic Sanction, AGOA, Industry Parks, Ethiopia

Chapter One: Introduction and Background

1.1 Introduction

The economic growth of Ethiopia mainly through industrialization is being geared up by the introduction of huge industry parks on different regions. But at the same time practical situations indicate the deceleration in participation of foreign investors in these parks mainly due to the crippling intent of economic sanctions being circled around for a while on of which being losing AGOA benefits. Hoping to indicate effects of losing eligibility to AGOA in the generation of foreign investment in these industry parks by selecting two major industry parks, this chapter briefly describes the background

1.2 Background of the study

In 2021 the United States introduced sweeping economic sanctions against Ethiopia as a consequence of the conflict on the northern part of the country. The first round of sanctions in September 2021 was relatively mild targeting persons and entities, but the sanction enacted in January 1 2022 was more stringent, removing Ethiopia from African Growth and Opportunity Act (AGOA).

Economic sanctions are used as tools of enforcing economic, social, political and military issues by one or more countries or global unions on an independent nation, authorities, individuals or companies.

This research project reviewed recent literatures on the economic effects of losing AGOA eligibility especially on foreign Investment on Ethiopia, specifically on the Two Industry Parks (Bole Lemi and Kilinto).

According to Getinet and Hirut (2005), foreign investment is particularly important for developing countries such as Ethiopia, since it provides access to resources that would otherwise be unavailable. Its contribution to economic development and therefore poverty reduction comes through its role as a conduit for:

- Transferring advanced technology and organizational forms to the host country;
- Triggering technological and other spillovers to domestically owned enterprises;
- Assisting human capital formation;
- Contributing to international trade integration; and

- Helping to create a more competitive business environment (Getinet and Hirut, 2005).

As a means of industrialization and source of foreign investment, building a country's economy around industrial parks has become a global trend. Ethiopia's industrial policy places strong emphasis on the role of the state in promoting and facilitating the country's industrial development, which intends to enhance the living standards of the Ethiopian people by 2025 (Abebe, 2020).

No	Name of Parks	Location	Proximity to the port of Djibouti (km)	Delimited Land (Hectares)	Eligible Industries
1	Bole Lemi I	Addis Ababa	863	156	Apparel
2	Bole Lemi II	Addis Ababa	863	186	Textile & Apparel
3	Kilinto	Addis Ababa	863	337	Food Processing, Pharmaceutical, Furniture, House Appliance, Electronic and electrical

Table 1.1: Industrial Parks operated/owned by IPDC Edited (source: Embassy of the Federal Democratic Republic in Brussels. Accredited to the Benelux & Baltic countries, and Mission to the European Union, 2016)

With the intent to increase trade and investment opportunities between Sub Saharan African countries and the United States, an African Growth and Opportunity Act (AGOA) was signed into law in 2000 (Eckart 2021). Ethiopia used this opportunity act to export goods to US until January 2021 where it lost its eligibility for incompetency to meet human rights requirements (Williams, 2022). Data from the trade law center indicates Apparel Products consist around 98% of Ethiopia's export to the US using AGOA by the year 2020 (Eckart 2021).

Due to geographical and time constraints, the above two industry parks were selected and as can be seen from table 1, Bole Lemi is mostly delineated for apparel and textile production, which indicates it was the main beneficiary of AGOA and now that it lost the eligibility the effect should be studied.

This research project, therefore, tried to study the effects seen on the foreign investment of the two industry parks due to losing of AGOA benefits but literatures were also indicative of COVID 19 outbreak and countries political and social instability as additional causes.

1.3 Statement of the problem

Industrialization is a core function in the poverty alleviation efforts of developing countries like Ethiopia. Industrialization generates employment, provides education for citizens, encourages advancement and innovation, and better utilizes resources. Therefore it is more than an engine of economic growth since it is the catalyst for the technological, financial and socio-economic transformation. The establishment of industrial parks has undoubtedly helped put Ethiopia on the radar of foreign companies and FDI inflows have been on the rise ever since. The gap between overall figures and FDI inflows attracted to the zone is substantial (Endalkachew, 2020).

Even though many economic theories demonstrate that industrial parks development projects have a positive impact through the inflow of foreign-owned investment, there is a shortage of empirical research that evaluates the economic impact of industrial parks development projects.

AGOA is one of the many trade agreements that give preferential treatment to developing countries in sub-Saharan Africa. AGOA Generalized System of Preference (GSP) applies to more than 6,400 items. This is a great deal of opportunity for sub-Saharan African countries and in our case for Ethiopia (Rahel, 2007).

AGOA offers eligible countries in Sub-Saharan Africa duty-free access to the US market for selected products. Due to the decision by the United States to remove Ethiopia of AGOA eligibility, Ethiopia stands to lose preferential access to a market segment worth \$240 million, which is equivalent to roughly 9% of the country's total exports. The loss will be felt most acutely by the apparel and leather industries, which employ around 200,000 people, most of whom are women (Biniam and Tilahun, 2022).

According to an article by Selamawit (2022), the delisting of AGOA did not only affect exporters based in Ethiopia, but also the government's policy over industrial parks. The government stopped investing in new industrial parks following the ban.

In practice, economic sanctions are supposed to impact the economic development of a country. As has been stated on the introduction the major economic back bone was the foreign direct investment of international companies.

When one of the most influential countries like the United States activated economic sanction on any country, foreign countries investing on that state would definitely panic and most likely leave.

According to ACE Advisors group, AGOA access was one of the primary foreign investment attractions to Ethiopia. The country was known as the largest African recipient of FDI, despite a 6.1% decline in new FDI due to the COVID-19 pandemic and ongoing conflict in 2020.

In order for this research achieve its objective, two of the closest to the capital industry parks were selected where most international companies operate in.

One of the major gaps to be identified was impact of losing AGOA eligibility, in terms of foreign investment, in the two identified parks. It was hoped to determine the direct impact on production, operation and sale. The impact of COVID 19 and Socio Political Instability were also identified as problems.

The other issue was the preparation of governmental offices developing, regulating and operating the two industrial parks to such impacts, the rate of flexibility of their policies and regulations. Hoping to determine regulatory awareness, economic stability plans and availability of backup plans were tried to be analyzed.

1.4 Research Questions

The research tried to answer the following questions:

- Did losing eligibility of AGOA impact foreign investment inflow to Ethiopia?
- Did losing eligibility of AGOA impact foreign investment inflow to Bole Lemi and Kilinto Industrial Parks?
- Which sectors, off of which operating in the stated industry parks, were impacted more in terms of export performance?
- Were the COVID 19 pandemic and the conflict in the country contributory?

1.5 Objective of the study

1.5.1 General objective

The general objective was to determine the impacts of losing eligibility to AGOA on the economic development of Ethiopia through foreign investment in the considered sample industry parks.

1.5.2 Specific objective

In trying to acknowledge the above general objective; it was also tried to

- Introduce AGOA and its importance on the economic development of the country
- Discuss other countries' experience after losing AGOA eligibility
- Assess the overall impact of COVID 19 and Socio Political instability on Bole Lemi and Killinto industrial parks
- Indicate directions to manage effects

1.6 Significance of the study

This project will provide a number of significances. First it could be used for further study in the future, since this particular study is a project research and is very limited in scope, the same issue will make a greater sense if studied widely. It will also inspire others to work on it for further use. It can also be used for decision makers to analyze impacts of sanctions in the industry parks development strategies. Additionally, it will enhance the practical knowledge of the researcher through creating a link between the theoretical knowledge of economic sanctions and their impacts and what is going on in real life business institutes as the sampled industry parks. The other significance will be the study will fill at least some information gaps that exist regarding the title related issues

1.7 Scope of the study

It is known that foreign investors operate in several sectors and places of the country. Yet this research only considered foreign investors operating in Bole Lemi and Kilinto industrial parks due to geographical and time restrictions. Out of these two industry parks, it was possible to reach out the management and some technical staff of Kilinto and Industry Parks development Corporation. Therefore this study is scoped geographically in and around Addis Ababa, contextually only about the foreign investment impact of losing AGOA eligibility and more specifically in Bole lemi and Killinto industrial parks. It is also hoped to discuss the operational activities of foreign investors excluding factors such as FDI attraction and registration.

1.8 Limitation of the study

This particular study, as is with other studies, has limitations and constrains. One limitation was the confinement of this study to the foreign investment operators on industrial parks, namely Bole lemi and Killinto industry parks. Another limitation of this study was its dependency on the response of Governmental Officers. Given that responses from governmental officers will be used to determine the specific areas of impact of the applied economic sanction, it might be open to bias for political or security issue. This research was also limited in local reference materials and literatures. Finding respondents, distributing and collecting questionnaires was also one of the limitations for the numbers limitation and availability. Time and capital were also significant influencers on the limitation of the study.

1.9 Organization of the study

This research paper is organized into five chapters as follows. The first chapter is about general introduction to the study discussing problem of the study, objectives of the study, pertinent research questions that are to be answered by the research, the scope and limitations of the study.

