



COLLEGE OF SOCIAL SCIENCES

CENTER FOR AFRICAN STUDIES

**THE INVESTMENT CLIMATE IN EASTERN AFRICA: A COMPARATIVE
STUDY OF ETHIOPIA AND UGANDA**

BY:

BISKUT BEHABTU

REG. NO. GSE/4461/11

DATE:- AUGUST, 2021

ADDIS ABABA, ETHIOPIA

AN ASSESMENT OF THE INVESTMENT CLIMATE IN EASTERN AFRICA:

A COMPARATIVE STUDY OF ETHIOPIA AND UGANDA.

BY:

BISKUT BEHABTU

REG. NO. GSE/4461/11

**A THESIS SUBMITTED TO ADDIS ABABA UNIVERSITY, COLLEGE OF SOCIAL
SCIENCE,**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF AFRICAN STUDIES**

AUGEST, 2021

ADDIS ABABA, ETHIOPIA

DECLARATION

I hereby declare that this thesis is my original work, prepared under the guidance of Getahun Fenta (PHD), and all sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted to any other higher learning institutions.

Name: Biskut Behabtu

Signature: -----

Date: -----

Adviser Name:-----

Signature: -----

Date: -----

Addis Ababa University

Addis Ababa

Certification

This is to certify that the thesis prepared by Biskut Behabtu Gebregiorgis, entitled “The investment climate in East Africa: A comparative study of Ethiopia and Uganda” and submitted in partial fulfillment of the requirements for Masters degree in African Studies complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Approved by the board of Examiners and Officials:

Chairperson

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

ABSTRACT

The investment climate has been viewed as a major stimulus to economic growth in developing countries that shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. FDI has increased as developing countries continue to create the enabling environment to attract foreign investors serve as a strong mechanism for the encouragement and spread of business opportunities there by enhancing economic development and used as technology transfer for domestic investment. Ethiopia and Uganda, over the last decade, pursued various forms of economic reforms in order to become more competitive in FDI attraction. To attain the objective using time serious data from 2005-2019, primary and secondary data collection, as well as administering interview was tools of data collection method. Mixed research approaches both quantitative and qualitative methods are used and descriptive research analysis was applied for the collected data. Finally, triangulation methods used for collected data analysis against the information collected through interview. Analyses of time series secondary date indicate trends of FDI inflow and domestic investment in Ethiopia and Uganda. Depending on the findings and the response of interview from the concerned bodies in the two countries investment sector, the main challenges affecting FDI and domestic investment is weak promotion strategy and justice system, supply of full infrastructure, lengthy procedure of land providing and custom clearance. In addition corruption related problem particularly in Uganda and unequal treatment by the law for foreign and domestic investor especially in Ethiopia are major bottlenecks accounted for decline FDI and domestic investment over years.

Keyword: Investment climate, FDI and domestic investment, the role of government on investment, the nature and trends of investment, Ethiopian and Uganda Investment sectors

ACKNOWLEDGMENT

My gratitude goes to my family for their valuable help. I would like to thank my assigned Advisor Getahun Fenta, /PHD/ for his encouraging advice and feedback. Lastly, I would like to express special thanks to Ethiopia Investment Commission Promotion Directorate, Investment Information & Technology Directorate, Industry Park Facilitation Department, Legal Department and Planning, Preparation & Monitoring Directorate for assisting me with supply of the necessary materials and providing their opinion based on interview question. Also for Foreign investors working on the countries investment priority area, manufacturing, agriculture, construction sectors in Ethiopia and Uganda for providing their perception based on interview questions. Special thanks for Uganda Embassy in Addis Ababa for their assistance to be connected with Uganda Investment Authority to have secondary data and their opinion and Ministry of Foreign Affairs Foreign Direct Investment and Technology Transfer Director General Office for their general support to accomplish my thesis during the study period.

Thank you all

Biskut Behabtu

Table of Contents

Content	Page
DECLARATION	iii
CERTEFICATION	iiiv
ABSTRACT	v
ACKNOWELEGMENT	vi
TABLE OF CONTENTS	vii
LIST OF FIGURES	Xii
ACRONOM & ABREVIATION	xiii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the problem.....	3
1.3 Objective of the study	5
1.4 Research Questions.....	5

1.5 Significance of the study	6
1.6 Scope of the Study.....	6
1.7 Limitation of the study	7
1.8 Organization of the thesis	8
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1. Introduction	8
2.2 Conceptual Definitions	8
2.2.1 Investment climate.....	8
2.2.2 Foreign direct investment	8
2.2.3 Theory of foreign direct investment	8
2.3 Theoretical literature.....	14
2.4 Emperical findings.....	14
RESEARCH METHODOLOGY	19
3.1 Introduction	19

3.2 Description of the study areas	19
3.3 Research philosophy.....	20
3.4 Research approach and Design.....	21
3.5 Data source and Tools of Data Collection.....	22
3.6 Data Analysis.....	23
CHAPTER FOUR.....	24
RESULTS AND DISCUSSION	24
4.1 Introduction	24
4.2 The nature and trends of investment.....	24
4.2.1 FDI inflow in East Africa	24
4.2.2 FDI inflow in Ethiopia.....	24
4.2.3 FDI inflow in Uganda.....	24
4.2.4 Ethiopia FDI inflow by regional and country of origion.....	24
4.2.5 Uganda FDI inflow by regional and country of origion.....	24
4.2.6 Ethiopia FDI projects distribution by regional state.....	24

4.2.7 Uganda FDI projects distribution by regional state.....	24
4.2.8 Ethiopia FDI distribution by sector	24
4.2.9 Uganda FDI distribution by sector	24
4.2.10 Comparison of FDI inflow trends regionally, by origion, sector and by state	24
4.2.11 Domestic investment in Ethiopia.....	24
4.2.12 Uganda domestic investment.....	24
4.2.13 Comparison of domestic investment trends.....	24
4.3 Role of government institution	41
4.3.1 The role of Ethiopian government institution.....	41
4.3.2 The role of Uganda government institution.....	41
4.3.3 comparison of government institutions role	41
4.4 Opportunities and challenges.....	48
4.4.1 Trends of job opportunities in Ethiopia.....	48
4.4.2 Trends of job opportunities in Uganda	48
4.4.3 Comparison of job opportunities	48

4.5 Lessons to be Learnt	53
4.5.1 Lessons to be Learnt from Ethiopia.....	53
4.5.2 Lessons to be Learnt from Uganda.....	53
CHAPTER FIVE	55
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	55
5.1 Summary.....	55
5.2 Conclusion.....	55
5.3 Recommendation.....	55
Reference	58
Appendix A_Interview question for Ethiopia and Uganda Investment Sectors and Uganda Embassy in Addis Ababa working on Investment area.	62
Appendix B_Interview question for Ethiopia/Uganda Foreign Investors working on Countries priority investment area.	63
Appendix: C_Interview question for employees, working on Ethiopia and Uganda priority investment project.	65

LIST OF FIGURES

Figure	Page
1: FAVOURABLE INVESTMENT ENVIRONMENT-----	10
2: TRENDS OF FDI INFLOW IN ETHIOPIA-----	25
3: TRENDS OF UGANDA’S FDI INFLOW-----	26
4: ETHIOPIA FDI REGIONAL DISTRIBUTION IN ETHIOPIA-----	27
5: ETHIOPIA FDI PROJECTS BY COUNTRY OF ORIGIN-----	28
6:ETHIOPIA FDI PROJECTS DISTRIBU BY REGIONAL STATE-----	29
7: UGANDA FDI FLOW BY REGIONAL DISTRIBUTION-----	30
8: UGANDA FDI PROJECTS BY COUNTRY OF ORIGIN-----	31
9: UGANDA FDI PROJECTS DISTRIBUTION BY REGIONAL STATE-----	32
10: ETHIOPIA FDI DISTRIBUTION BY SECTOR-----	34
11: UGANDA FDI DISTRIBUTION BY SECTOR-----	376
12: TRENDS IN DOMESTIC INVESTMENT IN ETHIOPIA-----	398
13: COMPARISON FDI FLOW TRENDS IN ETHIOPIA AND UGANDA-----	39
14: TRENDS IN DOMESTIC INVESTMENT IN UGANDA-----	40
15:COMPARISON OF DOMESTIC INVESTMENT-----	41
16: ETHIOPIA JOB CREATED BY FOREIGN DIRECT INVESTMENT-----	49
17: ETHIOPIA JOB CREATED BY DOMESTIC INVESTMENT-----	50
18: UGANDA JOB CREATED BY FOREIGN DIRECT INVESTMENT-----	51
19: UGANDA JOB CREATED BY FOREIGN DIRECT INVESTMENT-----	512
20: COMPARISON OF JOB CREATED BY FDI IN ETHIOPIA AND UGANDA-----	513

21: COMPARISON OF JOB CREATED BY DOMESTIC INVESTMENT IN ETHIOPIA AND UGANDA-514

ACRONOMS AND ABREVIATIONS

AFDB	Africa Development Bank
EIC	Ethiopian Investment Commission
FDI	Foreign Direct Investment
IMF	International Monetary Fund
LCD	Least Developed Country
MNCs	Multi National Corporation
OECD	Organization for Economic-Cooperation and Development
TNCs	Transnational corporations
UNCTD	United Nation Conference on Trade and Development
USD	United States Dollar

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The investment climate is the set of location specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Government policies and behaviors exert a strong influence through their impact on costs, risks, and barriers to competition (Dollar et al., 2005). A good investment climate serves society as a whole, rather than just firms, including through its impact on job creation, lower prices, and broadening the tax base. Improving the investment climate is not about reducing all costs, all risks, and all barriers. Taxes and regulation support a sound investment climate and protect broader social interests (World Development Report, 2005).

In 2001 and 2002 poor countries began more debt from international banks followed out of alignment of rise of aid and private debt. Over the time, foreign aid and debt have fallen slightly as workers' remittances and slowly FDI continued it's rising substantially. It is an investment operating outside the country of investors for the interest of companies gain. At this time FDI inflow to developing countries gained momentum and then rising significantly (Asiedu, 2002). In a broad sense, FDI is composed of an investment abroad, usually where the company being invested in is controlled by the foreign corporation. It is an inflow of capital, expertise, and technology into the host country. Formally, the IMF (1993) defined FDI as an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor.

On the other hand, the World Bank (1996) defines FDI as an investment that investors operating in business to gain the interest from outside his country. Such investments may take the form of joint venture with the company working in the host country. FDI comprises not only merger and

acquisition and new investment, but also reinvested profits earned loans and other capital within investment group (Adeolu, 2007).

Foreign Direct Investment (FDI) of developing countries has been considered as vital for economic growth. In this regard, policy makers have to give attention for poor countries challenges with shortage of financial sources and skilled man power. It can impact the host economy through a variety of channels. Principally, it helps by adding to the resources available for investment and capital formation. The transfer of technology, skills, innovative capacity, and organizational and managerial practices between countries is also enhanced through the activities of foreign direct investors. Foreign direct investment inflows remain an important barometer that guides the direction and orientation of the development and implementation of economic policies and strategies of governments in these regions. It provides capital to finance domestic activities creating the platform for the transfer of technology and technical knowhow for the host country. There is no doubt that these factors are indispensable prerequisites that can lay the foundation for the integration of developing economies into the global economy as part of the overall drive towards economic development (UNCTD,2010).

East Africa is a region that found different natural resources in the world. However, conflicts as well as political instability made this region one of the most dangerous places for local as well as foreign investment. Such as the Horn of Africa and the Sudan Region of Darfur that are believed to have the biggest natural resource deposits. The region presents a mixed picture when it comes to foreign direct investment, the strongest and most diversified economy and some countries have been poorest performer. The prospects are very bright for the East Africa that is needed to make it a real magnet for FDI is steady and rapid progress towards integration and major improvements in infrastructure and training. Investors would be well advised to heed the promise of this remarkable region, (UN International Chamber of Commerce, 2005); (African Development Bank, 2019).

Ethiopia is the largest recipient of FDI in East Africa; however the country faced challenges with government intervention in the economy with weak institution and shortage of foreign exchange supply. In addition, unequal attention giving of government for domestic investment is another disappointing factor for the investment (UNCTAD, 2020). Comparing with Ethiopia Uganda attracts less FDI in the region. The countries priority investment sector, particularly oil and others are contribute for constant development. Uganda is rich in natural resources and its geographic location in the heart of sub-Saharan Africa gives it an ideal strategic base to become a regional hub of trade and investment. Foreign and domestic investors are generally treated equally by law. The weakness of the education system and the communication network are obstacles to improving the investment climate. In addition, bureaucracy, costly business licensing requirements and a weak and ineffective court system discourage investment (UNCTAD, 2020).

Some studies are conducted on effects and determinants of FDI in the country's economic growth. Most developing countries like Ethiopia and Uganda are trying to attract foreign direct investment to gain the benefit by framing different policies and creating an attractive investment environment. Currently governments are working on economic reforms which aim attracting foreign direct investment and to fasten economic growth of the country. Therefore, this study see what lessons to be learnt on FDI attraction and improving investment as a whole for the country's economic development based on the data analysis and interview with concerned body.

1.2 Statement of the problem

A good investment climate fosters productive for growth and poverty reduction. It creates job opportunities, tax revenues including efficient infrastructure and good market to improve the lives of people directly. Hence, foreign direct investment is believed to serve as a strong mechanism for the encouragement and spread of business opportunities throughout developing and industrialized economies thereby enhancing economic development and used as technology

transfer for domestic investment. It has been argued in numerous studies that FDI contributes much for countries economic development.

Different studies have been conducted on effect and determinants of FDI into a given country economy development. According to (Morisset,2000) foreign firms are more productive, bring management skills, invest more heavily in infrastructure and in the training and health of their workers, and are more connected to global markets. Africa, because of not attracting more FDI do not appear to succeed by grabbing market share and crowding out local industry, failing to fully benefit from the potential of foreign capital to contribute to economic development and integration with the global economy. According to (Sajems, 2012) African countries relate to the fact that natural resource driven FDI, and especially oil, has limited linkages to domestic enterprises and little impact on downstream activities in host economies African countries need to implement programme to channel petroleum and mining revenues for investment in physical and human capital that is supportive of broader economic growth and development. (Ajayi, 2006); (Chen, Geiger & Minghui, 2015) indicated that a predictable and consistent policy and macroeconomic environment in a stable political climate is an important factor in attracting FDI. Efforts made towards regional integration are an important factor to make access for product market for foreign investor. Africa would need to pay close attention to FDI flows and trends, especially from emerging partners to strengthen the linkages between domestic material input and foreign manufacturing investment.

