

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

The Effect of Government Incentives on Ethiopian Foreign Direct Investment: Evidence from Bole Lemi Industrial Park.

BY

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APPROVAL SHEET

This is to certify that the thesis entitled "The Effect of Government Incentives on Ethiopian Foreign Direct Investment: Evidence from Bole Lemi Industrial Park" submitted by Sintayehu Abebe in partial fulfillment of the requirements for the degree of Master of International Business Administration (IBA) has been examined and approved by the internal examiner.

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DECLARATION

I, Sintayehu Abebe, declare that this thesis entitled "The Effect of Government Incentives on Ethiopian Foreign Direct Investment: Evidence from Bole Lemi Industrial Park" is my original work. This thesis has not been submitted for any degree or examination at any other university. All sources of materials used for this thesis have been duly acknowledged through appropriate citations and references.

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This thesis has been submitted for examination with my approval as the university advisor.

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LIST OF ACRONYMS AND ABBREVIATIONS

AGOA: African Growth and Opportunity Act
ANOVA: Analysis of Variance
APA: American Psychological Association
CDE: Customs Duty Exemption
CEO: Chief Executive Officer
CIT: Corporate Income Tax
CMB: Common Method Bias
EIC: Ethiopian Investment Commission
EPZ: Export Processing Zone
ERCA: Ethiopian Revenue and Customs Authority
ESG: Environmental, Social, and Governance
FDI: Foreign Direct Investment
FSAs: Firm-Specific Assets
GDP: Gross Domestic Product
GM: General Manager
GTP: Growth and Transformation Plan
HR: Human Resources
IA: Investment Allowances
IB: International Business
IMF: International Monetary Fund
IP: Industrial Park
IPDC: Industrial Parks Development Corporation
KMO: Kaiser-Meyer-Olkin Measure
LSA: Location-Specific Advantage
MNE: Multinational Enterprise
MoTI: Ministry of Trade and Industry
NBE: National Bank of Ethiopia
NEG: New Economic Geography
OECD: Organization for Economic Co-operation and Development
OLI: Ownership, Location, Internalization
OLS: Ordinary Least Squares

RBV: Resource-Based View

SD: Standard Deviation

SE: Standard Error

SEM: Structural Equation Modeling

SEZ: Special Economic Zone

SPSS: Statistical Package for the Social Sciences

UNCTAD: United Nations Conference on Trade and Development

VIF: Variance Inflation Factor

ABSTRACT

This study investigates the relationship between government incentives and Foreign Direct Investment (FDI) inflows into Ethiopia's Bole Lemi Industrial Park. The research examines three independent variable categories—fiscal incentives (tax holidays, duty exemptions), non-fiscal incentives (one-stop services, land access), and contextual conditions (infrastructure, labor, market access)—and their effect on FDI, measured by firm establishment, capital, and employment.

Using a quantitative census survey, the study collected data from 102 corporate respondents across all 17 foreign-owned firms in the park, plus 12 regulatory officials. Descriptive results show that investors rate fiscal incentives highest (mean 4.07/5.00), followed by non-fiscal incentives (3.84), with contextual conditions lowest (3.64). Notably, policy stability received the top individual rating (3.89), indicating that predictability outweighs generosity.

The regression model was highly significant, explaining 64.6% of FDI variance. Fiscal incentives emerged as the strongest predictor, followed by non-fiscal incentives, while contextual conditions had a modest but significant effect, confirming all three hypotheses.

The study recommends maintaining competitive fiscal incentives within a legally stable framework, streamlining customs and inter-agency coordination, and investing in infrastructure and workforce development. It concludes that a dual strategy—combining stable fiscal policies with robust contextual enablers—is crucial for maximizing FDI's developmental impact in Ethiopia.

Keywords: Foreign Direct Investment, Government Incentives, Industrial Parks, Fiscal Incentives, Non-Fiscal Incentives, and Ethiopia.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