The second chapter reviewed literatures theoretically, conceptually and contextually. It tried to addresses relevant and related issues and concepts around the study from international experiences.

The third chapter discussed the research methodology applied. This chapter did describe the methodology, research design, criteria the case study was chosen and why the specific methodology was employed.

The fourth chapter thoroughly discusses the findings of the research based on the applied data collection methods. Each question is reviewed from the respondents' perspective so that the problem statement and objectives were addressed properly.

The fifth and final chapter indicates the conclusion and recommendations of the researcher as per the findings of the research.

There is also a reference section where all the cited and reviewed documents are put for reference. Appendices containing all the relevant data to the research are also included.

Chapter Two: Literature Review

The African Growth and Opportunities Act (AGOA) which was signed into law in 2000 as part of U.S. trade legislation has the objectives of increasing trade and investment between the U.S. and eligible Sub-Saharan African (SSA) countries, by reducing or eliminating tariffs applied to African exports of different products. This Act represents a promising approach to economic growth and development in SSA through international trade. (Addisalem, 2013)

This chapter addresses three categories of literature related to the study. The first section presents the AGOA and its role in the SSA countries including Ethiopia in relation to foreign investment. The second section highlights industry parks in Ethiopia targeting AGOA and focuses on Bole Lemi and Kilinto industry parks. The third part focuses on previous literature related to AGOA expansion and its impact on SSA Foreign Investment. Other factors affecting the foreign investment of the country were discussed here. In addition, it explains the gaps identified in the existing empirical literature and the contribution of this study.

2.1 AGOA and its role in SSA in relation to Foreign Investment

As documented by Nail and Mathew (2011) emergence of independent nation states in Africa and Asia in the post-colonial era was accompanied by the introduction of trade preferences. The rationale for granting preferential market access to developing countries emerged in the mid-20th century. Preferences were seen as a way of quickly boosting the industrial capacity of newly independent nations in Africa and Asia and integrating them into the global trading system.

Since the introduction of the Generalized System of Preferences (GSP) in the 1970s, there has been widespread interest in understanding the impact of non-reciprocal trade preferences provided to developing countries. This is due to robust evidence that the expansion of trade boosts growth and development (Grossman and Helpman, 2015).

Prior to AGOA, 48 sub-Saharan African countries were granted preferential accesses to the U.S. market essentially paying a zero tariff subject to certain conditions for a range of exports under the Generalized System of Preferences (GSP). In 2000, the GSP covered about US\$4 billion out of Africa's total exports of US\$23 billion (Aaditya et.al, (2002).

The principal motivation behind AGOA was to stimulate exports from SSA by providing qualifying countries with preferential access to the US market. It initially provided eligibility

to 34 SSA countries. It has since been renewed and extended to 36 countries, with few changes in the number of eligible countries. In 2015, it was reauthorized for the fifth time for a period of 10 years up to 2025.

According to Woubet and Souleymane (2019), there are two key provisions under AGOA. The first provision provides eligible countries duty-free and quota-free access of selected product groups, expanding the list of products under GSP. The second provision provides duty-free and quota-free access for eligible apparel and textiles articles made in qualifying Sub-Saharan African countries for a subset of AGOA eligible countries subject to a cap.

Full list AGOA eligible countries of 2022 are presented in the list below. (Federal Register US, 2022)

- | | | |
|--------------------------------------|-------------------|-------------------------|
| 1. Angola | 13. Eswatini | 25. Namibia |
| 2. Benin | 14. Gabon | 26. Niger |
| 3. Botswana | 15. The Gambia | 27. Nigeria |
| 4. Burkina Faso | 16. Ghana | 28. Rwanda |
| 5. Cabo Verde | 17. Guinea-Bissau | 29. Sao Tome & Principe |
| 6. Central African Republic | 18. Kenya | 30. Senegal |
| 7. Chad | 19. Lesotho | 31. Sierra Leone |
| 8. Comoros | 20. Liberia | 32. South Africa |
| 9. Republic of the Congo | 21. Madagascar | 33. Tanzania |
| 10. Democratic Republic of the Congo | 22. Malawi | 34. Togo |
| 11. Cote d'Ivoire | 23. Mauritius | 35. Uganda |
| 12. Djibouti | 24. Mozambique | 36. Zambia |

Promoting foreign direct investment (FDI) is one of the objectives of AGOA as FDI can support economic growth of Sub-Saharan Africa through job creation, flow of capital, transfer of technology and know-how. (Yeshiwas, 2016). Different factors including the level of economic development of an economy, the policy regime in place, social and political factors may play a role in determining the inflow of foreign direct investment.

There are a number of needs for international companies to enter in another countries market with motive for foreign investment. As documented, Dunning (1993) identified three possible motives for FDI:

- Market seeking FDI: refers to FDI for the purpose of serving local and regional markets. Host countries' characteristics that can attract market seeking FDI include market size of the host country, per capita income and growth (potential) of the market.
- Resource/asset seeking FDI: refers to FDI for the purpose of acquiring resources which are not available in the home country. Such resources include natural resources, availability of raw materials, and productivity and availability of skilled and unskilled labor.
- Efficiency seeking FDI: This kind of FDI occurs when the firm can gain from the common governance of geographically dispersed activities, especially in the presence of economies of scale and scope and diversification of risk.

A survey done by UNCTAD in 1999 examining what industries in Sub-Saharan Africa attracted investment indicated that telecommunications, food and beverages, tourism, textiles and clothing, and mining and quarrying were all potentially attractive investment sectors for foreigners.

As a study by Rebecca (2003) indicate, FDI in sub-Saharan Africa cited fear of national laws, debt burdens, corruption, and poor infrastructure and management as just some of the factors inhibiting investment in the region.

According to Rebecca (2003), AGOA addresses many of these concerns in the eligibility requirements, thereby offering investors added assurances that their concerns will be either alleviated or lessened when they know they are dealing with a country that is eligible for the benefits of the AGOA. To qualify for assistance under the AGOA, governments must protect private property rights, provide national provisions for the resolution of bilateral trade and investment disputes, expand physical infrastructure, and protect worker rights.

Ethiopia was part of the AGOA privilege until January first 2022; during this time several studies indicate the impact of AGOA on export and foreign investment to be high. Murida Kemal (2013) in her study indicated Ethiopia's export performance has registered an increase in trade volume (in absolute terms) under the Act. (Murida K., 2013)

2.2 Industry Parks in Ethiopia and AGOA benefits

Industrial parks also known as Industrial zones or Special Economic Zones include different economic concepts which include Free Trade Zones, Export Processing zones, Free Ports and others. There are different types and forms of industrial parks in the world. The major goals of these industrial parks are producing export-oriented products and becoming competent in international markets.

According to a report by Foreign Investment Advisory Service (FIAS), despite having different names and forms, all industrial parks could be defined in the following ways:

“It is a separately designed business place under the national boundary where the rule of business doing are different from other places in the country. The government also gives special treatment and support for international and domestic investors that operate inside the industrial parks. Some of these special procedures are flexible investment conditions, easily access to international markets and lower customs, taxations and regulatory environment and create an enabling environment for enterprises that operate inside industrial parks (FIAS, 2008).”

The construction and operation of industrial parks development projects are widely used as a major economic development strategy by most policy and decision-makers. A World Bank report revealed that there are more than three thousand industrial parks in 135 countries, which generate more than 68 million job opportunities and five hundred billion trade-related value additions (World Bank, 2008).

The term industrial park is currently a very frequently used word under Ethiopian Economic Policies that it is necessary to concentrate different resources into one single place to see a positive influence on effective use of resource, infrastructures and increase employment rate and productivity Abebe (2020). There are many industrial parks that already started operation, and more are under-construction and in the planning stage. Industrial parks in Ethiopia can be developed and owned by the government, foreign private developers or jointly by both Abebe (2020).