(Solomon, 2018) indicates that inefficient Ethiopian government bureaucracy, slow judicial process is the other factors that hinder FDI flows into the country. There is a serious disincentive for the existing investors doing business in the county to reinvest their profit. The dissatisfaction of the existing investors may deter the FDI flows. According to (Odongo,2012) in Uganda favorable investment climate such as tax holiday should be granted to foreign investors willing to open import substitution industries and those undertaking export promotion strategies of industrialization because these strategies are growth generating in nature. However, many researcher studied challenges, determinant and effects of FDI, no more studies incorporate

comparison of countries experiences of investment attraction and incentive mechanism that contributes for their performance. Therefore, this study will try to fill this gap.

1.3 Objective of the study

1.3.1 General Objectives

The general objective is to explore lessons to be learnt by examining the nature and trends of investment (FDI and domestic) in Ethiopia and Uganda.

1.3.2 Specific Objectives

- To examine the nature and trends of investment (FDI and domestic) in Ethiopia and Uganda;
- To assess the role of government institution in attracting and retaining foreign and domestic investor;
- To explore opportunities and challenges of investment and;
- To identify lessons that can be learnt between Ethiopia and Uganda;

1.4 Research Questions

- What looks like the nature and trends of investment (FDI and domestic) in Ethiopia and Uganda?

- What is the role of government institutions in FDI attraction, support domestic investment and retaining Investors?
- What are the opportunities and challenges of investors?
- What lessons can be learnt from Ethiopia and Uganda?

1.5 Significance of the study

The study examines the nature, trends, challenges and opportunities of investment (FDI and domestic) in Ethiopia and Uganda to explore lessons on FDI attraction and making favorable investment environment.

- It benefits government body to give attention for investors by identifying areas that need improvement.
- It has significant advantages to take action on challenges and maximize opportunities to make fertile investment climate.
- It helps in scaling up the countries practices and mitigating observed and potential challenges.
- Finally, the study serves as a reference document and base for further research.

1.6 Scope of the Study

The study focus on the nature and trends, opportunities and challenges of investment in (FDI and domestic) in Ethiopia and Uganda priority investment sectors on the time serious data from

2005- 2019. In the investment policy of Ethiopia and Uganda the government identified the priority investment sectors are Agriculture, Manufacturing (ICT, Pharmaceutical, Agro processing) Tourism and Mining.

The intention behind the selection of priority sector and the given period; the two countries investment policy clearly specified the priority sectors that fasten economic growth of the countries and the period 2005 to 2019 is the investment shows continuous increment of inflow of FDI and domestic investment as well. Therefore the study considered all registered projects in the period from 2005-2019.

1.7 Limitation of the study

The researcher faced time constraints in the study period to review books, and relevant documents. In addition, there was limitation in number of interviewee specially Uganda Investment Authority. Furthermore, lacks of experiences to do the research paper also have another limitation. Hence, to solve such problem, the researcher has been working by using any spare time to finalize it and has been held discussion with colleagues for experience sharing. In the case of number of interviewee in Uganda Investment Authority has been conducted the interview with business attaché from Embassy of Uganda in Addis Ababa.

1.8 Organization of the thesis

The study is composed of five chapters. Chapter one includes introductory part followed by chapter two which presents literature review consisting theoretical and empirical literature review. Methodology is presented in chapter three followed by chapter four presented analysis of findings. Chapter five captures summary of findings, conclusions and drawn recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter included theoretical and empirical literature review. To identify differences and similarities in the studies reviewed academic journals, well-known published economic reports and research papers studied on the topic. In addition, the investment policy, proclamation, supporting directives of foreign direct investment in Ethiopia and Uganda has been reviewed. Furthermore, different results of previous studies on FDI and proposed theories have been discussed, compared and contrasted throughout the literature review.

2.2 Conceptual Definitions

2.2.1 Investment climate

The investment climate is the set of location specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand. Government policies and behaviors exert a strong influence through their impact on costs, risks, and barriers to competition (Dollar et al., 2005).

A good investment climate, investor-friendly environment, positively affects economic growth. Domestic or foreign investment has a direct positive effect on employment, production, exports and, finally, income (OECD, 2013). It fosters productive private investment for growth and poverty reduction, creates job opportunities, source of tax revenues to fund other important social goals. And many features of a good investment climate including efficient infrastructure, courts, and finance markets improve the lives of people directly, whether they work or engage in entrepreneurial activities or not (World Development Report, 2005). The conceptual framework

shows Investment Climate can be favorable with strong commitment and work. The dependent variable, investment incentives and independent variable other countries investment opportunities like natural resources including strong commitment of the government body are the main factors that should make conducive investment environment for the country to attract more investment and retain investors. The investment climate flow is showed as in the following chart.

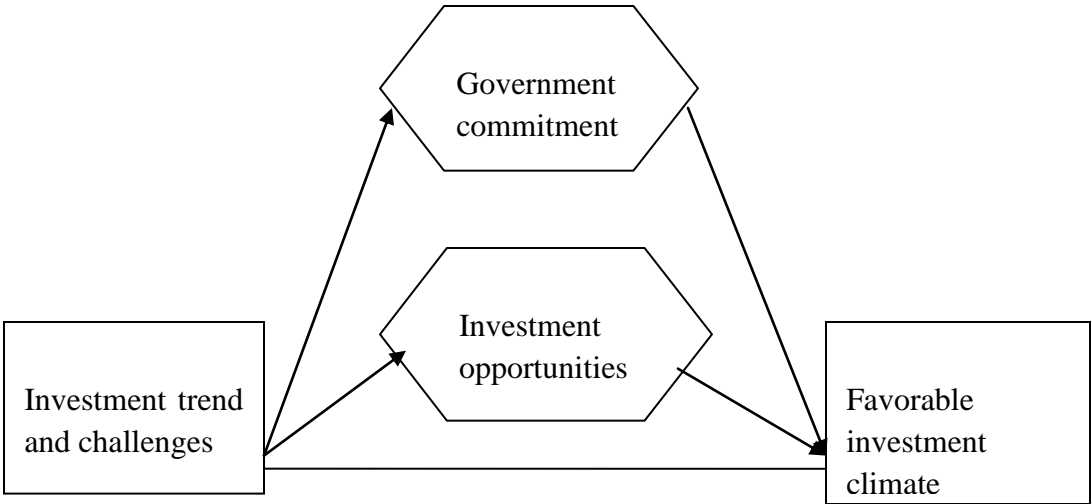


Figure 1: Favorable Investment climate

Source: The reviewed literature

An attractive investment opportunity and an acceptable investment climate represent the optimal mix of high financial returns and low noncommercial risks. Improving the investment climate, and, in particular, reducing perceptions of political risk in developing countries, are therefore important steps without which even the most profitable opportunities are likely to remain untapped. The investment climate should be seen from both a global and domestic perspective. Overall volumes of investment flows and host countries' efforts to increase such flows are

constrained or stimulated by the degree of strength and stability of the world economy. A faster and sustainable growth in developing countries depends to a great extent on the policies and actions of industrial countries, especially the latter's own growth rates, the levels they adopt for interest and exchange rates, the degree of openness of their markets and the levels of their external aid flows (World Bank Group,2016).

2.2.2 Foreign Direct Investment

Foreign Direct Investment is an investment made by investors, who are not from the host country, his interest to gain from his capital investment. The entity based in one country for investment or in another country to obtain the firm operating in a country other than that of the investor. The other definition of an investment by a foreign investor considered as FDI, foreign investors have to normal share or voiced power of a firm (World Bank, 2020; IMF, 1993).

According to Chrysochoidis, Millar and Clegg (1997), FDI has different types. The foreign direct investment is made with transferred by foreign investment capital and helps to skill development. It gives accesses for technology and knowledge transfer in host country, based in import substitution products that have incentives for the investors. Competent FDI in international market is capable through establishment of to promote products. Foreign companies invest in host country with competitive labour that is a development strategy in export oriented product. Government investment incentives provided for foreign company to facilitate import substitution products.

FDI helps also to possess technical knowhow for domestic investment on the basis of the joint venture. It makes an access for through establishment of joint venture creates product range. Computation between similar products are not visible, hence foreign companies have to work different area of knowledge for better products in competitive market. The host country market access to customer with the concern of FDI observed shift of comparative advantage. The growth

of FDI is explained based on supply access of sources. FDI regionally incorporate has location advantage for foreign company's trade tariffs prevent foreign companies to the host country. The presence of foreign company' local manufacturing for value added products need for in host country

2.2.3 Theories of Foreign Direct Investment

A number of theories have advanced reasons why firms choose to locate in certain geographic areas than in others. Buckley and (Casson,1998) discuss theories of foreign direct investment and arm's length trade in firm specific assets. They argue that, until the 1980s, FDI was just viewed as part of the theory of capital movements in factor proportions. They report that huge empirical evidence now hold that FDI not only comes from, but goes to high income capital rich countries, that have led to what they are referring to off shoring.

(Mankiw,2003) applying the Solow growth model argues that private businesses invest in traditional types of capital such as bulldozers and steel plants and newer types of capital such as computers and robots. On the other hand, government invests in various forms of public capital, called infrastructure, such as roads, bridges and sewer systems. Policy makers trying to stimulate growth must confront the issue of what kinds of capital the economy needs most. They assume that the decision of a Trans National Corporation (TNC) on which province to locate investment depends on a set of characteristics of the host province affecting firm's revenue or costs such as factor endowments, market size, income per capita, skilled labour and availability of public infrastructure, among others.

Aiello et al. (2009) argue that other things being equal, a change in infrastructure expenditure influences the cost faced by the firm in adjusting its current capital stock to the target level. They argue that this is a reasonable assumption, given that the adjustment costs depend not only on the firm's internal characteristics, but also on external factors, such as the provision of public

infrastructure. And also discussed explanations of multinational production based on neoclassical theories of capital movement. However, they criticize these theories on the basis that they were founded on the assumption of existence of perfect factor and goods markets and were therefore unable to provide satisfactory explanation of the nature and pattern of FDI. In the absence of market imperfections, these theories presumed that FDI would not take place. Nevertheless, they argue that the presence of risks in investing abroad implies that there must be distinct advantages to locating in a particular host country.

The eclectic paradigm of Dunning (1988) provides a robust framework for analyzing and explaining the determinants of international production, and how this varies between firms, industries, and countries, and over time. Dunning provides a framework of three sets of advantages to analyze why, and where, MNEs would invest abroad. This is the famous ownership, location and internalization (OLI) paradigm (or eclectic paradigm). In this context, investment could be; natural to use host country resource market opportunity and trained labour and look for property investment. The ownership advantages refer to firm specific features sometimes called competitive or monopolistic advantages which must be sufficient to compensate for the costs of setting up and operating a foreign value adding operation, in addition to those faced by indigenous producers. Such features include things like brand, patents, market access, research and development, trademarks and superior technology. These may be deficient in the host country. When foreign firms use such features in exploiting host country opportunities, they employ adverse selection in an imperfect market situation in fostering their activities. Consequently, due to information asymmetry and limitation of the features possessed by host country firms, competition with MNCs is difficult. The ownership specific advantages, being superior, to home country firms, may make foreign investors to crowd out domestic investments.

The location advantage is the second strand of the eclectic paradigm. It is concerned with the “where” of production. These include host country specific characteristics that can influence

MNCs to locate an economic activity in that country. They include economic factors such as competitive transportation and communications costs, investment incentives, availability of comparatively cheap factors of production, policy issues such as tariff barriers, tax regimes, access to local and foreign markets, among other factors (Buckley & Casson, 1998)

The third factor is the internalization advantage. It explains 'why' a MNE would want to exploit its assets abroad by opening or acquiring a subsidiary versus simply selling or licensing the rights to exploit those assets to a foreign firm. (Yarbrough, 2002) reports that though this theory has been criticized for only listing the conditions necessary for FDI without explaining its phenomenon, it has widely contributed to international production theory. A combination of capital movement, input, technological knowhow, and different types of assets. Despite capital investor foreign direct investments having strict control for managing foreign branches. As accountants define FDI is flow of lending to and having property ownership of foreign enterprises of the investing country. FDI usually finance from the investor company cross border merger and acquisition is a transfer of ownership of local products. (Agosin & Mayer, 2000).

FDI is divided into market seeking, export oriented and government initiated FDI. A market seeking FDI is highly determined by the growth potential and the size of national market, access to regional & global markets and country specific consumer preferences. When a foreign firm produces raw materials, intermediate and final goods and sells these products for non-local market, this FDI is referred as export oriented FDI. An investment is called government initiated FDI, when governments of developing countries invite and give incentives to direct foreign investors to invest in specific sectors and industries with a view to addressing socio economic problems like unemployment, regional disparities and deficits in the balance of payment (Agrawal, 2000).

Similarly, based on the primary motives of the direct foreign investors, FDI can also be classified into the following three groups: Market seeking, resource/asset seeking and efficiency seeking. A resource/asset seeking FDI is attracted by availability of low cost unskilled & skilled labor, strategic natural resources and raw materials. An efficiency seeking FDI is significantly determined by productivity of labor resource, costs of inputs and intermediate goods (UNCTAD, 1998; 2007).

2.3 Theoretical literature

Foreign Direct Investment is crucial for economic development in a nation that improves people's standards of living leading to a shift from low income to a high income economy. The government to accomplish economic development needs to ensure a favorable environment for foreign capital movement in to the economy, make conducive political environment for foreign investors investing their capital in a volatile economy. Population growth is usually high in many less developed economies leading to a large labor force with few opportunities for work; because of few local industries provide employment. Foreign investment supplements the local industries generating employment for skilled and unskilled labor that contributes to economic growth (Spar, 2003).