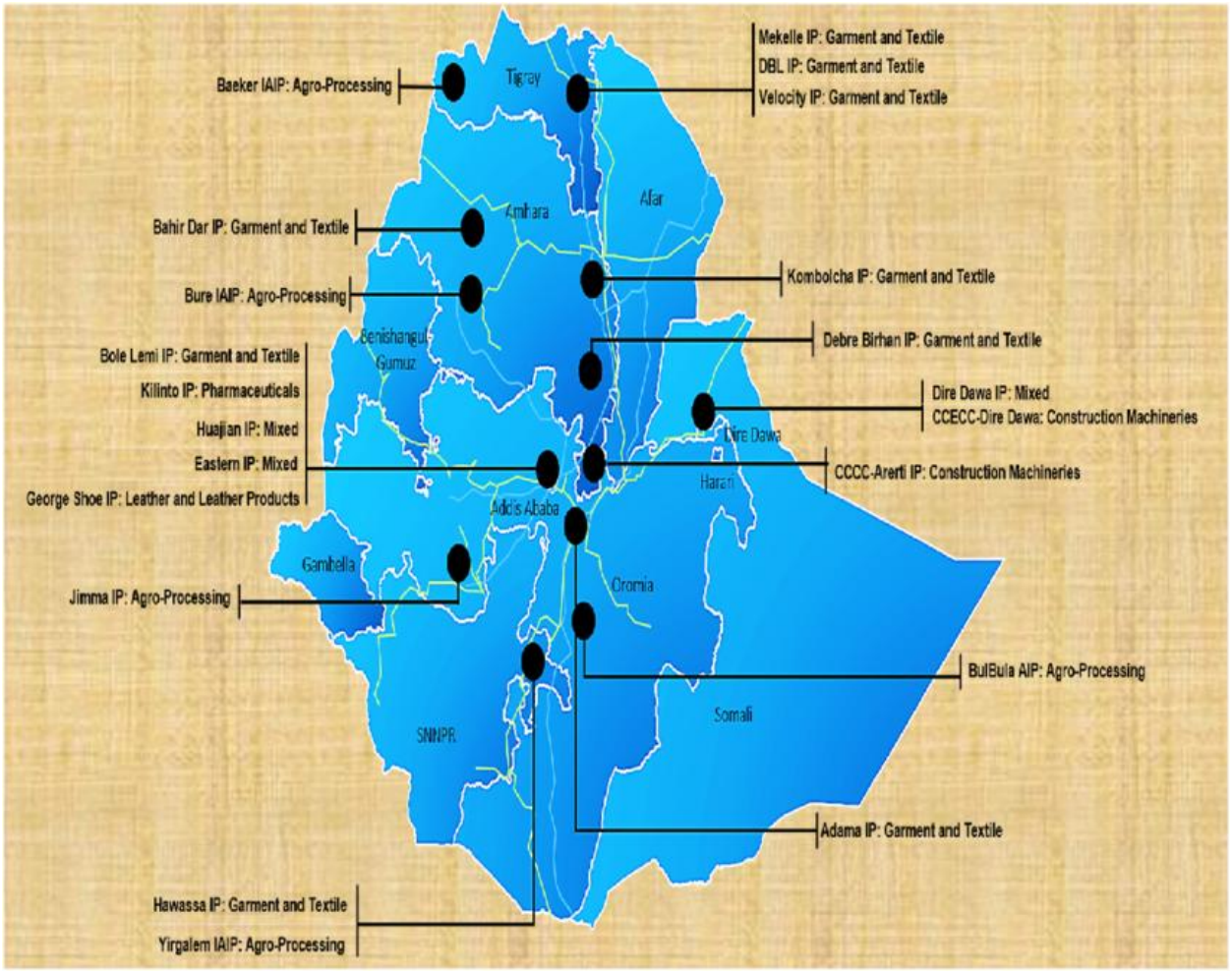
On this current firm global economic competition foreign direct investment (FDI) is becoming a crucial engine for the propose of a country industrialization, job creation, technology transfer, and sustainable economic growth (World Bank, 2024). FDI is a cornerstone for developing nations to structural transformation and integrate them into global value chains (UNCTAD, 2023). Governments are involved in computation with other nations to attract more FDI and investors by offering more attractive economic policies; the effectiveness of such incentives is often depends on the wider investment climate, which includes institutional quality and macroeconomic stability in the country (Liu & Shamshedin, 2020).

Currently most of African countries develop their industrial policy with the inclusion of tax holidays, custom duty exemptions, administration facilities, and infrastructure supports (OECD, 2025). The purpose of such intention is to balance their perceived risk and cost, through this they can directing capital towards prioritized sectors like manufacturing, but the African experience shows mixed results. Even if incentives have a positive influence on location decisions, their impact is frequently factored by weaknesses in contextual factors, such as skilled labor, infrastructure, and regulatory governance. Accordingly, the output of these fiscal incentives is always questioned, suggesting that incentives alone are not a sufficient catalyst for transformation and high-quality FDI (Appiah-Kubi et al., 2021; Munongo & Robinson, 2017).

In the above continental context, Ethiopia has emerged as a prominent case study. Since 2010 the country has followed an aggressive industrial park-led development strategy by establishing over 20 parks throughout the country and designating them as

a core tool for attracting export-oriented FDI which is effective in creating jobs and promoting economic transformation (Tadesse, 2022). Each of the parks offers a bundle of a comprehensive incentive package, which includes lengthy income tax exemptions, duty-free importing of capital goods and raw materials, and efficient "one-stop shop" investor services (EIC, 2023). Also, the recent upgrading of key parks into special economic zones (SEZs) is the result of recent policy development under proclamation No.1322/2024.

Figure 1.1: Ethiopian industrial park distribution map.



The industrial park's location in Ethiopia. Source: (www.investethiopia.gov.et), Sep/2024.