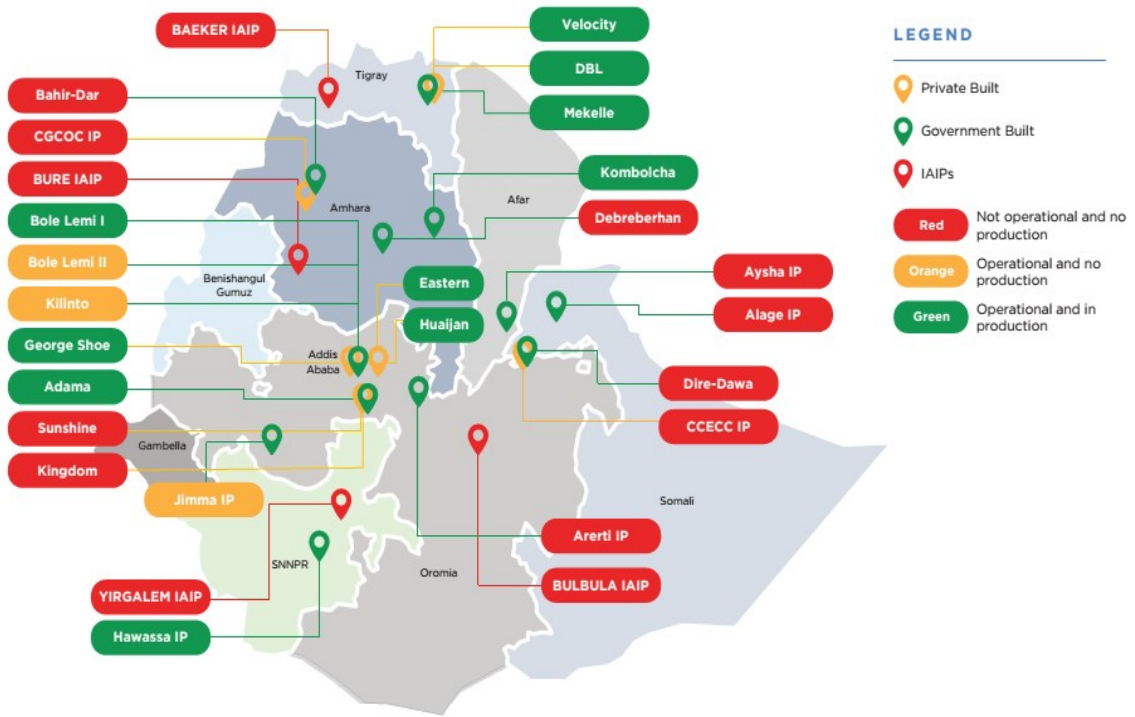


Fig 2.1: Industrial Parks In Ethiopia by Category (Source: Enterprise Partners, 2020)

The general description of two specific industry parks is given below considering the specific intention of the research.

1. Bole Lemi Industry Park (BLIP)

Bole Lemi Industrial Park (BLIP), the first public Industrial Park in Ethiopia, is located in the southwestern part of Addis Ababa City administration in Woreda 11 of Bole Sub-city on the way from Goro roundabout to Summit Area. It is bounded by two rivers (Lemi and Weji) which drain to Big Akaki River.



Fig 2.2: Geographical description of Bole Lemi IP (Source: Endalkachew, 2020)

Already operational, Bole Lemi is Ethiopia’s first industrial park developed by IPDC with a focus on exports. Bole Lemi Phase 1 (156 hectares) has started operations in 2014, with all pre-erected factories already rented-out to more than 12 different corporations including several investors from Taiwan, China, India and South Korea in sectors such as textile, garment and shoe production, creating about 10,000 jobs. According to the agreement with the investors, almost 95 percent of the products are supplied to foreign market, and thereby enhance the nation’s currency earning capacity. Moreover, the firms use local raw materials such as skin and hides as an input for their products. Bole Lemi Phase 2 (186 hectares) is currently being developed in collaboration with the World Bank Group. (Endalkachew, 2020)

Date of permit	Name of investor	Country	Investment activity	Planned investment (1000 US \$)	Investment status	Employees	Sheds
26/11/2013	New Wide Garment (Ethiopian Branch)	Taiwan	wearing apparel (including sportswear)	1,000	Operation	340	1
10/01/2014	Shints ETP Garment Plc	South Korea	garments	7,670	Operation	2,500	5
07/02/2014	Ashton Apparel Manufacturing Plc	India	garments for export	5,000	Operation	648	2
25/12/2013	C & H Garments Plc (M & M Garments Plc)	China	wearing apparel (including sportswear)	5,000	Operation	200	1
17/07/2014	Lyu Shoutao Factory Plc	China	leather products (including gloves)	700	Operation	194	1
18/10/2013	Jay Jay Textiles Plc	India	wearing apparel (including sportswear)	2,000	Operation	937	3
14/10/2013	George Shoe Ethiopia Plc	Taiwan	leather shoe	5,750	Operation	1,100	2
11/06/2014	Vestis Garment Production Plc	India	garments	575	Operation	150	1
17/09/2013	Arvind Lifestyle Apparel Africa Plc (ANF GULF)	India	garments	4,000	Operation	586	2
01/07/2014	KEI Industrial Engineering Consultancy Plc	US/South Korea	garments	2,000	Operation	126	1
18/06/2015	Nitton Apparels Manufacturing Plc	China	garments	4,000	Pre-implementation	-	1

Table 2.1: Factories Registered and Operating in Bole Lemi Industrial Park (Source: United Nations Industrial Development Organization)

2. Kilinto Industry Park

Located in the south of Addis Ababa, Kilinto is currently being developed as IPDC's second park in Ethiopia's lively, cosmopolitan capital. With a total size of 337 hectares, Kilinto will be a mixed-use park and the number one destination for manufacturers in agro-processing, pharmaceuticals, electric and electronics products, wood and furniture, both for export and to serve local consumers. Serviced land in Kilinto is available from early 2016, with pre-erected factory sheds available from the 4th quarter of 2016. It started operation on 2019.

1. Kilinto				
No	Name of the company	Country of Origin	Sector	Contact/Email
1	Intrade Co. (UK) Ltd	UK	Pharmaceuticals	intrade.firalmi@gmail.com
2	Africure Pharmaceuticals (Ethiopia) PLC	Mauritius and Ethiopia	Pharmaceuticals	t.mekonen@avacareglobal.com
3	Glocare Labs (Global pharma)	India	Pharmaceuticals	venkatesh@global-pharma / nayaknalini@gmail.com
4	Dagem Dereje	Ethiopia	Pharmaceuticals	dagimderegeimportexport@gmail.com
5	Zhende Medical Supplies	CHINA	Pharmaceuticals	chenya1@edri.cn
6	W/ro Esegenet Muluken	Ethiopia	Pharmaceuticals	Etsegenetmuluken12@gmail.com
7	Sheker Pharmaceuticals & Medical Equipment & Distribution PLC	Ethiopia	Pharmaceuticals	nardostadele@shegerplc.com
8	Kilitich Drugs Ethiopia Mnuufacturing plc	India	Pharmaceuticals	export@kilitich.com
9	Lewi Import and Export Branch	Ethiopia	Pharmaceuticals	lewiwnw@yahoo.com
10	Primepoint Packaging Plc	Ethiopia	Pharmaceuticals	seifew@gmail.com
11	Ethiopian Pharmaceuticals manufacturing sh.Co	Ethiopia	Pharmaceuticals	mohammeda@epharmsc.com
12	Eva Pharma	Egypt	Pharmaceuticals	girmasol@gmail.com
13	The new miliniyer world manufacturing	Ethiopia	Pharmaceuticals	teshomeb55@gmail.com

Table 2.2: Factories Registered and Operating in Kilinto Industrial Park (Source: Industry Parks Development Corporation, 2020)

2.3 Related literatures on Impacts of being expelled from AGOA on Foreign Investment

Relating economic sanctions and its impact on foreign direct investment of a country was made by U.S international Trade Commission, when trying to investigate economic sanction impacts on Cuban and us economies. According to this investigative paper, impacts were analyzed against service, agriculture and intermediate and manufactured goods. According to this article, economic sanctions didn't impact only the country being sanctioned but also the country sanctioning since investment, trade and monetary flow work both ways.

Many studies have assessed the opportunity or risk posed by US sanctions on third-party trade, with scholarship arriving at somewhat contradictory conclusions. Caruso (2003) finds that limited (none comprehensive) sanctions show a slightly positive effect on trade by third party countries, but he also discovers that comprehensive sanctions lead to other countries reducing their trade, which he attributes to the disruption of trade networks. On the other

hand, Yang et al. (2004) do not find that third-party countries increase their trade with countries targeted by limited sanctions. However, Yang et al. (2004:56) also conclude that “while US comprehensive economic sanctions have caused significant reduction of trade between the United States and the target countries, these same sanctions have caused expansion of trade between the EU or Japan and the target countries.” Alternatively, Early (2009) argues that firms in the sender country are more likely to channel their trade with the sanctioned state through states allied with the sender. These studies provide mixed support for the opportunity argument that when the United States imposes sanctions, trade between the United States and the targeted country may decline but foreign firms will offset the losses (Haass 1997, 1998).

Considering it is still arguable to consider losing eligibility to AGOA as a sanction, an article by Soamiely A. and Amadou S. (2015) indicated the total export of Madagascar after getting expelled from AGOA has declined but with exception of sectors. In particular, textile exports to the U.S., which surged under AGOA, fell abruptly while non-apparel and clothing exports gradually increased.

Similarly, Based on a political economy journal by Irina (2018) by using the data for 184 countries from 1970 to 2010 and bias-corrected estimators; the effects of economic sanctions change over time on foreign direct investment of the country being sanctioned. The article states that high-cost sanctions lead to a significant decrease in FDI in the short run, although they do not have a long-run effect. In many sanctions episodes in the 1990s, FDI has been negatively affected in the short run, although this effect has partially dissipated in the long run. Sanctions episodes from other decades, on average, did not have a significant effect on foreign investment. This articulates one of the researches statements

Impact of losing Eligibility to AGOA on Foreign Investment of the two industrial parks changes over Time

The US suspended Ethiopia from the duty-free trade access, African Growth, and Opportunity Act (AGOA), from which a significant number of people are beneficiaries on January 2022.