One of major consumers of products manufactured locally is foreign investors. They use raw materials such as agricultural products that generated locally benefits the local producers of ready market for their commodities Local industries also used byproducts from industries owned by foreign investors important in lowering the price of commodities locally. Taxes paid by the foreign investors increased income taxes from the employees of these companies is earning to the host government also likely to enjoy foreign markets for the locally produced commodities. The presence of a favorable environment increased foreign investment in a particular country (Obstfeld & Rogoff, 1996).

Majority of FDI inflows since 2000 have been driven by high commodity prices in general and high oil prices in particular and the associated need of foreign investors to expand their operations, the decline in commodity process, associated with world recession, may have an adverse impact on FDI flows to the continent. African countries relates to the fact that natural resource-driven FDI, and especially oil, has limited linkages to domestic enterprises and little impact on downstream activities in host economies African countries need to implement programme to channel petroleum and mining revenues for investment in physical and human capital that is supportive of broader economic growth and development (Sajems, 2012)

To attract FDI stable investment climate is important. Incorporate regional effort is essential for market oriented investment. Improving the investment climate needs institutional support as well as coverage of different skim. This makes an access to attract FDI to the country to high value investment (Ajayi, 2006,).

Africa's would need to pay close attention to FDI flows and trends, especially from emerging partners. First, manage FDI flows and FDI-related policies in a way that maximizes spillovers in host countries. Second, realize the emergence of FDI from new partners, especially in manufacturing FDI, and establish platforms that help in the attraction of new FDI. Third, increase investment in key infrastructure to overcome constraints for manufacturing activities to develop, especially in power supply and transportation and logistics services. Fourth, take better advantage of the currently dominating market-seeking manufacturing FDI to improve the weak industry base in the short-term. Fifth, strengthen the linkages between domestic material input and foreign manufacturing investment (Chen, Geiger & Minghui,2015)

Ethiopia should have been equitable distribution of investment in the country. Focusing on the main city and around have a problem of carrying of over capacity that lead to reduce overall efficiency and to the area where low concentration creates underutilization of resources have a strong negative commutative effect up on the economic development of the nation. This leads to

lack of integration and coordination between the FDIIs and DIIs in the form of backward and forward integration (Mitik, 2013)

The government of Uganda should invest allocate more resources to fixed capital investment in order to create a risk free business environment for potential investors. Such development will reduce the cost of doing business in Uganda thereby attracting massive inflows of foreign capital for growth. In addition, the government should participate more in regional and economic integrations among others. This will expand markets for potential investors hence encouraging massive production for exports, exposure to foreign competitions leading to efficiency as well as generation of export led growth. Uganda should attract mainly foreign firms that are willing to utilize locally available inputs for production. This will create markets for domestically produced inputs and as well saves the economy from excessive expenditures on imported inputs (Odongo, 2012).

Uganda offers incentives focused on encouraging rural development. FDI is currently concentrated on major towns, especially in manufacturing which employs majority of the workforce. Rural infrastructure needs to be developed to attract foreign investors. This would help in minimizing rural-urban migration, which is hampering provision of basic services in Uganda's towns. Moreover, creation of employment in the rural areas would spread the spill-over effects all over the economy leading to balanced economic growth. The government needs to establish measures to protect employees from exploitation. It is important to delineate a minimum wage to ensure that workers are not impoverished in disguise. Child labor should also be discouraged and stern action needs to be undertaken towards investors employing children (Riddervold,2011).

2.4 Empirical Findings

The inflows of FDI were conducted globally in many empirical studies. The review focuses on determinant, opportunities, and challenges of FDI in poor country especially in Ethiopia. Different incentives for foreign investors provided by government are very low in Ethiopia compared to other African country. The main determinants of FDI inflow are absence of natural resources lack of trained labour supply of foreign exchange, inefficient legal system. The strong growth based on an increasingly diversified economy, increasing exports, stable economic are the positive features the researchers identified in the macroeconomic environment of Ethiopia. The sectorial drivers of growth supports, economic prospects countries based on the macroeconomic scan. Importantly, global economic connectivity of Ethiopia's to improve, opportunities economic activity (Ali, 2016).

The priority investment sectors manufacturing are new opportunities creates synergies for business in any of these sectors. Production and exports of particular products the experience of other countries attests, and as companies' specific plans signal. Empirically investigated the determinants of FD in Uganda and found the three factors to be very critical in attracting FDI: the macro economic factors, environment .political stability and police consistency. Other factors are that determine FDI in Uganda are infrastructure and institutional bottlenecks. The implication on therefore is that no matter what the government does (privatization, generous incentives through tax holidays tax exemption) failure to tackle the factors outlined above will lead to less FDI flows (Obwona,2001)

The first part of this chapter explains the theoretical framework that gives an insight of what is to be expected in the study based on various theories that have been put forward regarding FDI. It also highlights the nature of FDI in terms of the various forms that it can take as well as the strategies that are generally applied by companies to accomplish their goals in foreign markets. The second part of this chapter details the work of earlier scholars who have studied various

aspects of FDI. Their findings are significant in identifying the knowledge gaps in past research. It is important in the development of a suitable methodology to acquire substantial information to fill these gaps. The next chapter discusses the methodology that was applied in this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contained description of the research, research approach and design, issues related sources of data and data collection tools, described data analysis technique, finally discussed on limitation of the paper

3.2 Description of the study

Africa, with its young and growing population that literally guarantees a high demand for consumer goods, rising middle class, growing GDP, improving infrastructure, and deliberate policy interventions to improve the ease of doing business across the continent, Africa represents an increasingly attractive destination for international companies. While the continent offers significant growth opportunities and possibilities for international companies, several challenges can make Africa a daunting destination to even the most experienced business minds. According to the 2020 World Bank Ease of doing business ranking, no African country is in the top 10 across the world, and only 10 African countries are in the top 100 globally. Therefore, business leaders need to adopt effective strategies to succeed in the complex, challenging yet promising African market (Doing business in Africa, 2021).

Ethiopia remained the largest recipient of FDI ranked fifth from Africa. However, FDI has been negatively impacted by instability in some parts of the country. The Ethiopian government has been applied different strategies to transform countries economy. Some of the government actions takes place are expressed as liberalization of the control of services and financial sectors. Ethiopia benefits from its natural resources and geographical location which gives access for local and international market. The country also tried to exercise to privatization

government owned sectors to boost countries private investment. The government highly interference in the economy is the main constraints of foreign direct investment. The lack of other infrastructure, foreign exchange supply, and weak institutions performance contributed to be obstacle to improve countries investment (UNCTAD, 2020).

Uganda is rich in natural resources and its geographic location in the heart of sub-Saharan Africa gives it an ideal strategic base to become a regional hub of trade and investment. Foreign and domestic investors are generally treated equally by law that contributes the constant increasing of major sectors for countries economic development. Some progress has been made in regulatory development in financial services and in privatization in banking for attracting FDI (UNCTAD, 2020). Although foreign direct investments have been made to improve the country's infrastructure projects, government management of these projects has been quite poor. Significant infrastructure problems persist, the weakness of the education system and the communication network are obstacles to improving the investment climate. Bureaucracy, costly business licensing requirements and a weak and ineffective court system discourage investment (World Bank Report, 2020).

3.3 Research philosophy

This study has been used investment data (FDI and domestic) of Ethiopia and Uganda for the period 2005-2019. The following dependant an independent variables are involved; investment incentives, procedure, promotion technique and FDI inflow. The investment data are obtained from the Ethiopia Investment Commission and Uganda Investment Authority. The data from interview has been collected from the above sectors including foreign investors from the two countries and to identify trends analyzed the data using Excel.

3.4 Research approach, method and Design

A methodological research approach and design is a framework that binds research together so that the research questions can be analyzed effectively (Edmunson & McManus,2007). Identification of the research approach and design is important because it makes the collection of data easier, and gives a clear idea about the required information (Trochim & Donnelly, 2006). The issue of the nature and trends of investment flow pertains to investment climate in Ethiopia and Uganda has been analyzed through a mixed (quantitative and qualitative) research approach by doing compare and contrast the two countries investment performance for experience sharing that ensures a strong research project to become a basis for future research.

The main purpose of mixed approach (quantitative and qualitative) is that quantitative research provides the opportunity to gather quantitative data that is significant for the researcher to obtain facts regarding the situation. Quantitative research methods allow the research topic to be explored in a comprehensive approach (Yin, 1994). Selection of this method is appropriate for the study as it involves an empirical exploration of quantitative aspects of the nature and trends of investment FDI and domestic in Ethiopia and Uganda. The quantitative study mainly involved to gathering and analysis of empirical data as well as evaluation of results. The descriptive research design used to identify and analyze relevant information for the use of operational and strategic decision making.

Qualitative research used to collect and analyze qualitative data for the research also used triangulation to enhance precision since data obtained through various methods in addition to primary research. Graphs and charts used to present the results, followed by an analytical discussion of the findings. The thesis used informant interview questions with snowball sampling techniques aimed at employees in the two countries investment sectors working on Investment area, as well as Investment companies. The interview questions addressed face to face or through phone call, which is a networking tool that allows individualized communication with trusted

contacts. This will enable prompt and non-coercive response among the respondents (Cobb & Forbes, 2002).

3.5 Data source and Tools of Data Collection

The collected secondary data of licensed FDI, domestic investment projects from Ethiopia Investment commission and Uganda Investment Authority (through email by using Embassy of Uganda in Ethiopia) from 2005-2019. In addition to this collected primary data by administering interview for the concerned bodies, the number of interviewee is limited based on the types of information collected, hence, three team leaders and five officers from FDI promotion and licensing department in Ethiopian Investment commission and one officers and one business attaché from Uganda Investment Authority and Embassy of Uganda in Ethiopia face to face, and through phone call.

Different interview questions were prepared and have been conducted to ten foreign investors and five employees working on the two countries priority investment projects respectively three from manufacturing, three from construction, four from agriculture and agro processing. Besides to this, informant interview has been conducted to Ethiopia Investment Commission four representatives from Directors of FDI promotion, after care strategy, Planning, Preparation & Monitoring and Legal department and one director from Uganda Investment Authority. Collected additional information by using snowball sampling techniques to have additional information based on the previous interviewee and used triangulation techniques to verify the collected data. To address the interviewee the researcher used support letter and has been conducted interview by herself.

Apart from interview, the data has been obtained through document review including investment policies, proclamations, investment reports within the study period, documents obtained from the Ethiopia Investment Commission, Uganda Revenue Authority (through Uganda embassy in

Ethiopia). Newspaper and articles on FDI have been reviewed that is significant in backing up the evidence obtained from interview.

3.6 Data Analysis

Quantitative data collected through secondary data source from 2005-2019 all licensed investment projects have been analyzed and interpreted based on descriptive method used to present the results in analysis and different type of graphs by using excel. Trend analysis used as a method of quantitative trend analysis of the investment FDI and domestic. The purpose of selection of specified period and priority sectors are among the top priority investment areas identified by the government in the policy and the period showing the starting point of focus on priority investment sectors. Compared and contrasted data findings have been used to specify the differences and relationship of investment trends and challenges. Depending on the result of the excel analysis, in depth interview has been held with officers of Ethiopia investment commission and Uganda investment Authority to triangulate the validity of the finding as well as devised recommendation.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 INTRODUCTION

This thesis is organized with the following five chapters; background of the study, the problem statement, objective and scope of the research, significance and limitation are included in chapter one. Chapter two provides the literature review constitutes conceptual, theoretical and empirical research. The third chapter covered about description, methodology of the research, presents the research designs, sources of data and data collection methods, finally the data analysis part. Chapter four includes result of discussion; introduction, nature and trends of investment, institution role, opportunities and challenges and discussed lessons to be learnt with the two countries and discussion on collected data analysis and findings are presented using graph. The fifth chapter provides summery based on findings, made conclusion and recommendations are forwarded for future research.

4.2 The nature and trends of investment

4.2.1 FDI inflow in East Africa

Developing country needs a huge surge of investment from both domestic and external sources. Various investment policies have been designed and implemented in different parts of African region. Africa foreign investment inflow is increasing with its economic performance as well as growing demand countries product to international market to \$7.8 billion that was growing above the global average (World Investment Report 2020); (Ethiopia investment report 2019).

4.2.2 FDI inflow in Ethiopia

Ethiopia was the least favorite FDI destination in East Africa before 2000, because of lack of favorable environment for foreign investment. Ethiopia became FDI destination and began to change around 2005 reaching the peak of \$4.1 billion in 2017. Because of global FDI trends showing decreasing as well as global economic growth Ethiopia kept constant being recipient of FDI in the region and ranked the fifth in Africa (Ethiopia Investment Report, 2019).

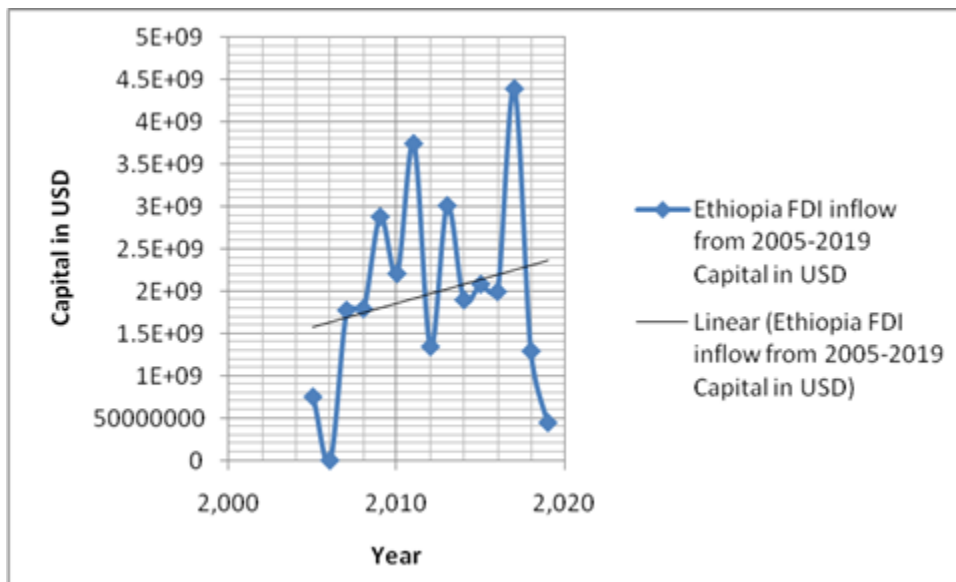


Figure 2: Trends of FDI inflow in Ethiopia

Source: EIC, 2019 data

4.2.3 FDI inflow in Uganda

Since 2005 there has been an increasing trend of FDI in Uganda. The year 2008 had a marked rise of FDI to 728 million USD, which has continued to grow steadily reaching a high of 1.3 billion USD in the year 2019 from USD 1 billion in 2018. The constant increment of major

projects, construction and manufacturing had contribution for its development. This significant increase in FDI focusing on industrialization, exports and tourism is partly attributable to the tax incentives that the Government introduced which focuses on manufacturing to promote export products in both foreign and domestic investment (UNACTD, World Investment Report, 2019).