While many African countries have taken advantage of this opportunity to improve their economies, Ethiopia is said to have earned more than \$200 million last year in addition to creating jobs for many citizens. It has also been able to attract \$4 billion in foreign direct

investment. However, the exclusion of Ethiopia from the AGOA market by the United States is feared of its heavy impacts, since it will make many citizens lose their jobs as their companies lose access to the free market. Nigist Berta, 2022

According to Nigist (2022) AGOA provides an average of 15% assistance for Ethiopia to be competitive in the market. To put it simply, if a non-AGOA country sells an item for 115 Br, a producer under AGOA can sell the item for 100 Br. This will make it easier for Ethiopia to find a buyer. If Ethiopia is excluded from AGOA, it will lose 15% of this market share

Ethiopia exports more than 90% of its textile products to the United States through AGOA, and that makes up only 6% of its total foreign exchange earnings. AGOA's exports; mainly textiles, leather goods, grains, and coffee, bring about \$260 million a year.

AGOA was also a pull factor that the government used to attract potential investors to the country. It's expected that the ban would affect this foreign investment too. This discussion was supported by the fact that Ethiopia is using five market opportunities including AGOA to attract FDI according to Ethiopian Investment Commission.

According to AGOA's official website, Ethiopia's annual revenue from exports to the United States is \$ 523 million. Out of this, the revenue from AGOA is estimated to be \$ 238 million (Nigist Berta, 2022).

The statement formulated here is designed to test whether foreign firms operating in the two industry parks tend to respond to the increased risk associated with losing AGOA eligibility, or see them as opportunities for increased investment. this research is therefore based on the literature and prior empirical findings that there is a meaningful relationship between AGOA expulsion and foreign investment.

Post AGOA eligibility loss, foreign investment in the two industry parks will decrease

Another factor affecting the foreign investment in the two industry parks was the COVID 19 pandemic. According to Andualem M.et.al. (2020), The Coronavirus disease 2019 (COVID-19) pandemic posed an unprecedented challenge for the Ethiopian economy and the country's ambitious industrialization agenda focused on export-oriented light manufacturing. As part of this agenda, the Government of Ethiopia has invested massively into enabling infrastructure and set up a series of special economic zones industrial parks

(IPs) to encourage foreign direct investment (FDI) into the manufacturing sector to promote exports and job creation. Before the pandemic, 14 industrial parks across the country provided employment for about 88,000 workers.

Because of the different natures of these firms, they are likely impacted differently by the shocks to the global markets. In line with the broader impacts of COVID-19 on industries and value chains around the world, production in Ethiopia's industrial parks has been heavily affected.

The other major influencing factor that made the effort of the industry parks to attract Foreign Investment is the socio political instability. As has been reported by Farole (2011), in his study sponsored by World Bank, by comparing Ghana, Kenya, Lesotho, Nigeria, and Senegal with Dominican Republic, Honduras, Vietnam, and Bangladesh. He revealed that African countries which have good institutional framework such as Kenya and Ghana have a positive impact on industrial parks development whereas in the majority of African countries' industrial parks are ineffective.

The study showed that the effectiveness and efficiency of African industrial parks in terms of investment, exports and employment creation is lower than peers in other continents due to the weak business environment as the major reason for the poor performance of industrial parks in Africa.

The empirical studies so far are mainly about AGOA's effect on economic growth, export performance and FDI of Sub-Saharan African countries. While some studies found significant effect of the trade legislation on export performance, FDI flows and economic growth, others found insignificant effect of AGOA. Although, the main objective of AGOA is to increase trade and attract investment in SSA, it is also important to examine to what extent the investment that are driven by AGOA are contributing to economic growth in general and employment in particular of SSA countries.

More research is therefore needed on the subject to establish knowledge about the contribution of AGOA driven FDI inflows on job creation in AGOA beneficiary SSA countries. Ethiopia is one of these countries and a detailed study is missing on FDI inflows to Ethiopia under the act and its contribution on job creation. This study therefore, plans to

build on the existing literature to examine the employment effect of AGOA related FDI inflows to SSA and particularity to Ethiopia.

Chapter Three: Research Methodology

3.1 Introduction

This research paper explains the impacts of losing AGOA eligibility on the foreign investment of Bole Lemi and Kilinto industrial parks. The paper tried to investigate the actual effects on the participation of foreign investors in the specified industry parks by mainly collecting and analyzing secondary data from Industry Parks Development Corporation and Investment Commission of Ethiopia. Data using questionnaire and interview were collected from staffs of Bole Lemi and Kilinto industrial parks. This chapter will address the research methodology adopted for capturing the data needed to achieve the aim and objectives of the research. It is organized in sections covering introduction, Research approach and Research design.

3.2 Research Approach

To test the effect of losing AGOA eligibility on the foreign investment of the two industry parks, it was hoped to gather three years annual data of foreign investment inflow in the two industry parks by cross referencing the data with the net FDI inflow as percent of GDP to the country using World Bank World Development Indicators as a source. Therefore the net FDI inflow to the two industry parks was used as the dependent variable. This variable reflects the ability of foreign investors to sustain or modify their existing investment, decide to take on new ventures or disinvest entirely based on the economic sanctions. (David & Glen, 2013)

The main independent variable, Losing AGOA eligibility, will be measured in several different ways. The data analysis included an all sanctions variable as the first predictor, and then disaggregates the sanction variable into two different measures.

One of the control variables is effect of COVID 19 on the FDI of the two industry parks and the other variable is effect of conflicts and Human Right Violations on the FDI of the two industry parks.

Therefore, the research project approaches to the topic considered by comparing Net FDI inflow into the country and EXPORT and Employment performance of the two industry parks pre and post AGOA expulsion to get a glimpse of the situation.

In this regard both the independent and dependent variables will be determined from secondary data and this information will be verified by applying limited questionnaire and interview surveys.

3.3 Research design and methods adopted

A study design is a means of providing a plan of frame work for data collecting and analysis. The nature of the research topic, its aims and objectives and the resource available largely determine its design (Gill and Johnson, 2002; Creswell, 2003)

The basic questions that need to be addressed in this thesis were identified from the research questions as:

- Did losing eligibility of AGOA impact foreign investment inflow to Ethiopia?
- Did losing eligibility of AGOA impact foreign investment inflow to Bole Lemi and Kilinto Industrial Parks?
- Which sectors, off of which operating in the stated industry parks, were impacted more in terms of export performance?
- Were the COVID 19 pandemic and the conflict in the country contributory?

These criteria determine the methodology adopted in carrying out this research. As a result of the diversity in the types and sources of data required for answering these questions, the study used data which are qualitative and quantitative in nature. It is often recommended to direct the research to either of the two. However, Bryman (2004, pp. 437–450) warns against a too dogmatic distinction between the two types of methodology. He concludes that research methods are not determined by epistemology or ontology and that the contrast between natural and artificial settings for qualitative and quantitative research is frequently exaggerated. Furthermore, quantitative research can be carried out from an interpretivist perspective, as can qualitative research from one of natural science. Quantitative methods have been used in some qualitative research, and analyses of quantitative and qualitative studies can be carried out using the opposite approaches.

The objectives of a particular research project delineate the intentions of the researchers and the nature and purpose of the investigations. In this regard, the main objective of this specific research is to explain and evaluate. As a research strategy, the research used flexible design. Flexible designs, a case study approach for this specific research, evolve during data collection and are associated with a qualitative approach although some quantitative data may

be collected where both quantitative and qualitative methods are appropriate and multiple methods of data collection are often applied.

From the two main categories of design; observational and experimental, the study was found to be observational for the minimum intervention of the researcher. Several literatures related to the aims and objectives of the research were reviewed to provide sufficient explanation about impacts of losing AGOA eligibility and related issues by considering past and present events in relation to the case of Bole Lemi and Kilinto industrial parks. This further classified the research design into descriptive explanatory case study.

3.3.1 Target Population, Sample Frame and Sample Size

The study employed the industrial parks in Ethiopia as the overall population and out of it industry parks around Addis Ababa as target population for ease of access as well as limitation of mobility. From government owned industry parks around the capital Bole Lemi and Kilinto industrial Parks were used as sample size.

The population selected was based on the participants' awareness and expose towards the research topics. Since the numbers of available sources were very limited, the total population (twenty in number) was used in the questionnaire survey and off of these, six participants were selected for a follow up interview. These six were selected based on their current participation in handling the administration of the two industry parks.

3.3.2 Data collection methods

Any research uses either or both of primary and secondary data. The primary data is the original information collected by the researcher for a specific purpose and secondary data is information collected by others. This study used both the primary and secondary data. The secondary data was obtained from internal and external sources. Internal sources such as the two Industry parks financial reports, and human resource reports were collected. While external data were collected from World Bank reports.

Apart from observation, interviews and questionnaire were used as a primary information collecting tool. The survey was designed to ensure that it elicits useful responses to the questions raised. This was achieved by making sure the questions were easily readable and understandable by the respondents, short, well organized and few.

In view of the nature of feedbacks, it was resolved that the questionnaire be designed to contain both open ended and closed ended questions. Having their own advantages and disadvantages, combining them (open and closed) was essential by reducing or eliminating the disadvantage of each whilst gaining their advantage. The questionnaire therefore contains multiple choice questions requiring ticked-box responses and open ended questions. Provisions were also made for respondents to contribute in free text forms any further comment or views they have in respect of each question. A copy of the final version of the questionnaire is indicated in the appendix. In order to reinforce the results of the questionnaire, interview and data from archival reports were collected.

The questionnaire was developed based on the research questions and the researcher's intention to get as much specific information as possible from the participants. The reason behind each question is discussed as follows

The questionnaire contained four parts questions and an introduction with a total of 7 pages. The first part requested personal information of the respondent for the purpose of data refinery and evaluation of the responses. The second part raised questions that mostly require the general knowledge of the respondents and apart from the information gathering each questions in this part were used to collect certain attention of the respondent towards the topic of the study.

The third part was where the specific questions regarding the subject matter are raised and the respondent expected to use company specific information to answer. This part has two major questions and ten sub questions where it was structured as closed and open ended. Items which were believed to be too technical or theoretical were provided with explanations.

The last part requested the general opinion or recommendation of the respondent regarding the subject matter so as to gather information on the readiness of the respondent in analyzing the sector's environment.

3.3.3 Data analysis

The questionnaire surveys and interviews were analyzed in relation to the theoretical propositions. The fact that the number of respondents was few did not allow the use of extensive descriptive statistics. Instead, tabular presentation followed by discussions and reports were used. The analysis was conducted in perspective with the research objectives and follows the topics of impact of economic sanctions on the FDI of the two industry parks.

Chapter Four: The Result

4.1 Introduction

This chapter presents results and analysis of the responses to individual questions in the lights of comments made on the subject matter by researchers and experts. The rest of this chapter is organized by grouping the questions under the heading groups of survey responses, characteristics of respondents and organizations, losing AGOA eligibility as causes of decreased FDI in Ethiopia, decreased FDI exposition of Industry parks and economic sanctions administration.

The survey methods for this research comprises of questionnaires, interviews and desk studies on effects of losing AGOA eligibility on foreign investment by taking the cases of Bole Lemi and Kilinto industry parks. It was possible to gather information from

- Industry Parks Development Corporation (IPDC)
- Investment Commission
- Bole Lemi Industry Park
- Kilinto Industry Park

The questions were informed by literature reviews and research questions reported on the previous chapters.

4.2 Survey responses

Out of the 20 questionnaires sent out a total of 17 questionnaires were returned and which ALL 17 were properly completed that could be used for analysis. For the others (non returned questions), respondents stated having little to no experience on the topic. This results a response rate of 85%, which is within the expected range (20-40%) typical of similar surveys; (Nuhu Bramah, 2008 citing Furtrell, 1994).

As indicated in the methodology this research follows a flexible designs, a case study approach for this specific research, which evolved during data collection and are associated with a **qualitative approach** although some quantitative data may be collected where both quantitative and qualitative methods are appropriate and multiple methods of data collection are often applied.

4.3 Characteristics of the respondents and their organization

Table 4.1 shows the distribution profile of the respondents' organization in terms of type, size and designation.

Table 4.1: Respondents organizational profile

No	Type of Organization	Frequency	Percentage
1	Industry Parks Development Corporation	4	23.53
2	Ethiopian Investment Commission	2	11.76
3	Bole Lemi Industry Park	6	35.29
4	Kilinto Industry Park	5	29.41

Table 4.2: Respondents designation

No	Designation	Frequency	Percentage
1	Experts	9	52.94
2	Senior Experts	8	47.05

With regard to the size of the respondents, as the survey indicates a narrow range of spectrum, it is a result of the specificity of the research on only the two industry parks.

The designation of the respondents shows a relatively narrow variety of professionals which are relevant to foreign investment in the Industry Parks.

Table 4.3 below shows the experience of the respondents. The responses indicate the specific experience they have on the positions during the response.

Table 4.3: Experience of respondents in the sector

Function	Years of experience									
	0 year		1-3 years		3-6 years		6-9 years		>10 years	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Senior Experts			3	37.5	4	50	1	12.5		
Experts			6	66.67	3	33.33				

As can be seen half of senior experts have stayed in the sector 3-6 years and more than half of the experts experience is 1-3 years which indicates most of the senior experts were participant in the sector since the operation of Industry Parks in Ethiopia and thus were ideally suited to comment on the issues dealt within survey.

4.4 Losing AGOA eligibility as cause of decreased FDI in Ethiopia

As indicated in the previous chapter, economic sanctions are commercial and financial penalties applied by one or more countries against a targeted self-governing state, group or individual. They are not necessarily imposed because of economic circumstances; they may also be imposed for a variety of political, military and social issues. (Getinet and Hirut, 2005)

In 2021 the United States introduced sweeping economic sanctions against Ethiopia as a consequence of the conflict on the northern part of the country.

The first round of sanctions in September 2021 was relatively mild targeting persons and entities, but the sanction enacted in January 1 2022 was more stringent, removing Ethiopia from African Growth and Opportunity Act (AGOA). (Getinet and Hirut, 2005)

To investigate the extent to how much FDI inflow to the country was affected by losing the AGOA eligibility, secondary data from World Bank Indicator, updated on 2022, was referred.

According to UN's definition the net FDI inflow (% of GDP) indicates the net inflows of foreign investment made by non-resident investors in the country's economy divided by GDP (<https://www.un.org>).

The data from World Development Indicators of the World Bank indicates that in 2019, net FDI inflow (% of GDP) to Ethiopia was 2.65 and the coming year it was 2.2.

Table 4.4 FDI, Net inflows (% of GDP) of Ethiopia from 2016-2020 (source: The World Bank, worldbank.org accessed on 06/09/2022)

Year	2016	2017	2018	2019	2020
FDI, Net inflows (% GDP)	5.576	4.912	3.987	2.657	2.225

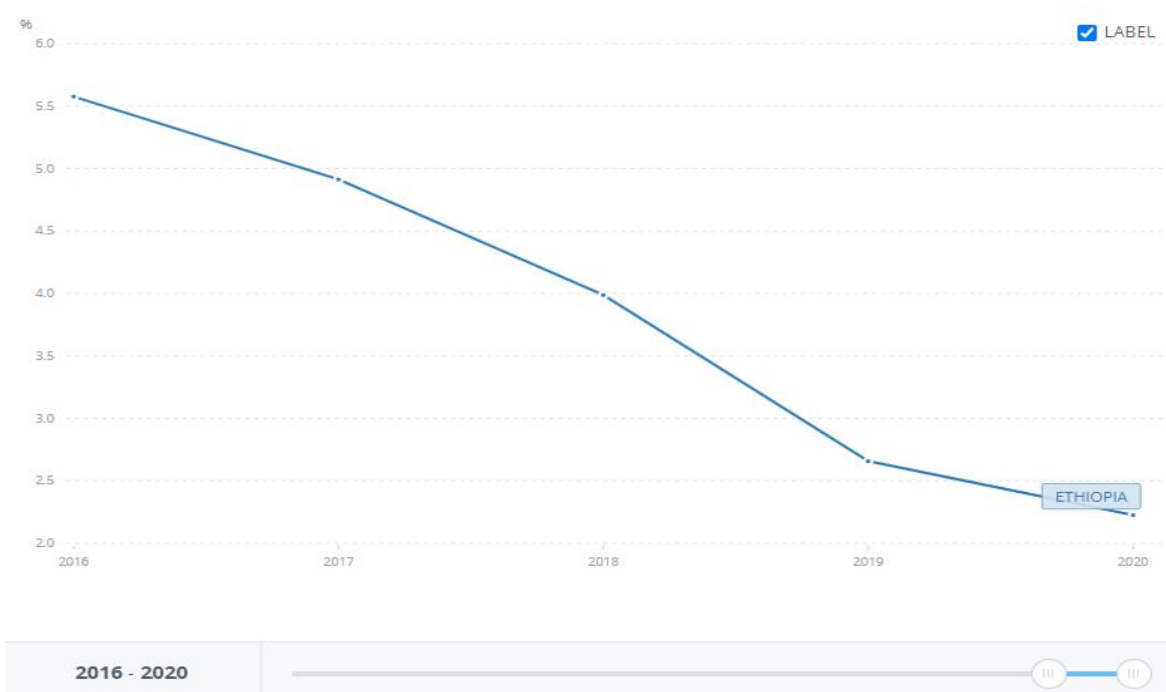


Fig 4.1: FDI, Net inflows (% of GDP) of Ethiopia from 2016-2020 (source: The World Bank, worldbank.org accessed on 06/09/2022)

The negative FDI net inflow through the captured years indicates the value of disinvestment by foreign investors was more than the value of capital newly invested in the reporting country. The reasons behind these disinvestments must be studied respectively, but to this projects objective, COVID 19, instability and losing AGOA benefits were considered.