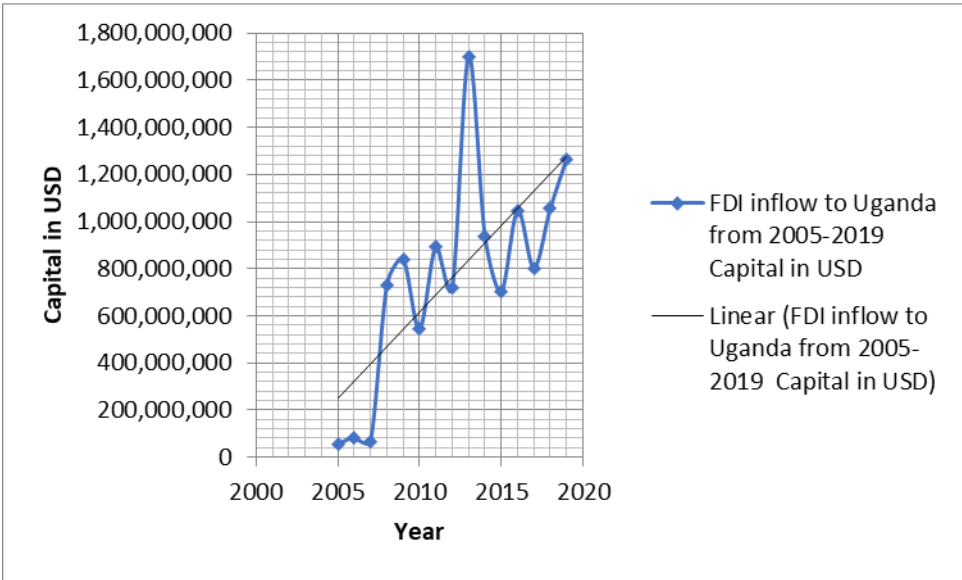


Figure 3 : Trends of Uganda’s FDI since 2005 to 2019

Source: World Investment Report, 2020; UIA, 2019

4.2.4 Ethiopia FDI flow by Regional and Country of Origin

FDI flows have increased from 2005 onward, as a result of the participation of china as main investors in the country. The highest value of FDI attraction in priority investment sectors 35% is covered by Asia most of the investment contributed by China investors. In regional distribution china accounted for 46% is followed by Sudan 20% and Indian 12% as shown on figure 5. The other investor covers 22% share of FDI inflow for Ethiopian Agricultural market.

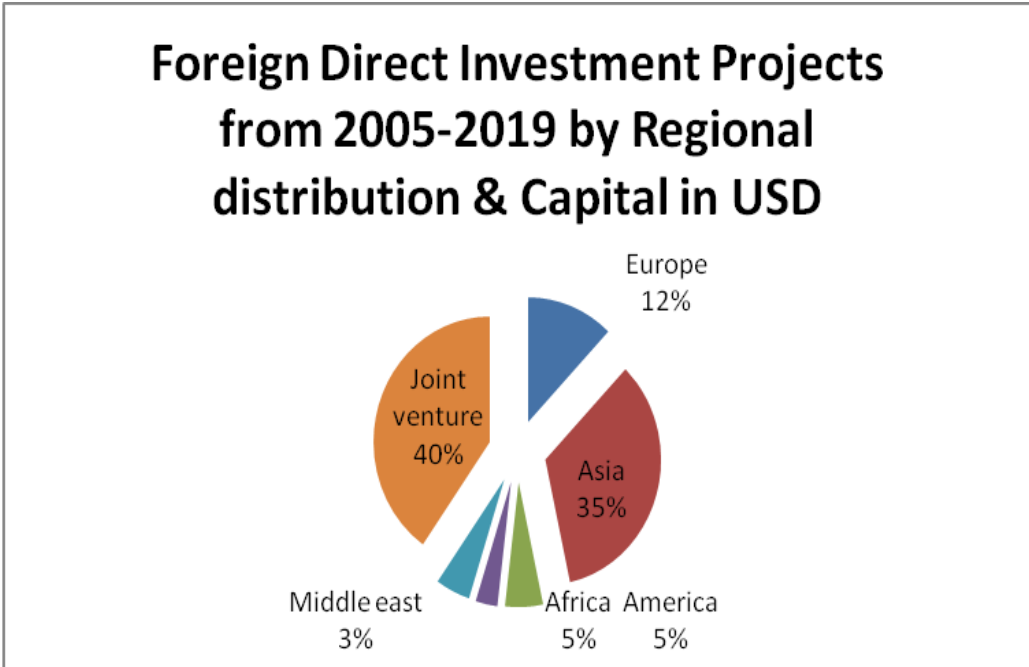


Figure 4: Ethiopia FDI inflow by Regional distribution in Ethiopia

Source: Ethiopia Investment Commission, 2019

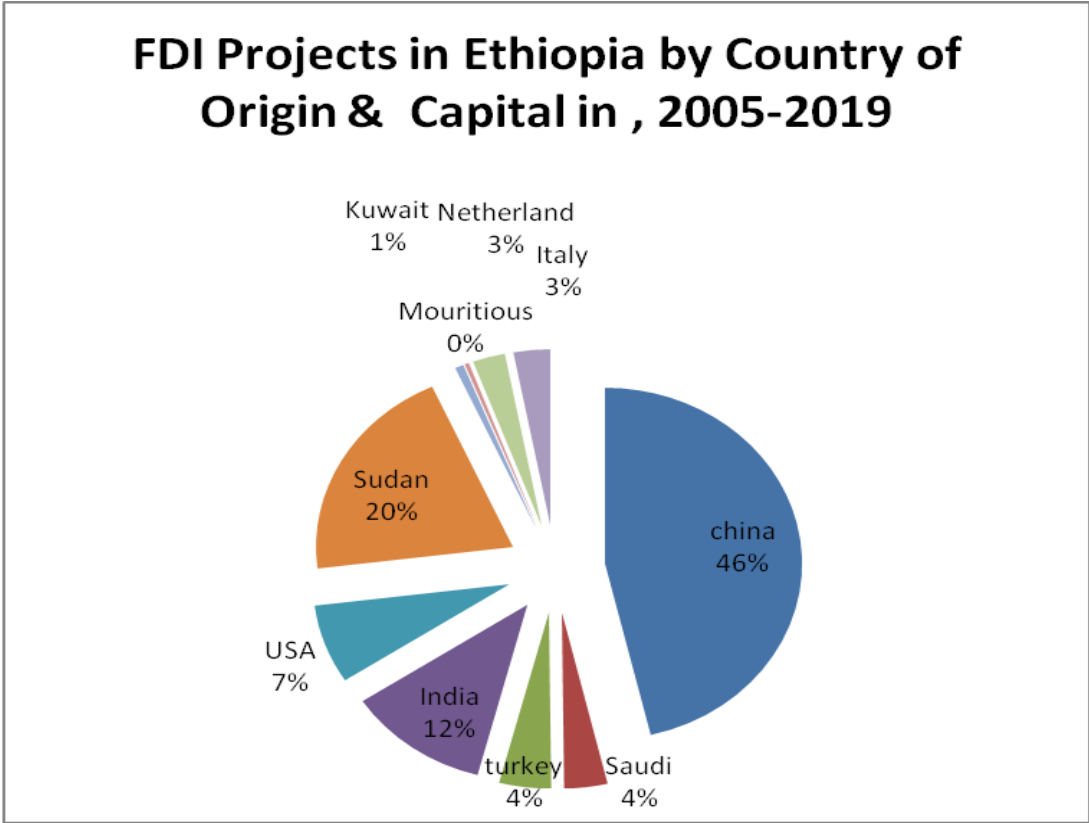


Figure 5: Ethiopia FDI Projects by Country of Origin

Source: EIC Foreign Direct Investment Projects data

4.2.5 Uganda FDI flow by Regional and country of origin

The principal investors in Uganda have been developed countries, From Asia China is the leading followed by India. The principal African investors have been Kenya, followed by Egypt and Mauritius. As illustrated by figure 7, China has the highest share of 38% FDI stock in Uganda and it has shown no sign of declining over the past four years. India has the second leading level followed by Korea, Turkey, and UK. Kenya is by far the leading source of FDI from Africa to Uganda (although the stock has stagnated over the last two years) followed by Egypt and Mauritius.

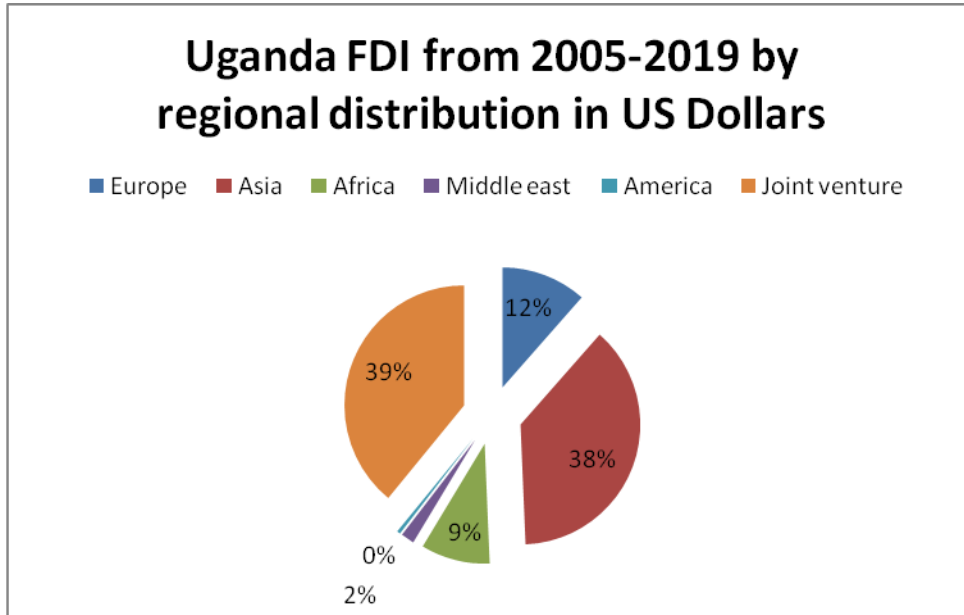


Figure 6: Uganda FDI flow by Regional distribution

Source: Uganda Investment Authority Database

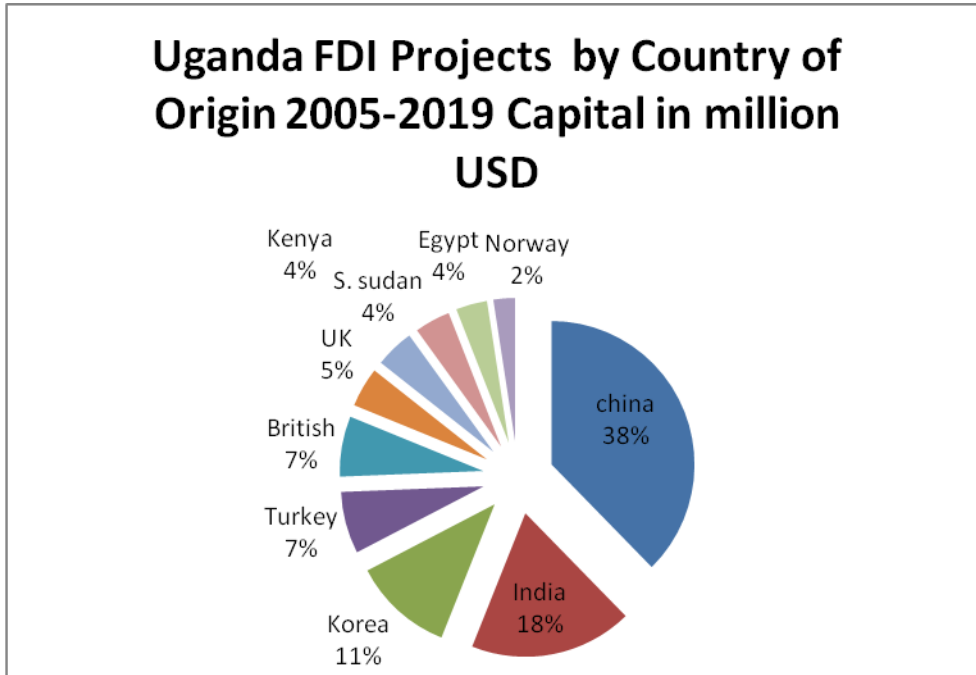


Figure 7: Uganda FDI Projects by Country of Origin

Source: Uganda Investment Authority Database

4.2.6 Ethiopia FDI Projects distribution by regional state

The least developed regions performance in attracting FDI is very low in Ethiopia; however government gives an attention to encourage FDI in those areas using different incentive mechanisms. It shows infrastructure and related problem makes FDI inflow distribution uneven to the country.

Addis Ababa, the capital city representing 58% of total transactions in the period 2005-2019 next region is Oromia, because of its proximity to the capital accounted for 30% of all investments for the period followed by Amhara. Favorable investment environment and better supply of trained labour has been contributed to the issue.