Therefore respondents were asked to mark their level of agreement with the question

‘Do you consider economic sanctions as major cause of decreased Foreign Direct Investment (FDI) inflow to our country (Ethiopia)?’

Using three options, yes, no and I don’t know. Table 4.5 shows the result; which suggests more than half of senior experts and experts agree to the question.

Table 4.5: sanctions as causes of decreased FDI in Ethiopia

Options Given	Senior Experts			Experts		
	Freq	%	Cumulative	Freq	%	Cumulative
Yes	7	77.78	77.78	5	62.5	62.5
No	1	11.11	88.89	2	25	87.5
I do not know	1	11.11	100	1	12.5	100
Total	9	100		8	100	

An important consideration in the design of a frame work for improving operational performance of the industry parks is Identifying how sever the effects are. In this respect respondents were asked to rate the frequency of severity based on the sender and the target, using four points scale (high, medium, low and rare). Table 4.6 shows a summary of the results.

Table 4.6: Severity of sanctions based on the sender and the target

no	Cause	Frequency checked				Grade*	Rank
		high	medium	low	rare		
A	Based on Sender						
1	US sent Sanctions	11			1	45	1
2	EU sent Sanctions	4	4		3	31	2
B	Based on Target						
1	Asset Freezes	1	3	1	6	21	2
2	Finance Sanctions	8		1	2	36	1
4	Travel Bans			5	6	16	3
(*, grade is given by multiplying the number of responses with the corresponding credits high= *4, medium= *3, low= *2 and rare= *1)							

From the respondents’ perspective, US sent sanctions based on the sender and financial sanctions based on the target ranked first. This indicates the only US sent financial sanction against which is expelling Ethiopia out of AGOA benefits is the most sever. This also implies the research project is directed towards the problem mostly agreed by the respondents.

4.5 Decreased foreign investment to the two industry parks

In order to strive for better development prospects, Ethiopia has launched the development of Industry parks since 2014, Bole Lemi being the first. (Endalkachew, 2020) but since 2022 Ethiopia faced sanctions including expulsion from AGOA which led to the research’s statment stating:

‘Post AGOA eligibility loss, foreign investment in the two industry parks will decrease’

To confirm the validity of this idea as a justification, or otherwise for the need to seek current status of industry parks, respondents were asked

‘Has the Industry Park Development in your vicinity been exposed to decreased Foreign Direct Investment inflow in the past three years?’ table 4.7 shows the result.

Table 4.7: Statement that if the two industry parks were exposed to decreased FDI in the past three years

option	Bole Lemi			Kilinto			IPDC			Investment Com		
	Freq	%	cmltv	Freq	%	Cmltv	Freq	%	cmltv	Freq	%	Cmltv
Yes	5	83.33	83.33	1	20	20	4	100	100		0	0
No	1	16.67	100	4	80	100		0	100	2	100	100
total		100			100			100			100	

The results from the questionnaire survey indicate respondents from industry parks Development Corporation agree with the statement while respondents from investment commission state otherwise. 83% of Bole Lemi respondents said the statement was true and 80% of Kilinto Industry Park respondents disagree.

This contradiction led to further investigate the actual FDI trend in the two industry parks by referring the follow-up interview transcripts; Mr. Mengistu Reggassa, the GM of Kilinto Industry Park, stressed the market orientation of Kilinto IP to be import substitution rather than export which we used to measure Foreign Investment. Similarly the general report document collected from Kilinto IP indicates out of the four operational factories three were owned by local investors and all of them sell their products to the local market.

Table 4.8 Operational Companies in Kilinto IP :source Kilinto IP Report(2022)

S.N	Company Name	country of origin	Sector	Target market
1	Royal medical manufacturing plc.	Ethiopia	Pharmaceutical	Ethiopia
2	The new millennium world medical device manufacturing plc.	Ethiopia	Pharmaceutical	Ethiopia
3	TKBD medical supplies manufacturing and distribution plc.	Ethiopia	Pharmaceutical	Ethiopia
4	Glocare Pharma Manufacturing PLC	India	Pharmaceuticals	Ethiopia

On the other hand, the interview with Mrs Engidu T., ISFS head of BLIP, indicates the foreign investment has decreased in BLIP more specifically due to AGOA where 80% of the parks product targets US markets. But it was mentioned on the interview that the exports, given several measures, shows increment but not as much as planned. The report on export

for BLIP from 2016-2022 shows steady but slow increase both in export and employment as shown below

Measure	Year					
	2017	2018	2019	2020	2021	2022
HR	9187.00	13196.00	14820.00	16763.00	16391.00	21288.00
Export /USD/	16,948,090.13	23,896,737.89	30,842,136..81	40,872,684.51	44,201,519.60	46,656,193.90

Table 4.9 Six years HR employment and Export report of BLIP: Source BLIP ISFS 2022

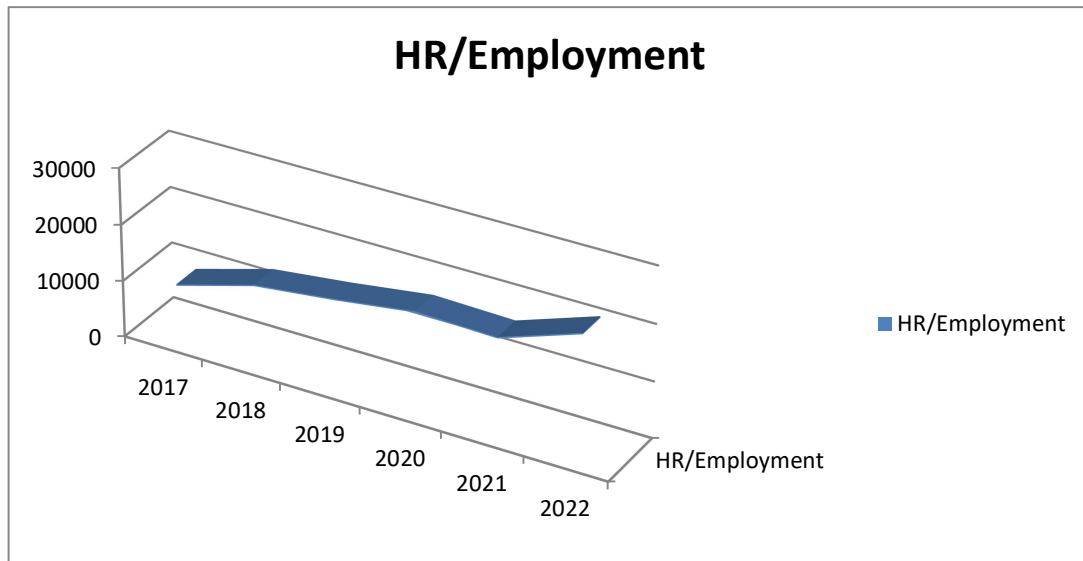


Fig 4.2 Employment curve through six Years of BLIP

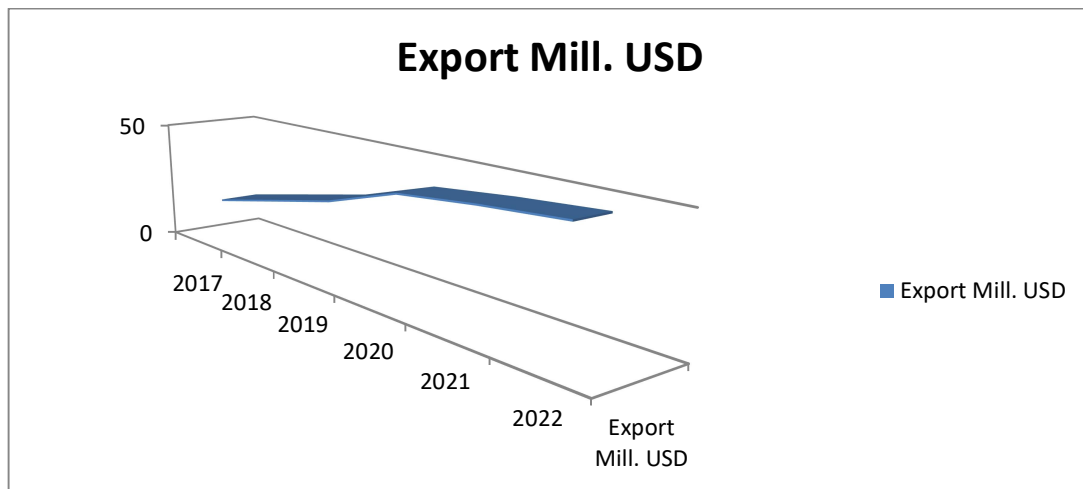


Fig 4.3 Export in Mill USD for six years of BLIP

The figures and table above clearly indicates the BLIP has not been exposed to disinvestment in the series of years indicated.