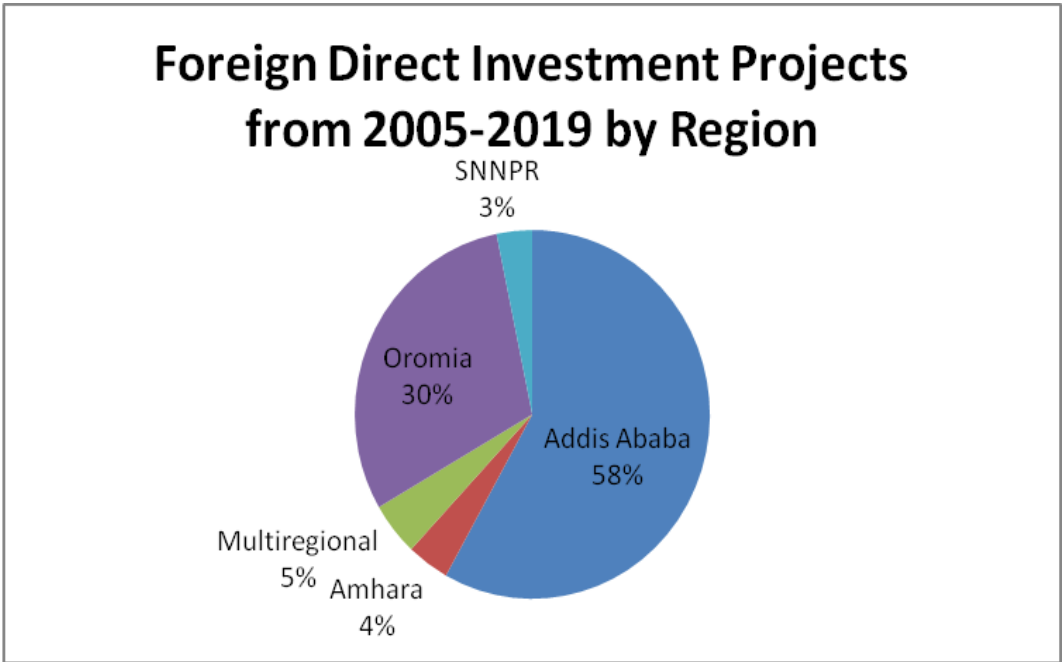


Figure 8: Ethiopia FDI projects distribution by regional state

Source: EIC Foreign Direct Investment Projects data.

4.2.7 Uganda FDI Projects distribution by regional state

The central Uganda region registered the highest investments which accounted for 83% of all investments in 2018/19. The eastern region was in the second position accounting for 11% of all investments in 2018/19 as indicated on figure 9. Distribution of licensed projects by district Kampala Capital City registered the biggest number of licensed projects accounted for 61 percent of all the licensed projects, Wakiso was in the second position which accounted for 8% of all the licensed projects in 2016/17.

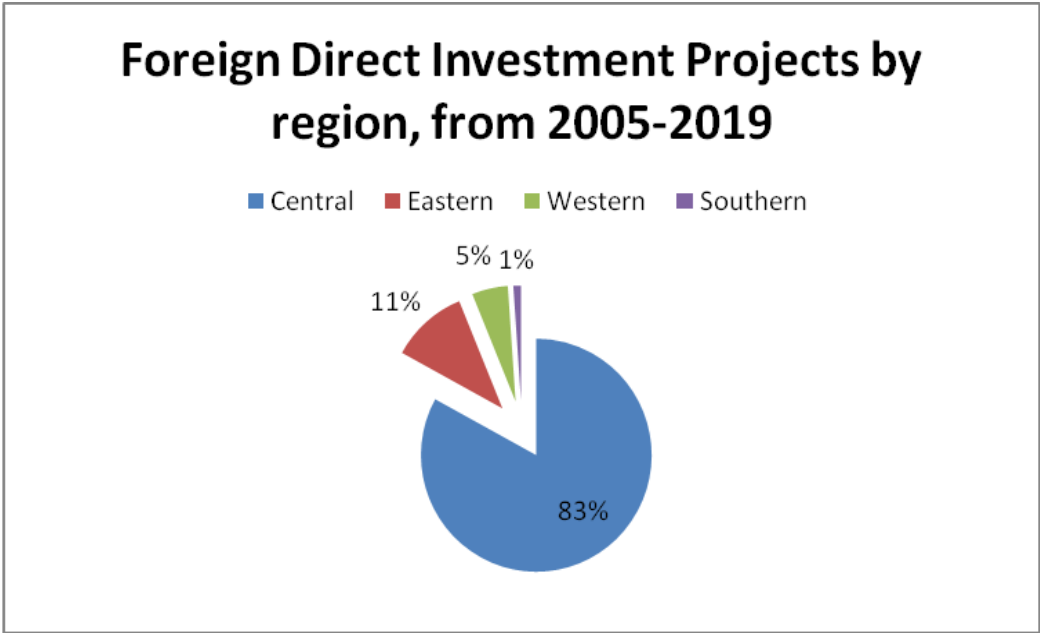


Figure 9: Uganda FDI projects distribution by regional state

Source: Uganda Investment Authority Database,

4.2.8 Ethiopia FDI Distribution by sector

Ethiopia distribution of FDI is diversified in to various sectors including agricultural manufacturing, construction and power development. As indicated in figure 10 manufacturing is the leading sector that covers 50% of the total attracted FDI followed by 20% real state and 10% agriculture to the country. The remaining 20% share distributed for the other sectors.

Trends on Investment priority sectors in Ethiopia

Manufacturing

In developing countries most FDI is dominated by investment of agricultural sectors. Ethiopia concentrated in manufacturing sectors and expanding industrial parks to accommodate investors working on different sectors and contributed 50% share of countries investment, however, the low income and agrarian based economy region exists in the country.

Agriculture

Ethiopia's economy is on the way towards transformation to improve countries economic development; however, Agriculture continues to be a dominant sector of the economy. Trends suggest that an important expansion of agricultural, forestry and fishing has declined marking the relative gain in significance of other sectors of the economy. This decline in agricultural highlights the investments made to develop the industrial sector, with a vision of promoting Ethiopia as a manufacturing hub for the continent (World Bank, 2017); (EIC report, 2019)

Tourism

Based on the policy that government priority investment sectors have been identified, Ethiopia focuses on to develop different tourisms sectors to attract investor to the country for the development of economy. The country work to become one of tourist destination in Africa and to improve visa issuing procedure to make easy mobility and stopover in Ethiopia.

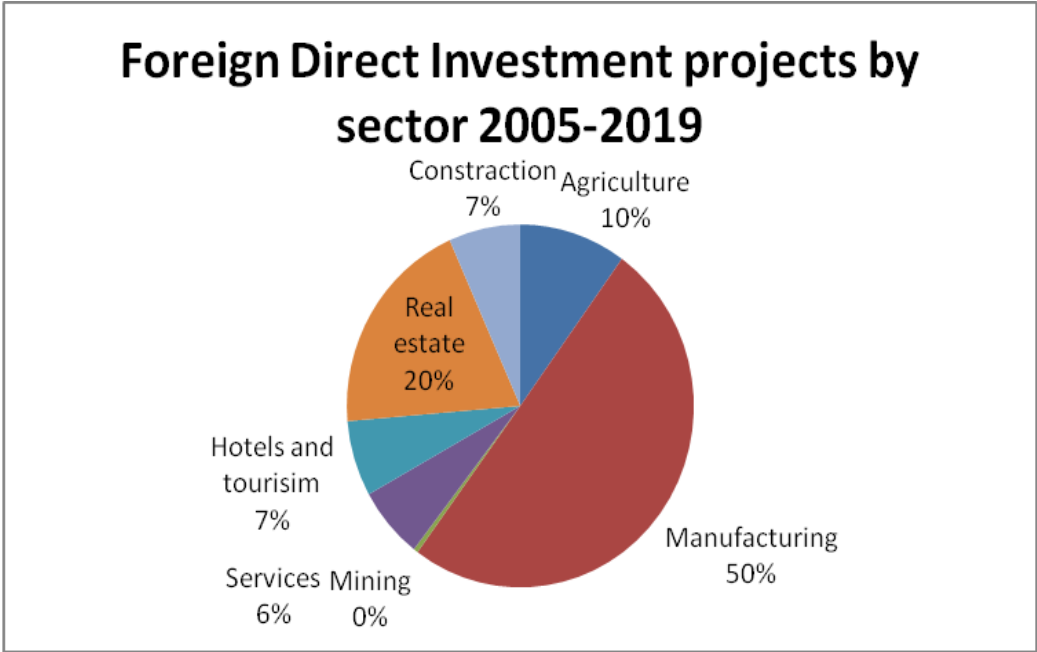


Figure 10: Ethiopia FDI distribution by sector

Source: EIC Licensed Foreign Direct Investment Projects data

4.2.9 Uganda FDI distribution by sector

The majority of the FDI is attracted to the construction and manufacturing sector. The remainder has been shared almost equally with the exception of the agricultural and real estate sectors, which receive minimal FDI inflows partly due to difficulties in securing land ownership. The construction sector registered the highest amount of investments accounted for 32% of all investments in 2018/19. The manufacturing sector was in the second position accounting for 24% followed by agriculture accounted for 22% of all investments in 2018/19 as indicated on figure 11. The agriculture, fisheries and forestry sector registered the highest growth from 2018 to 2019. The mining and quarrying sector where there is a lot of potential for FDI inflows remains the lowest recipient sector of FDI.

The Manufacturing sector

The manufacturing sector leads in FDI inflows to Uganda. Foreign investors in this sector have largely concentrated on beverages for local market, sugar, cement, footwear, packaging, plastics and polythene. Uganda gives attention to joint venture investment to develop quality project for manufacturing products and make an access for international market.

Agriculture

Foreign investors have attracted minimal FDI mainly in agriculture, mining and forestry, because of inappropriate policies to encourage these sectors. Foreign firms are mainly involved in investing in the agricultural sector projects processing up to output such as production of flowers for export markets, oil seed, cotton and livestock products such as milk and hides. Also engage in farming of horticultural crops such as fruits and vegetables while they buy locally produced coffee and cereals for value addition (Uganda Bureau of Statistics, 2011).

Mining

The mining industry which contributed to about 30 percent of Uganda's exports was mainly engaged in the exploitation of copper deposits. The sector that almost collapsed is reviving very fast following recent discovery of oil and gold deposits in the country. This has attracted many foreign investors especially due to the fact that Uganda does not have the capacity to explore and extract these resources.

Information Communication Technology (ICT)

Uganda, due to efficient legal and regulatory frameworks, the ICT sector is one of the most vibrant within the region and fastest growing sector in the economy. The supportive investment

climate therein has exposed numerous opportunities in ICT innovation services leading to maximum utilization of the existing youthful human resource base as quite suitable for the ICT work. The newly developed and highly qualitative ICT infrastructure is also ready to accommodate more future investments.

Tourism

Tourism is a base for investment promotion in Uganda, and a pro-poor source of development project, generating significant flows of FDI into the Ugandan economy. The contribution of tourism to Uganda comes from the foreign currency spent by tourists. Approximately 50% of top positions in FDI-established firms in the tourism sector are filled by expatriates, particularly roles that require technical knowledge. New technologies from abroad are not familiar to Ugandans, so expatriates are hired to train local employees. New skills are learned and new technologies transferred, which is a key to economic growth and poverty reduction in Uganda (UNCTAD 2008).

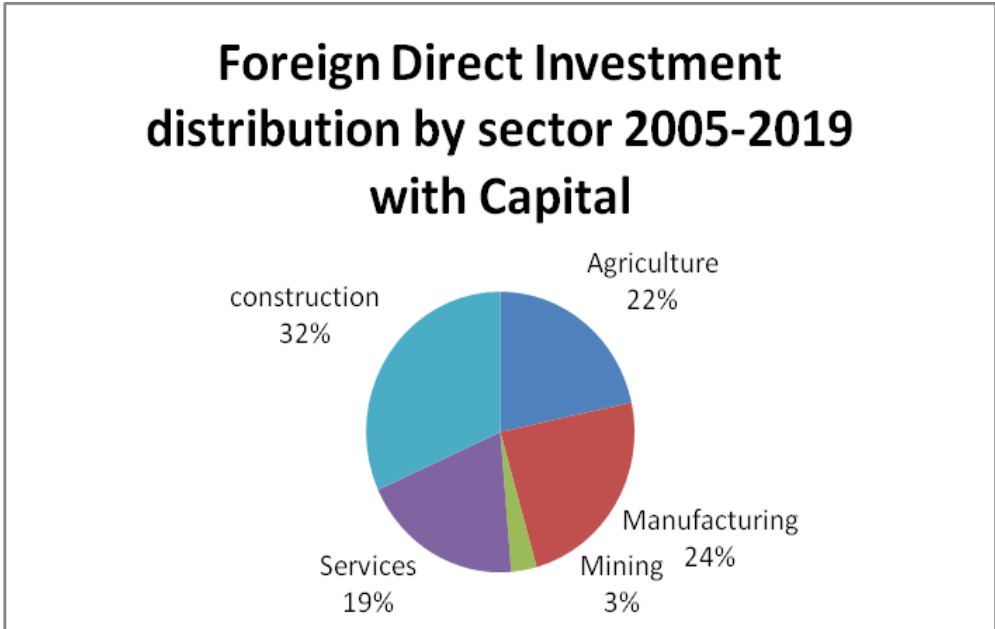


Figure 11: Uganda FDI distribution by sector

Source: Uganda Investment Authority (UIA) Database, 2019

4.2.10 Comparison of FDI inflow trends regionally, by origin, sector and distribution in host country Ethiopia and Uganda

Ethiopia became FDI destination and kept constant being recipient of FDI in the region (Ethiopia Investment Report, 2019). FDI flows have increased from 2005 onward, as a result of the participation of china as main investors in the country. Manufacturing sectors contributed the highest value of FDI attraction. However, government gives an attention to encourage FDI in least developed regions by using different incentive mechanisms; the performance in attracting FDI is very low. Addis Ababa, the capital city representing the highest investment in the period because of its proximity to the capital, favorable environment and better supply of trained labour have contribution.

Uganda showed a marked rise of FDI, the constant increment of major projects construction and manufacturing had contribution for the development. This significant increase in FDI focusing on industrialization, exports and tourism is partly attributable to the tax incentives that the Government introduced on manufacturing to promote export products in both foreign and domestic investment (UNACTD, World Investment Report, 2019). China is the leading and has the highest share of FDI stock in Uganda. The Central region registered the highest investment.

Ethiopia's and Uganda's location is one of the attraction factor that motivate market seeking foreign investors, have an experience in FDI prior in eastern Africa, and have their own practice on way of attracting FDI. When comparing the two countries, Ethiopia attract the most FDI in the region because of having different industrial parks in the country working in manufacturing sectors that creates more job opportunities. However, the outcome gained is not compared as

expected because of lack of experience on Ease of Doing Business, and aftercare strategy to attract and retain foreign investors including Uganda. Therefore, the two countries should have improved the promotion strategy, experience on Ease of Doing Business and focus on priority sectors that create more jobs. In this regard Ethiopia has attracted more FDI especially in manufacturing that creates encouraging job opportunity than Uganda, thus Uganda should improve the attraction of FDI in the sector.

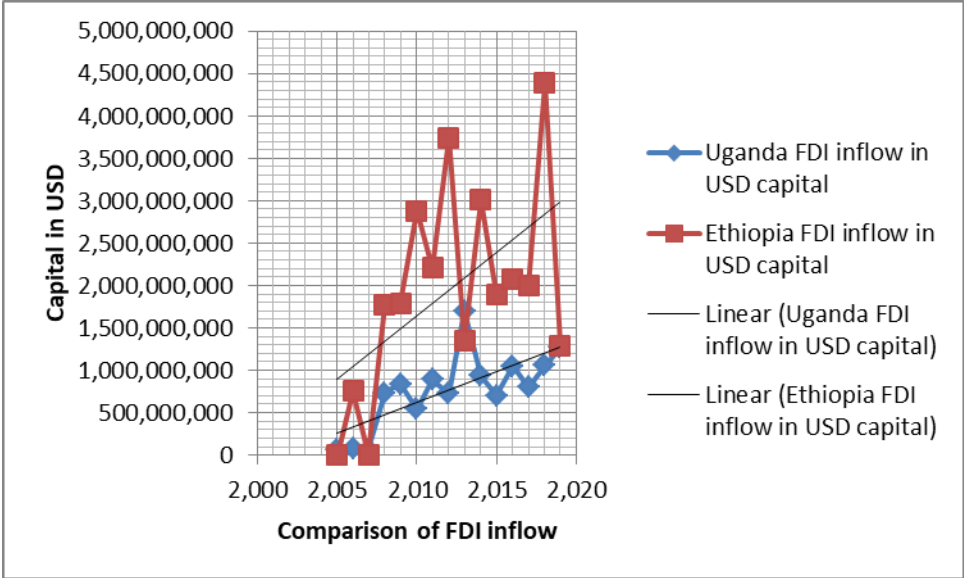


Figure 12: Comparison FDI inflow Trends in Ethiopia and Uganda

Source: EIC, 2019 data WIR, 2020; UIA, 2019

4.2.11 Domestic investment in Ethiopia

Ethiopia, as a developing country, needs a huge surge of investment from both domestic and external sources. More or less, various investment policies have been designed and implemented since long time ago. However, the private investment performance trend of Ethiopia has been very low for a long time up to 2003. Ethiopia’s rapid growth in the period 2012 domestic

investment contribution 0.7 billion US dollar that the main contributor is public invested with sectors in agriculture, construction and service.

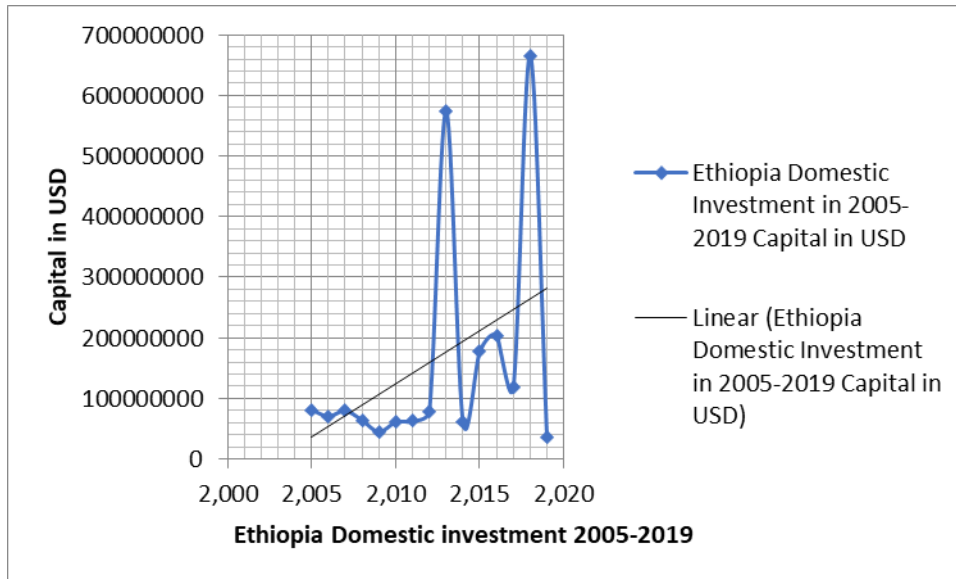


Figure 13: Trends in Domestic Investment in Ethiopia

Source: EIC domestic Investment data

4.2.12 Uganda domestic investment

Domestic investment which includes investments in infrastructures such as roads, schools, private dwelling places, hospitals, machinery, commercial and industrial buildings, telecommunication, water and electricity supply, both by private and public sectors; plus changes in the level of inventories (Word Bank, 2010). Hence, the private investment performance trend of Uganda is increasing. Local companies contributed the biggest number of projects thereby accounting for 29 percent of all the licensed projects investments totaled to US \$ 628.8 million in 2018/19.

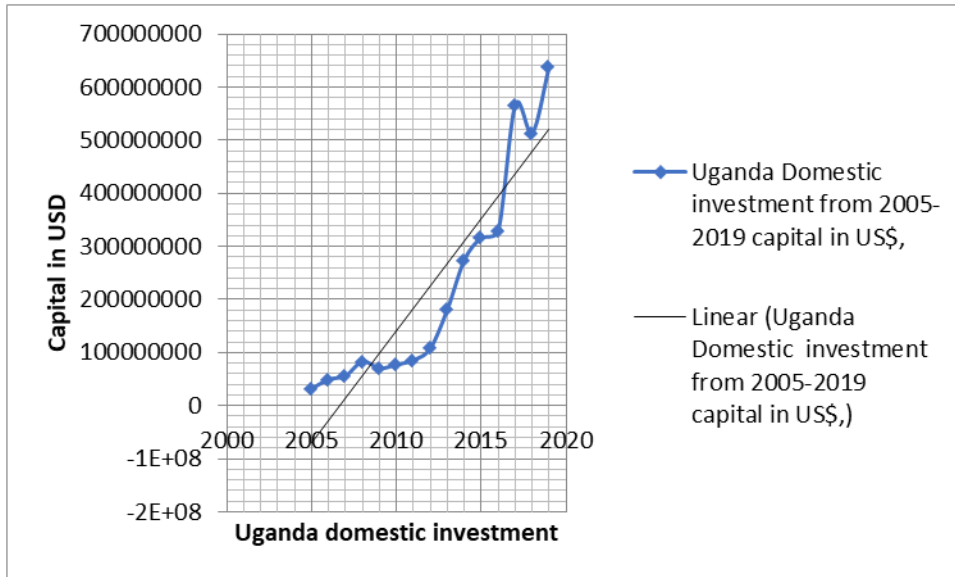


Figure 14: Domestic investment in Uganda

Source: UAI 1991-2019

4.2.13 Comparison of domestic investment trend between Ethiopia and Uganda

Private investment performance trend of Ethiopia has been very low for a long time. Rapid growth was in the period 2012 with the contribution of public investment in the sector of agriculture, service and construction. Uganda domestic investments has been shown continual increasing from time to time and reached a pick in 2015 and 2017 onwards. In the Uganda’s investment policy foreign and domestic investors have equal privilege.

As indicated on figure 15, Uganda shows a continuous increase that is a result of government measures by giving equal attention for the investors to expand domestic and foreign direct investment. Ethiopia domestic investment is very low as a result of local investment is highly dominated by public investment. Hence Ethiopia should give equal attention to domestic and

foreign investment and improved incentive mechanism which is basic for technology transfer for country's development.

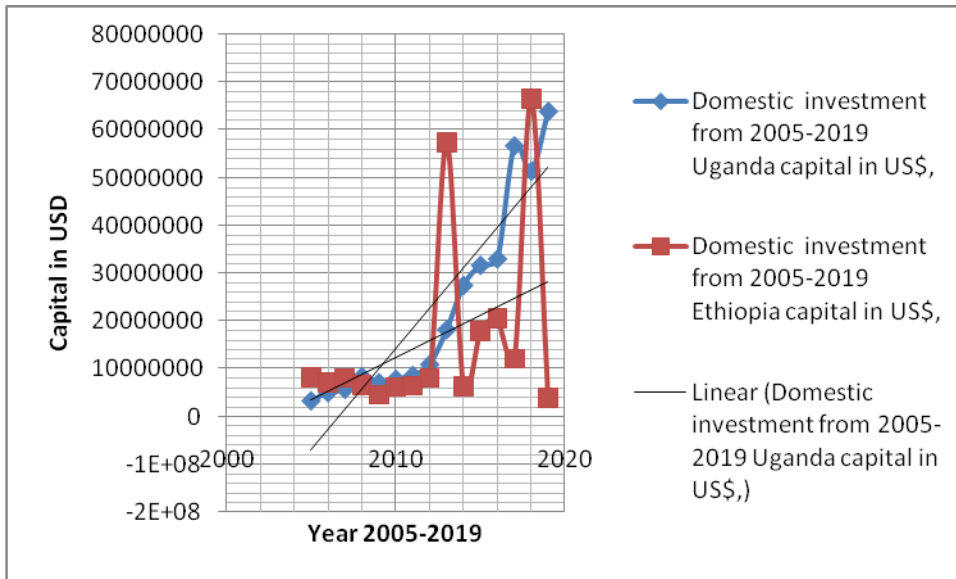


Figure 15: Comparison of Domestic investment in Ethiopia and Uganda

Source: EIC and UAI data

4.3 Role of government institution

4.3.1 The role of Ethiopian government institutions

Government institution has the responsibility to attract and retain foreign investment in the country. Private investment including FDI needs political stability and fulfilled precondition. In this regard finding shows all sectors perception is positive in the following issues.

Issues such as terrorism and destruction of property are the major factor that discourages foreign companies. Government policies are important to protect the foreign investors from drastic

changes in the operating environment. Hence, findings show that Ethiopia is a politically stable country for FDI in the study period regardless of the country current situation.

Ethiopia Ministry of foreign Affairs

One of the concerned bodies from government institution is Ministry of foreign affairs, that has the responsibility to attract foreign direct investment;

- Promoting the country investment opportunities to attract FDI in abroad, it needs using technology.
- Facilitate the visit to meet the concerned sectors in the host country.
- Support foreign investors faced investment bottlenecks in the home countries; it needs working together with stakeholders and commitment from both sides.

Ethiopia Investment Commission

Foreign direct investment has followed different steps to come to operational. In this regard Ethiopia Investment Commission is the one to give services for foreign investors. Hence findings in this regard;

- Countries investment policy is attractive for doing their investment.
- Incentives that the government provided based on sectors and location of investment area are attractive.

- Encouraging availability of labour force is opportunities especially in manufacturing sectors.
- Inadequate internet facility and low automation systems.
- Services are improved in issuing investment license, used one stop shopping services.
- Population growth is securing local market to maximize investment is promising for local market advantage of FDI in the country.

Working with other stakeholders

Different stakeholders have been involved in foreign direct investment to support investors in the host country in rendering the following services. The finding shows;

- Justice system is crucial element to encourage foreign investors to invest in the host countries. Ethiopia to guarantee foreign investors property, signed agreement to be member of world intellectual property organization and multilateral investment agency. The finding indicates the judiciary system of the country is rationally good, issues to courts experiences inefficient system. Legal directorate in EIC support the idea of foreign investors dealing locally to solve disputes is the main strategy.
- Lack of foreign currency supply for foreign investors is the main challenge. However, licensed foreign investors deposited the required amount in foreign currency; withdrawal has to follow the usual foreign exchange requesting procedures. The finding shows supply of foreign exchange problem and lengthy procedure for withdrawal discourage to attract FDI.

- Incentives on duty free importation of capital goods have been stated in investment proclamation 2012 clearly. However, EIC takes the responsibility to handle paper works on duty free importation of capital good, the result indicates lengthy custom procedure that benefit for foreign investors.
- Providing land for foreign investor is the responsibility of regional government. The finding shows lengthy procedures of getting investment lands in regional states and city administrations are the main challenges for investors.
- The availability of water and electricity supply is one of the challenging facilities for foreign investors.

4.3.2 The role of government institution in Uganda

Political instability is a major problem that is currently affecting multinational companies. Generating an enabling investment climate through offering security for investors is also an important strategy of encouraging foreign investment (Bowles, 2004). Foreign Investment decisions consider all the characteristics of the foreign country investment climate. Companies usually tend to limit the amount of investment in politically volatile regions, issues securing the operating environment contributed to foreign companies to investing in the countries. The finding shows even if there is corruption on securing stability and working environment of the country, Uganda government is committed to improve investment in the country.

Uganda Ministry of Foreign Affairs

Government institution has the responsibility to attract foreign direct investment. In this regard Ministry of foreign affairs is one of the concerned bodies to give support for investors.

- Uganda Embassy in abroad promoting countries investment opportunities and provides information on the laws and reporting requirements for foreign investors, however, investors often ultimately end up bypassing the UIA after experiencing bureaucratic delays and corruption. Finding shows information giving on time including information handling and communicating mechanisms is weak.
- Lack of support for foreign investors faced investment bottlenecks in the investment process

Uganda Investment Authority

Uganda Investment Authority is responsible body for foreign direct investment. Investors are following different steps up and down to come to operational. In this regard the finding shows;

- A policy towards Foreign Direct Investment has free market economy, liberal financial system that important to attract investors. However, the finding shows rampant corruption and costly business licensing requirements has been hampered investors to make decision at the right time.
- Uganda Investment Authority has been using the promotion method to promote investment environment, needs to be improved to address potential investors.
- The government allowing foreign capital movement and accessibility of loan that has an access to finance in the economy. No restrictions on foreign exchange capital transfers in and out of Uganda. Finding shows Uganda making conducive environment for foreign direct investment attraction.