Questionnaire respondents who agreed to the statement above were also asked how they identified the negative FDI inflow and they all checked the “due to decreased investment” box contradicting the results of secondary data as has been indicated on Tables 4.8 and 4.9.

In addition to this option, questionnaire respondents were given options of identifying negative FDI systematically with detail definitions where none of them checked.

The extent of disinvestment in the parks was also asked. Given 5 point scale (where ‘0-2.5%’ = very low, ‘2.5-5%’= low, ‘5-7.5%’= medium, ‘7.5-10%’= High and ‘>10%’= very high), table 4.10 below shows the respondents result. (Source: Chicago Metropolitan Agency for Planning Analysis of Illinois Department of Revenue data, 2014)

Table 4.10: extent of disinvestment in the two parks

	Disinvestment extent					
	0 to 2.5%	2.5 to 5%	5 to 7.5%	7.5 to 10%	>10%	No Answer
	(very low)	(low)	(medium)	(high)	(very high)	
Frequency checked			2		6	1
Percentage			22.22		66.67	11.11

Questionnaire respondents who answered there is a negative FDI in the previous sections were asked the causes by portraying a list of causes based on sources of literature under major groupings of issues (Country’s market situation, Resource related issues, efficiency related issues and socio political issues)

In this respect, respondents were asked to rate the frequency using four point scale (high, medium, low and negligible). Participants were also asked to add to the list any other reasons they consider relevant. Tables below show summary of the results.

Table 4.11: Cause of negative FDI (country's market situation)

	cause	frequency checked				Grade*	Rank
		High	Medium	Low	Negligible		
1	Market size of the host country	1	1	1	3	12	1
2	Per Capita income		1	2	3	7	3
3	Market Potential	1	3	2	3	11	2

*(grade is given by multiplying the number of responses with the relevant credits high= *4, medium= *3, low= *2 and negligible= *1)

Respondents also added peace and security and political instability to the list

Table 4.12: Cause of negative FDI (Resource Related Issues)

	cause	frequency checked				grade*	rank
		high	medium	low	negligible		
1	Availability of natural resources	1	1	3	3	16	2
2	Availability of raw materials	1		5	2	13	4
3	Availability of skilled and unskilled labor		3	2	3	16	2
4	Productivity of skilled and unskilled labor	1	2	3	2	18	1

*(grade is given by multiplying the number of responses with the relevant credits high= *4, medium=*3, low= *2 and negligible= *1)

Table 4.13: Cause of negative FDI (Efficiency Related Issues)

	cause	Frequency checked				Grade	Rank
		High	Medium	Low	negligible		
1	Risk Diversification	4	3		1	26	1
2	Supply/Value chain optimization		3	2	3	16	2

*(grade is given by multiplying the number of responses with the relevant credits high= *4, medium= *3, low= *2 and negligible= *1)

Table 4.14: Cause of negative FDI (Socio political Issues)

	cause	frequency checked				grade*	rank
		High	Medium	Low	negligible		
1	Losing Eligibility to AGOA	9				36	1
2	Individual specific sanctions		2		6	12	2

*(grade is given by multiplying the number of responses with the relevant credits high= *4, medium= *3, low= *2 and negligible= *1)

Table 4.12 indicates productivity of skilled and unskilled labor as the major cause for negative FDI considering resource related issues. Table 4.13 on the other hand shows risk diversification as the major cause when efficiency related issues are in play. Table 4.14 regarded losing eligibility to AGOA as major cause of negative FDI considering socio political issues.

As has been indicated earlier, the export and HR report from BLIP shows no sign of decrease. But referring the interview transcript with BLIP's ISFS head shades a light on how losing eligibility to AGOA impacted the export by stating factories were forced to change their sectors and those who already produced were made to increase their selling price losing to the price competition.

Another reference from the interview transcript of Mr. Annuar K., the GM of BLIP Investment Commission Branch Office, indicated the foreign investors were exposed to canceling of orders and tight schedules for losing AGOA benefits.

When questionnaire respondents were openly asked to elaborate the effects of negative FDI inflows on the development of functioning industry parks, most of them pointed out difficulty of repaying debts, the country is in for the construction of the parks. Other points raised were not meeting the job creation opportunity plan, not being able to transfer technological advancements as planned and decreased foreign currency. Two of the respondents answered there were no effects.

For questionnaire respondents who replied the IP in their vicinity was not exposed to negative FDI were asked to reason their answers with their own words and the answers are; investors were allowed to supply to the domestic market as well as use variable market strategies. Supporting the above replies, the BLIP export and Human Resource data shows a steady and slow growth. As the interview with the GM of kilinto IP indicates the parks purpose of establishment (which is import substitution) will not be susceptible to FDI decline due to sanctions especially in relation to AGOA.

4.6 Economic Sanction Administration

In the literature it was indicated that in many sanction episodes of 1990s FDI has been negatively affected in the short run and this effect has partially dissipated in the long run. Irina (2018)

This led to the following statement

‘Impact of losing Eligibility to AGOA on Foreign Investment of the two industrial parks changes over Time’

So as to gather information of such analysis, respondents were asked whether their organization made arrangements to prevent disinvestments due to economic sanctions.

Table 4.15: Economic Sanction Administration

Options	Checked Answers
Yes	3
No	14

The above table shows there is less preparation at the senior experts and experts level to assess impacts of economic sanctions. This was backed by the responses of interviewees who indicated such assessments should be done at a higher level consisting of National Bank, Trade and Industry Minister and Investment Commission.

Those who replied “Yes” to the question were again asked how much of their efforts recognized based on effectiveness; implementation and execution where none replied. This is also backed by the interview response from the BLIP’s ISFS head where she indicated a number of assessments were passed to the decision making authorities and never seen any application.

The majority of respondents, who indicated no arrangements were made in their respective organizations, were also asked to elaborate the reason. They replied

- Since no disinvestment is observed, there is no need for such arrangements
- Not impacted so far
- Not have been informed and
- It’s not mandated.

For the effect of the sanctions to decrease in time, both interviewees from BLIP and Investment Commission indicated that investors are now adapting to the changes. They also stressed that AGOA sanction will be lifted soon without indicating any reason.

Chapter Five: Conclusion and Recommendation

5.1 Introduction

It is well documented that economic sanctions are supposed to impact the economic development of a country. Consequently, there has been much desire to reduce or completely avoid this problem. Industry parks play a major role initiating and driving foreign investment as opposed to sanctions. Hence, impact of the economic sanctions, in terms of foreign investment, on these parks may look inevitable. Even if impact is less likely, the economy supported through these parks should be protected from such challenges by making strategic decision in developing and operating industry parks.

It is this reason that stimulates to investigate the impact of losing AGOA eligibility on foreign investment of the two industry parks. This was achieved through the use of desk studies, questionnaire surveys distributed to stake holders and subsequent interviews with the involved parties. The purpose was to use the result from this investigation and that from review of the literature to determine the effect. The major findings and conclusions from the previous chapters and recommendations for further researchers are reported below.

5.2 Research findings

Drawing from the primary data collected and the literature review, the main research findings obtained in respect of the research objectives are as follows

1. Questionnaires and interviews have concluded that the inflow of foreign investment to the country is affected by economic sanctions and mainly a sanction from the US on financial systems which is basically expelling Ethiopia from AGOA rights has drastic effect. As 77% of senior experts and 62.5% of experts believe losing AGOA eligibility as major cause of decreased FDI to Ethiopia.
2. Market size of the country, productivity of skilled and unskilled labor, efficiency related cases and socio political issues were categorized as major causes of negative FDI
3. Bole Lemi IP was impacted the most by losing eligibility to AGOA because 80% of the market was to US and in the opposite since Kilinto IP is established to substitute the pharmaceutical import of the country, it was not Impacted. Similarly literatures

indicated that COVID 19 pandemic and the conflict in the northern part of the country had their share in the declined foreign investment.

4. Even though questionnaire surveys indicate the BLIP was affected by losing AGOA eligibility, HR and Export reports indicate a growth in both opposing the result.
5. Factories and the IP administration are looking for ways to divert the effect together in BLIP while the rest of considered organizations have no plan in the near future.
6. Most of the respondents and report data indicate the effect of such economic sanctions will decrease through time changing the long term effect of sanctions

Effect assessment and analysis methods have not been employed so far except observing the decline of investment, which leaves no justification

5.3 Discussion

One of the methods of accelerating development of a country's economy by promoting a private external finance is encouraging foreign investment. And one of the methods of encouraging foreign investment, as has been reported on this document, is to establish suitable infrastructure for foreign investors to operate in.

The country Ethiopia has been developing such infrastructures in the name of industry parks since 2014 targeting foreign investors and foreign market destinations. Considering the opportunity provided by AGOA, it is considered as a decision in the right track. Yet since 2021, due to the conflict in the northern part of the country, several economic sanctions including expelling the country from AGOA were imposed.