- FDI is currently concentrated in major towns; especially in manufacturing which employs majority of the workforce. Finding indicates that, to have equitable share the government offers incentives focused on encouraging rural development.
- The findings realized that lack of adequate infrastructure limit the supply of product that increase spending power of citizens and access for local market. Hence, Uganda spending power of citizens and local market has a limitation for the growth of future investment.
- The availability and adequacy of internet facility is adequately provided for basic facilities for investors.
- Manufacturing sectors is the main to create jobs in the country. The finding shows providing of investment land is the main challenge for foreign investor.

Working with other Stakeholders

Different stakeholders have been involved in services rendering to foreign investors to support investment in the host country. The finding shows;

- Justice system is one of the imperative elements that encourage foreign investors to invest in the country. Uganda operates in collaboration with international agencies, the private sector and decentralized local government through a coordinated institutional framework to guarantee foreign investors property. The finding indicates the judiciary system of the country is weak that discourage the country investment.
- In Uganda wide range of capital items exempted from import duties, including machinery. However, certain Ugandan manufacturers have import tariff protection, which can include special import levies in certain cases, the import procedures is time taking.

- Availability of clean water and electric sources has shortage in general. The finding indicates that the supply of electricity and clean water to foreign investors is one of the challenges for foreign investors.

4.3.3 Comparison of the role of government institution in the two countries

Creating fertile ground for the investment is indispensable role of government institution in the country. In this regard the Ethiopia government institution working to make favorable environment for FDI attraction and investment as a whole. Attractive foreign investment policy, availability of labour force especially labour intensive manufacturing sectors, basic infrastructure facility, issuing investment license due to the introduction of one stop shopping service, securing local market and proxy to international market to maximize investment are strengths of the institutes in Ethiopia. Attractive foreign investment policy, supply of foreign currency and access to loan, supply of adequate internet access, and issuing investment license in one stop shopping service are Uganda government institution strength. An opportunity to one country is challenges for another, which needs their side work to improve in the future.

On the other hand, there are services that need improvement; promotion strategy, experiences to solve investment bottlenecks, weak justice system, and lengthy procedures for providing land and custom clearance, electricity supply, weak communicating mechanisms needs the two countries government commitment. In addition Uganda government would improve rampant corruption and costly business licensing requirements, incentives to encouraging rural development, availability and adequacy of internet facility also Ethiopia government would improve availability of foreign currency and accessibility of loan to improve countries investment attraction.

4.4 Opportunities and challenges

4.4.1 Trends of job opportunities in Ethiopia

The Government of Ethiopia acknowledges that poverty, unemployment and social imbalances are the most pervasive problems that the country is currently facing, and is committed to broad-based policy reforms and programmes to address these challenges. The government has continuously articulated the need to create sufficient employment opportunities to absorb the country's growing labour force and has put in place various short, medium and long-term employment creation measures that are meant to improve the income and livelihood of both the rural and urban poor.

Comparing the opportunities gain by domestic and foreign investment, domestic investment trend shows increment that carried on by public investment. Foreign direct investment has crucial difference on job opportunities that given due emphasis on the manufacturing sector its transition from agriculture to the industry led economy. Accordingly, the government has built many industrial parks, of which some have already started operation. So far more than 65% of public investments made parks have created job opportunities compared to domestic.

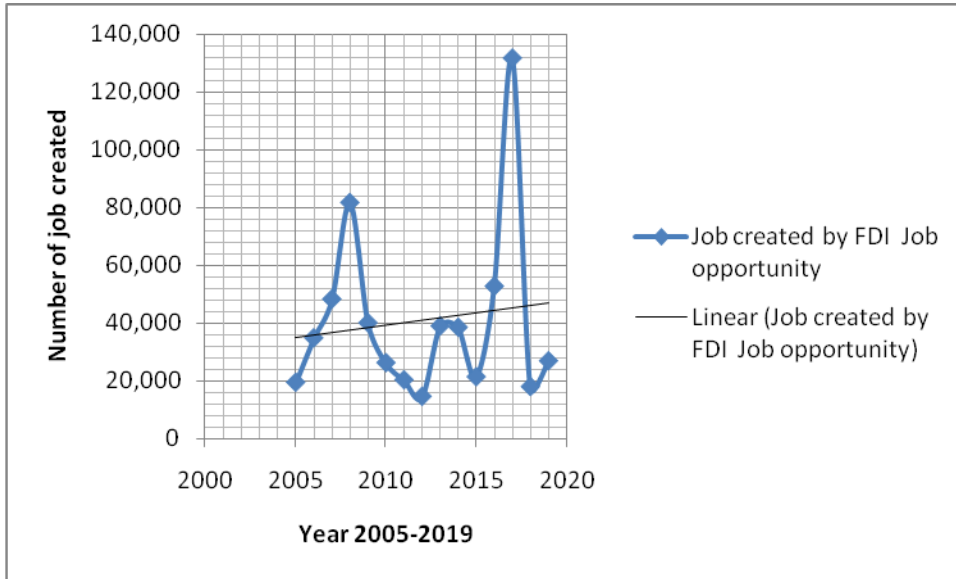


Figure 16: Ethiopia Job created by FDI Projects

Source: EIC Foreign Direct Investment Projects data

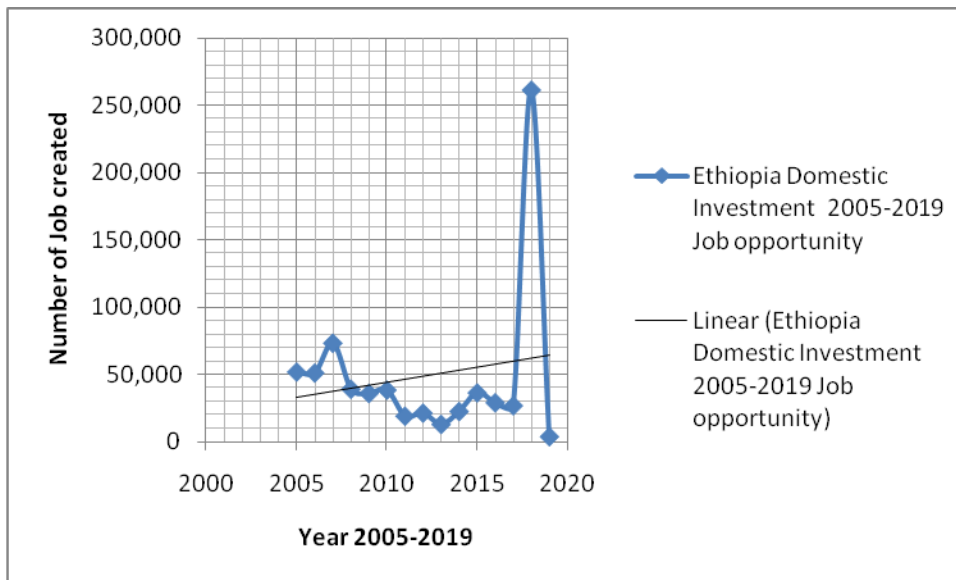


Figure 17: Ethiopia Job created by Domestic Investment

Source: EIC domestic Investment Projects data.

4.4.2 Trends of job opportunities in Uganda

Direct and indirect employment opportunities have resulted from FDI in Uganda. The spillover effects of FDI have enhanced development of domestic firms generating employment opportunities. FDI also has a negative side by virtue of the nature of employment opportunities created, that is under wage employment.

FDI is currently concentrated on major towns, especially in manufacturing which employs majority of the workforce. Rural infrastructure needs to be developed to attract foreign investors. Moreover, creation of employment in the rural areas would spread the spill-over effects all over the economy leading to balanced economic growth.

Financial Year 2018/19 registered a 151% increase in the level of employment which had been registered in 2017/18. The Central Region registered the highest level of employment which accounted for 88% of all employment in 2018/19. The Manufacturing Sector registered the highest level of employment which accounted for 35.5% of all employment in 2018/19.

The foreign projects contributed a higher level of employment accounted for 75.4% of employment; as compared to the local projects which contributed accounted for 24.6% of all employment in 2018/19.

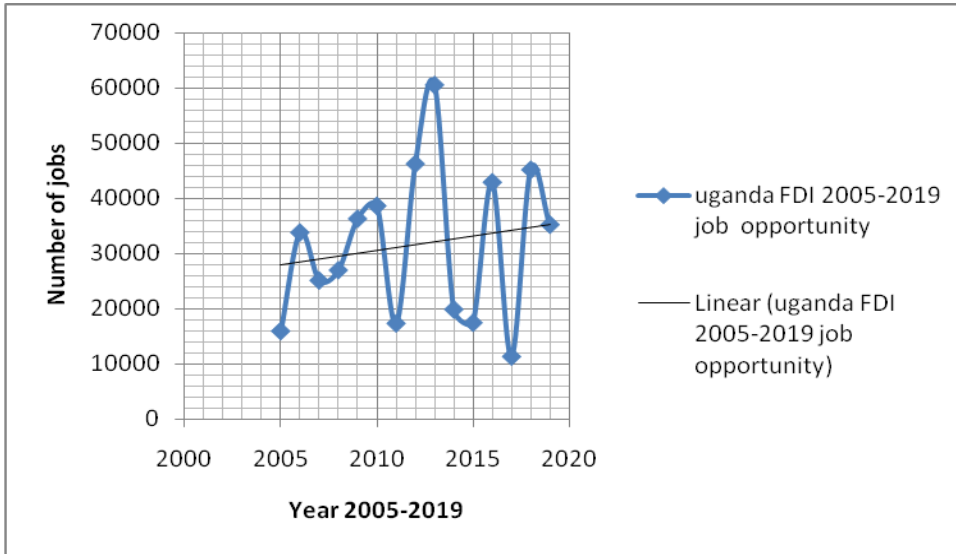


Figure 18: Uganda Job created by Foreign Direct Investment

Source: Uganda Investment Authority Database, 2019

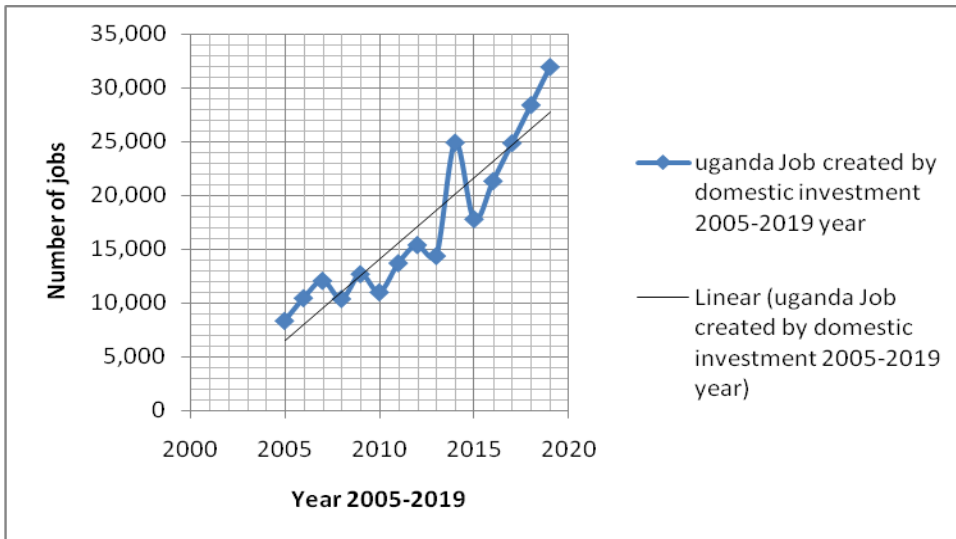


Figure 19: Uganda Job created by Domestic Investment

Source: Uganda Investment Authority Database, July 2019

4.4.3 Comparison of Job opportunity between Ethiopia and Uganda

The two countries government has continuously articulated the need to create sufficient employment opportunities to absorb the country's growing labour force and has put in place various employment creation measures to improve the income and livelihood of both the rural and urban population. In Ethiopia and Uganda, FDI is concentrated in major towns, especially in manufacturing which employs majority of the workforce. Rural infrastructure needs to be developed to attract foreign investors. Direct and indirect employment opportunities have resulted from FDI in the two countries especially in Ethiopia. Domestic firms have been generating more employment opportunities in Ethiopia than Uganda.

Hence, depending on finding on secondary data and interview, comparing the opportunities gained by domestic investment and foreign direct investment there is a crucial difference in Ethiopia and Uganda. Even if, both countries have given due emphasis to the manufacturing sector which absorb large number of job opportunities, Ethiopia takes the upper hand in job opportunity in domestic investment and Uganda FDI job opportunities trend shows better performance.

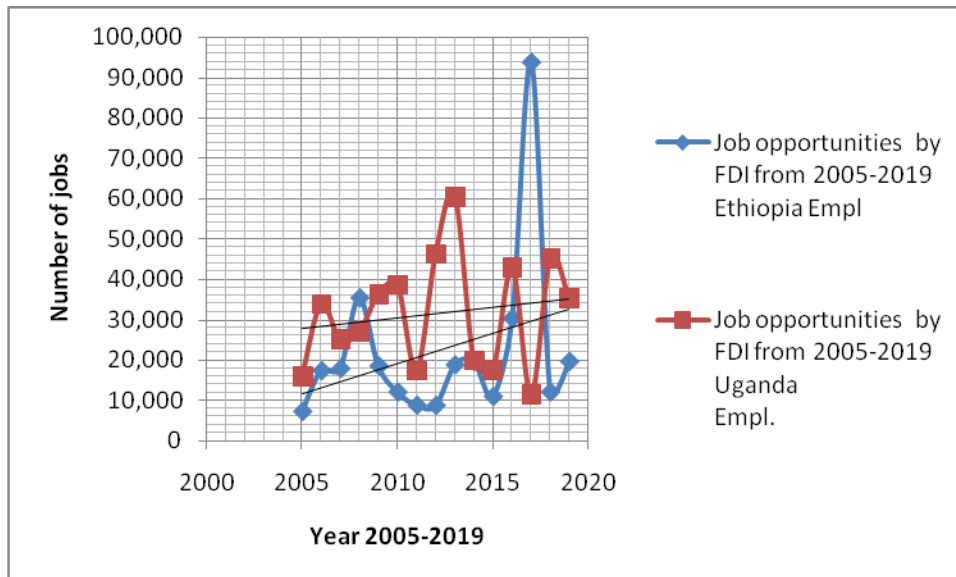


Figure 20: Comparison job opportunities on FDI in Ethiopia and Uganda

Sources: *EIC and UIA FDI job opportunities data*

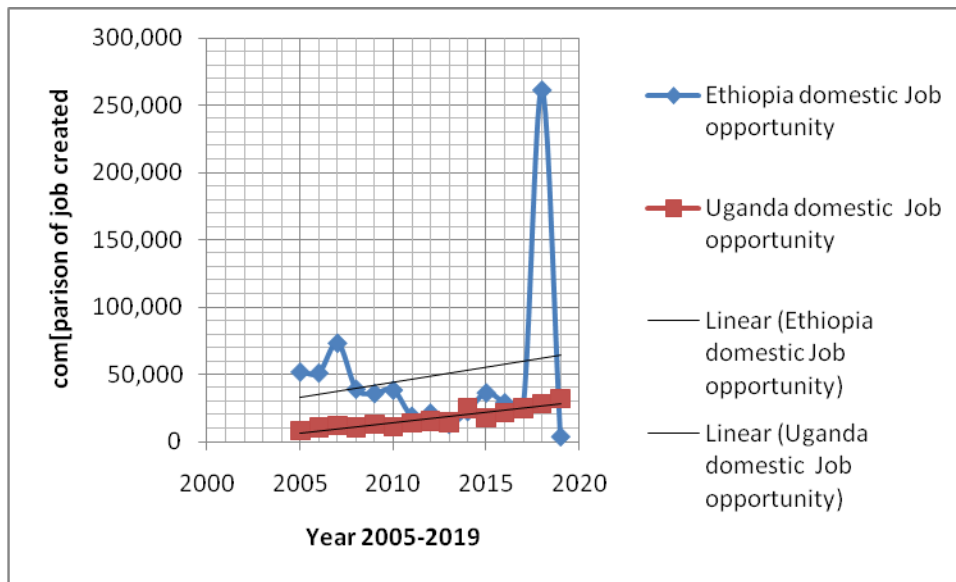


Figure 21: Comparison job opportunities on Domestic in Ethiopia and Uganda

Sources: *EIC and UIA domestic investment job opportunities data*

4.5 Lessons to be Learnt

4.5.1 Lessons to be learnt from Ethiopia

Government institution made favorable environment for FDI attraction and investment. Created fertile ground for the investors in the basic infrastructure facilities, focus in labour intensive manufacturing sectors, improvement in clean water supply and securing spending power of

citizens and local market, access to proxy to international market to maximize investment are lessons to be learnt from Ethiopia.

There are services needs improvement in promotion strategy, experiences to solve investment bottlenecks, weak justice system, and lengthy procedures for providing land and custom clearance, electricity supply, weak communicating mechanisms that needs commitment from the two countries government.

4.5.2 Lessons to be learnt from Uganda

Government institution has important role in FDI attraction and investment as a whole. FDI in Uganda's communication industry is experiencing fast growth (Riddervold, 2011)). Uganda government institution is working efficiently in areas of availability and adequacy of internet facility, availability of foreign currency, accessibility of loan, mechanism to expand domestic investment, availability of trained labour that are lessons to be learnt from Uganda.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

The main objective of this study was to explore lessons to be learnt by examining the nature and trends of investment (FDI and domestic) in Ethiopia and Uganda using 15 years' time series data. To attain the objective employed descriptive research design used data for analysis includes both qualitative and quantitative, mixed research approaches used to analyze data. Both primary and secondary source of data have been collected through interview, investors data, reports.

According to trend analysis on FDI and domestic investment issues needs improvement; promotion strategy, ease of doing business, equal attention to domestic investment especially to Ethiopia, incentive mechanism which is basic for technology transfer for country's development.

Based on interview and the reviewed documents, attention should be given to create fertile ground for the investors in basic infrastructure facilities, labour intensive manufacturing sectors, securing spending power of citizens and local market, access to proxy to international market to maximize investment, improve mechanism (courts system) for investment bottlenecks, providing land and custom clearance procedures, electricity supply, availability and adequacy of internet facility, supply of foreign currency and availability of trained labour are issues needs to share experience with each other.

5.2 Conclusion

Ethiopia and Uganda are among the developing economies that are rich in unexploited natural resources, which are the major motivators for foreign investors. The governments have made concerted efforts to sell country's image abroad to encourage FDI in the country with the hope of

facilitating economic development as well as generating new employment opportunities for the ever increasing labor force. Good foreign relations with neighboring countries and the other East African economies have enabled the countries to overcome the bottlenecks of being land-locked. Policies on foreign investment have enhanced FDI especially with the establishment of the investment sectors of the Countries. Ethiopian Investment Commission and Uganda Investment Authority are the responsible organ in promoting and facilitating investment in the countries themselves.

However, findings on the nature and trends of investment; FDI inflows trend shows increasing in Ethiopia, domestic investment trend shows increasing in Uganda. Hence, the private investment performance trend of Ethiopia shows there is unequal attention given to both domestic and foreign direct investment in the country also foreign direct investment trend shows Uganda works to improve foreign investment. Findings indicated on the role of government institution that investment policy is an opportunity for FDI, however providing information on time and justice system discouraging the investment. Finding shows the basic means for technology development internet facility and services delivery practices of institution is challenging for foreign investors especially in Ethiopia.

In general international promotion strategy and effective justice system is vital to attract potential foreign investor. Providing sufficient foreign exchange, access to financial loans, availability of qualified work force are challenges for Ethiopia. Availability of infrastructure, access to local and international market are challenges for Uganda. FDI is the means of technology transfer and creating job in the host country, in this regard inequitable distribution of FDI that concentrated on major towns; especially in manufacturing which employs majority of the workforce are challenges for both Ethiopia and Uganda.

5.3 Recommendation

The government of Ethiopia and Uganda are intensively working to improve ease of doing business strategy for better economic development. To facilitate and overlook the investment development the two countries has been establishing industrial zones and all necessary infrastructures in different parts by the government and investors themselves. However, the investor faced problems related power, investment land and infrastructure facility. To make fair investment distribution government should improve practices to different potential areas and minimize bootlaces in providing land in both countries. Based on the findings above the capacity to design implementing sound promotion strategies, experiences to solve investment bottlenecks, weak justice system, and lengthy procedures for providing land and custom clearance, electricity supply, weak communicating mechanisms are vital needs government commitment for the two countries.

Hence, To attract FDI making favorable environment in the process of investors giving service; land and custom procedure, power supply are basic challenges that needs attention by the government. The two countries government should have committed to minimize the challenges as well as promotion strategies of the investment sectors should be developed that is important to attract potential FDI. Based on ease of doing business performance service to increase job opportunity and expand technology transfer needs both countries improvement and the two countries should take lesson each one another. Senior investors are the main promoter for FDI in host country, hence government has to give rational support to work closely and minimize challenges to them for promoting FDI for the host countries.

Finally, the study recommended that needs further study on those cases identified lessons to be learnt for experience sharing to improve the performance in foreign investment attraction, to retain investors, expansion of domestic investment for creating job opportunities for countries economic development.

References

Agosin M.R. and Ricardo Mayer, (2000). Foreign direct investment in developing countries

Agrawal.P. (2000). Economic Impact of Foreign Direct Investment.

Aiello,et.al. (2009) Regional Infrastructure and Firm Investment: Theory and Empirical Evidence for Italy.

Ajayi , (2006,). FDI and economic development in Africa

Alfaro, & Charlton, (2009) Foreign Direct Investment and Financial Development. An Analysis of Complementarities and Channels

Ali, (2016) Challenges and opportunities of FDI in specific sectors.

Asiedu, (2002) The determinants of Foreign direct investment. What is the evidence of Africa?

Adeolu, (2007) Foreign Direct Investment and Economic Growth: Evidence from Nigeria

Buckley & Casson (1998). Analyzing Foreign Market Entry Strategies: Extending the Internalization Approach.

Chen, Geiger & Minghui, (2015) Manufacturing FDI in Sub-Saharan Africa: trends, Determinants, and impact

Chrysochoidis, Millar & Clegg (1997). The Impact of Political Risk on Foreign Direct

Investment

Cobb & Forbes, (2002). Qualitative research.

David Dollar et.al (2005) Investment Climate and Firm Performance in Developing Economies

Dollar et al.,(2005) Investment climate and firm performance in developing economies.

Edmunson & Manus, (2007) Methodological Fit in Management Field Research

Ethiopia investment report, (2019). Trends FDI inflow in Ethiopia

Maxwell Odongo, (2012) Foreign Direct Investment and Economic Growth in Uganda: Evidence Autoregressive Model.

Mitik, (2013) Private sector Development in Ethiopia with particular emphasis to the manufacturing sector.

Morisset, (2000); Asiedu, (2003a); Edited by S. Ibi Ajay,(2006) Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impact and Potential

Obstfeld & Rogoff, (1995) Foundation of international macroeconomics.

Obwona, (2001) determinants of FDI and their impact in economic growth.

OECD, (2013) Interconnected economies: Benefiting from global value chain.

Patton, (2002). Qualitative research and evaluation methods

Sindre Riddervold, (2011) The Effects of Foreign Direct Investment on the Ugandan Economy.

Sajems, (2012) Risk and FDI Flows to Developing Countries.

Sharma and Abekah, (2007) Foreign Direct Investment and Economic Growth of Africa

Spar,(2003) Managing International Trade and Investment.

Trochim & Donnelly, (2006). The research method knowledge.

UIA, (2019). Investment trends in Uganda

UNCTAD, (2018). Global flows of foreign direct investment

UNCTAD, (1998). Foreign direct investment and transnational.

UNCTAD, (2007). Economic Development in Africa

UNCTAD, (2010). FDI Trends and Prospects Global foreign direct investment

UNCTAD, (2017). Investment and the Digital Economy

UNCTAD'S, (1999) foreign direct investment in Africa: Performance and Potential from Vector

UNCTAD'S, (2020) The World Investment Report 2020 Investment trends and prospects.

Wakyereza, (2013) The Impact of Foreign Direct Investment on Economic Growth, Employment and Poverty Reduction in Uganda.

Wakyereza, (2017) The Impact of Foreign Direct Investment on Economic Growth

WIR, 2019) World Investment Report

World Bank Group, (2016) The Investment Climate.

World Bank, (2014) Making Foreign Direct Investment Work for Sub-Saharan Africa Local Spillovers and Competitiveness in Global Value Chains

World Bank, 2020; IMF, 1993, Foreign direct investment definition.

World bank's (2020) Doing Business 2020 Comparing Business Regulation in 190 Economies

World development report,(2005) A better investment climate for everyone.

Yin, (1994). Case Study Research Design and Methods:

Appendix A

Interview question for Ethiopia and Uganda Investment Sectors and Uganda Embassy in Addis Ababa working on Investment area.

1. What is your level within Organization, experience?
2. What are the priority investment sectors of the country?
3. What are opportunities for FDI and domestic investors
4. What are methods using to attract FDI?
5. Could we say investment policies are attractive for FDI and domestic? If yes or no, please clarify.
6. What are challenges for FDI and domestic investment?
7. What looks like government support to investors for domestic and foreign?
8. In which priority investment area Ethiopia/Uganda has experience to share for each other?

Appendix B

Interview question for Ethiopia/Uganda Foreign Investors working on Countries priority investment area.

I. General Information

1. Home country of the Company: _____

2. Year of Establishment in Ethiopia: _____

3. Sectors of the Company –

a. Agriculture

b. Manufacturing (Agro-processing, Leather and Leather products, Textile and Garment, production of medicine and medical equipment)

c. Mining

d. Tourism

e. ICT

4. Status of the project -

a. Pre-implementation stage

b. Implementation stage

c. Operational stage

5. From which source you get information about the Ethiopian/Uganda Investment climate?

- a. Ethiopian/Uganda embassy from your country
- b. Investment commission/ Authority web site based promotion
- c. Repetitive visit to Ethiopia/Uganda
- d. Friends who have investment in Ethiopia/Uganda
- d. Your Family

6. **Other, Please clarify** _____

II. External Environment Foundation for FDI

The following items are intended to assess perception about the external environment.

Clarify to what extent the external environment is enabling or disabling for FDI.

1. Political Environment

Ethiopia/Uganda is politically stable/unstable country

Ethiopia's/Uganda's Foreign Investment Policy is/not attractive

Tax Policies of Ethiopia/Uganda are/not encouraging

Tariff Policies of Ethiopia/Uganda are/not encouraging

Terrorist activities are/not growing

The justice system sound/not

Timely information is/not adequately available

2. Economic Environment

Foreign exchange or currency is/not adequately available.

Capital market is/not available

Adequate access to loan/not

APPENDIX: C

Interview question For employees, working on Ethiopia and Uganda priority investment project.

1. What does the organization specialize in?
2. Which is the investor's parent country?
3. What is your level within Organization?
4. What is the level of the Organization? Is pre implementation, implementation or operational stage.
5. How many years has the business been in the country?
6. What is your business worth in US dollars?
7. What are the incentives offered to the organization by the Ethiopia/Ugandan government?
8. What are challenges of your investment? In what way you try to tackle them? Is there any support from government?
9. How many employees does the organization have?
10. How many of the employees are professional? Are they get on job training or other to make technology/ knowledge transfer? Please clarify.
11. What are the salary scales of employees in the organization?
12. Are the salary scales determined by the education level? If No, what are the determinants of salary scales in the organization?
13. How many employees are employed on permanent, temporary terms?

Thank you