Following a qualitative approach, this case study was conducted to determine the effect of losing AGOA eligibility on the foreign investment of Kilinto and Bole Lemi Industrial parks. As reported on the research findings, Bole Lemi was found to be the only industry park affected. But this was also contradicted when considering data from Export and HR.

Therefore, the research concludes the effect of losing AGOA eligibility on the foreign investment of Kilinto Industry Park is none. BLIP is affected and it was not possible to determine the degree of impact due to contradicting results. Covid 19 and socio political instability were also determined as causes for negative FDI inflow.

The research also concludes the effect of losing AGOA eligibility on foreign investment will phase out eventually through time.

5.4 Best practice recommendations

Objectively this research was conducted to determine the impacts of recent economic sanction (Losing eligibility to AGOA benefits) on the economic development of Ethiopia through foreign investment in the considered sample industry parks.

The project did find out that there was no effect in Kilinto IP because the industry park was established to substitute imported pharmaceutical goods. On the other hand considering Bole Lemi IP, literatures, questionnaire surveys and interviews indicate the effect while HR and Export data indicate no effect. It is thus, essential to conduct impact assessment studies applying acceptable scientific methods to determine the exact situation.

In trying to acknowledge the above general objective; it was also tried to assess the foreign investment attraction potential of the two industrial parks before and after AGOA which was found to be beyond the mandate of the two industry parks. This indicates emphasis has to be made in policy preparation and making to expand the mandate of the IPs so as to actively engage operational staff in marketing and advertising.

It was also hoped to determine the degree of impact on the export performance of manufacturing or processing sectors in the two industrial parks when conducting the research project, yet it was not possible to accurately determine the degree other than indicating whether there was an impact or not for lack of data. Yet it is of paramount importance to collect important information to scientifically determine the degree of impact.

Indicating directions to manage effects of economic sanctions was also another objective and since the research indicated a very limited preparation by the stakeholders it is advisable to model and simulate effects, if persist, so as to avoid last minute decisions as observed in the conclusion.

The following suggestions were also proposed

- Investors operating in the industry parks should oversee the global situation for them to avoid order cancellation
- Marketing and contracting should somehow involve the industry parks administration in collaboration with foreign investors so as to make a liable and variable market relationship.
- For foreign investors affected by sanctions, other challenges such as

- Prolonged bureaucracies
- Difficulties in acquiring or retuning trade licenses
- Customs clearance and declarations
- Banking services and loans

Should be adjusted so as to compensate their loss

- Opening the domestic market for the already made products is necessary
- The dynamic nature of sanctions suggests that a variety of experts and authorities would have to work together in a team to ensure adequate and timely analysis of the long and short term effects.

5.5 Future area of research

Other researchers should develop this topic and gather information from Hawassa and Bole Lemi, two of the most affected industry parks.

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Appendices

A. Sample Questionnaire

Questionnaire

(To be filled individually)

Introduction

This questionnaire is prepared so as to gather all the necessary information regarding impacts of economic sanctions on the Foreign Direct Investment/FDI/ of the country by considering Bole Lemi and Kilinto Industry parks as a case study. All the information will be used academically for a masters project entitled ‘**Effect of economic sanctions on foreign investment; the case of Bole Lemi and Kilinto industrial Parks, Ethiopia**’. Objectively this research hopes to investigate and assess impacts of economic sanctions on FDI of the two industry parks and to recommend simplified and applicable methods of managing the impacts for future use. In doing so, 11 major questions are prepared with a general focus on personal information of the respondent, general information about the subject matter, specific information in relation to the respondents’ profession and general opinions or recommendations of the respondent.

Very important: Considering the small number of professionals on the sector and the newlines of the project, your honest, positive and genuine response is highly valuable to the outcome of this research and hence to the corporation.

NB: Rest assured that all your responses will be used and analyzed anonymously and will be important to this academic research only. If any extra information or explanation is needed, you can reach me at;

ROBEL ASSEFA

TEL - +251912105972

E-mail - robela@yahoo.com

Post graduate student – ‘Business Leadership’ at School of Commerce, Addis Ababa University. ADDIS ABABA

Best regards, the researcher.

Part 1

Personal information

1. Name _____(optional)

2. Gender _____

3. Educational Level

Certificate Collage Diploma Collage Degree

Other_____

4. Workplace/organization _____

5. Position/work title _____

6. Address (optional)

a. Mob. _____

b. E-mail _____

5. Work experience in the industry parks development sector

1-3 years

3-6 years

6-9 years

more than 10 years

Part 2

General Information

Economic sanctions are commercial and financial penalties applied by one or more countries against a targeted self-governing state, group, or individual. Economic sanctions are not necessarily imposed because of economic circumstances—they may also be imposed for a variety of political, military, and social issues.

1. Further the above definition, do you consider economic sanctions as major cause of decreased Foreign Direct Investment (FDI) inflow to our country (Ethiopia)?

Yes

No

I do not know

a. If your answer to question 1 is 'Yes', what do you think of the severity on the Industry Parks Performance (check/rate in order of recurrence)

a. Based on the sender

	<u>High</u>	<u>medium</u>	<u>low</u>	<u>rare</u>
▪ US sent Sanctions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
▪ EU sent sanctions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b. Based on Target

	<u>High</u>	<u>medium</u>	<u>low</u>	<u>rare</u>
▪ Asset Freezes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
▪ Finance Sanctions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
▪ Travel Bans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Part 3

Specific Information

1. Has the Industry Park Development in your vicinity been exposed to decreased Foreign Direct Investment inflow in the past three years?

Yes

No

I. If your answer to the above question is 'Yes' then How did you identify/know there was a negative inflow?

i. By implementing standard mechanisms/techniques

- (Transactions that increase the investment that foreign investors have in enterprises resident in the reporting economy) – (transactions that decrease the investment of foreign investors in resident enterprises).
- (the net flow of nonresident direct investment in the recording economy)- (the net flow of resident direct investment abroad).

ii. Due to decreased investment

iii. Other, please specify _____

a. How do you evaluate (in percent) the extent or volume of disinvestment the past three years on the overall IPDC's plan

0-2.5% 2.5-5% 5-7.5% 7.5-10% more than 10%

b. What do you think causes of those negative FDI inflows *(rate/check in order of their effect on the overall FDI)*

• country's market situation	<u>high</u>	<u>medium</u>	<u>low</u>	<u>negligible</u>
○ market size of the host country	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ Per Capita Income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ Market Potential	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ Other, please specify _____				

• Resource related Issues	<u>high</u>	<u>medium</u>	<u>low</u>	<u>negligible</u>
○ availability of natural resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ availability of raw materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ availability of skilled and unskilled labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
○ Productivity of skilled and unskilled labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other, please specify _____

- Efficiency related issues
- high medium low negligible
- Risk Diversification
- Supply/value chain optimization
- Other, please specify _____

- Socio Political issues
- high medium low negligible
- Losing Eligibility to AGOA
- Individual Specific Sanctions
- Other, please specify _____

c. What were the effects of the negative FDI inflows on the development and functioning of Industry Parks?

II. If your answer to question number 1 (Part 3) is 'No' then why do you think so?

2. Has your company/Industry Park made arrangements to prevent disinvestment due to economic sanctions so far?

Yes No

a. If your answer is 'Yes' then,

- How many percentiles of your plans were effective?

100-75% 75-50% 50-25% 25-5% none

- How many percentiles of your plans were implemented?

100-75% 75-50% 50-25% 25-5% none

- How many percentile of your plans were declined (not excused)

100-75% 75-50% 50-25% 25-5% none

- Other, please elaborate _____

b. If your answer is no, why do you think so?

B. Sample Interview Questions

Interview question

This interview will be conducted in the hopes of getting all the available information from the managerial level staff of Bole Lemi and Killinto Industrial Parks and Industry Parks Development Corporation of Ethiopia.

Interviewee - _____

Interviewer:- **Robel Assefa, student**

- 1) General overview of the Industry Parks (current status)
- 2) Please explain the role of Foreign Investors in the operation of the industry Park (as an organization), any difficulties observed with the foreign investor's activity so far since the enforcement of certain sanctions against Ethiopia more specifically in relation with AGOA?
- 3) Comments on the effects of Ethiopia being expelled from AGOA on the operations and functions of industry parks, disadvantages, advantages and/or recommendations for future use?
- 4) Any impacted operations by the collective sum of sanctions? If so

- Were Cause and effect analysis or impact assessments made?
- Problems encountered during the analysis

If not

- Are there any plans in line?

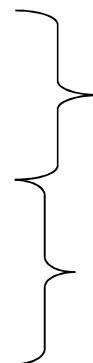
- 5) Any disinvestment claims? If so

- **Can the detail documents be availed?**
- What procedures you used for the claims and what were the decisions (some examples If possible)

- 6) Recommendations for future on

- FDI inflow increment
- Promoting efficiency seeking FDI
- Personnel and professionals uprising

- Averting or resisting strategies
- Prediction modeling



In relation to FDI and Industry parks Capacity building

In relation to sanctions and impact management

Thank you for your precious time.