Besides a strong effort with regard to investment and policy change, Ethiopia still experiences the reflection of the African paradox. In FDI outcomes, incentives don't give an automatic guarantee for success. Multiple critical evaluations indicate even if parks generate employment opportunities, there are persistent challenges such as employee dissatisfaction, weak domestic supply chain linkage, and limited technology transfer to cover their wide development impact (Kebed & Heshmati, 2023; Tadesse, 2022).

Most of who are working on analyzing the Ethiopian political economy argue that even if the country offers generous fiscal incentives to compensate for significant deficits in nonfiscal areas, which include bureaucratic inefficiencies, foreign exchange shortages, and infrastructure gaps, including direct port access ultimately deters sustainable investment (World Bank, 2023). But in recent times, there have been macroeconomic reforms that include a move toward a more flexible exchange rate regime and a target to address some of the monetary constraints (International Monetary Fund, 2022). However, evidence confirms that even the attractive fiscal incentive packages cannot succeed by themselves; their effectiveness is basically mediated by the country's political stability, its institutional quality, and the adequacy of physical and human capital (UNCTAD, 2023).

It takes the focus of this study to the particular site which is Bole Lemi Industrial Park, which is one of the first industrial parks located in the capital city of Ethiopia, Addis Ababa. During its foundation the park intends to create over 20,000 jobs, and it is currently offering around 17,000 jobs for locals (IPDC, 2014). Because of this and other reasons, the researcher used it as an input to assess the Ethiopian incentive-based strategy. Therefore, a rigorous, data-based evaluation of how government incentives are working in this particular park is a crucial step.

Even if it's important to analyze the exact extent to which proposed incentives transform into increased FDI inflows, which are measured in the number of new companies, total capital invested, and how many new employments they create in the indicated park, it's also necessary to consider the contextual factors to evaluate how the relationship between incentives and FDI is shaped by the park's particular nature, such as the quality and coverage of infrastructure, the availability of skilled manpower, and access to local as well as global markets (Schwartz, 2018).

Considering all of them, this study is entitled "The Effect of Government Incentives on Foreign Direct Investment: Evidence from Bole Lemi Industrial Park" which intends to address the gaps. The study was rooted in the global and African discourse on FDI incentives, focusing on a microanalysis of their operation within an Ethiopian industrial park. The researcher's goal is to deliver nuanced, practical evidence on what works, under what environment, and why. The research findings' intention is to propose more effective, context-based policy design for Ethiopia and also for similar economies seeking to leverage incentives for better industrial transformation.

1.2 Statement of the problem

According to (Genie, 2024) an effective strategy for industrial transformation must successfully leverage foreign direct investment (FDI). The concept of a policy framework incorporates both fiscal (income tax holidays, customs duty exceptions, and different investment allowances) and nonfiscal supports (land/shade access, streamlined/one-stop shop service, and export facilities) as fundamentals for strategically designing government incentives to attract more quality and significant numbers of FDI into industrial parks (EIC, 2022; Oqubay, 2015; World Bank, 2023). The robust technology and knowledge transfer, the creation of productive and high-quality employment, the forming of strong backward linkages with the local economy,

and equitable regional growth (Kebede & Ejedpagd, 2023) are helpful to understand and translate FDI into broad-based development outcomes. To implement such concepts, one needs a clear, evidence-based understanding at the micro level of how incentives are related to local conditions to produce Max possible outcomes.

Ethiopia's current status reveals a significant gap between the policy intentions versus the practical outcomes. The effectiveness of incentives in achieving sustainable FDI inflow for the purpose of transforming development is inconsistent, the result of a poor understanding of the investment frameworks (Kebed & Ejedpagn, 2023; Tadeusz, 2022). This is because of a limitation of scarcity of empirical study; even macro-level studies offer valuable national trends, but micro-level analysis focusing on the operational realities within specific industrial parks is still scarce (Genie, 2024).

Therefore its not clear how designed incentives actually work in relation to specific contextual factors such as infrastructure quality, skilled manpower, local as well as global market access, and bureaucracy efficiency for a positive impact on the magnitude and quality of FDI. The empirical reality is characterized by persistent challenges: weak domestic economic linkages, limited technology transfer, suboptimal employment quality, and uneven investment distribution across the country (Appiah-Kubi et al., 2021; Munongo & Robinson, 2017).

The result of this disengagement between the incentive framework and practical results undermines evidence-based governance and sustainable development. Investment agencies and policymakers need to understand park specifics to achieve a meaningful, customized intervention, allocate resources effectively, and tailor policies that address specific park obstacles.

The objective of this study is to conduct an empirical investigation of Bole Lemi Industrial Park to address the gaps stated above. So the research systematically

analyzes the effect of government incentives. that are offered for the purpose of increasing FDI inflows. Also, the study intends to evaluate how those incentives correlate with the non-fiscal contextual factors of the park.

The objective of the study is to generate actionable recommendations to refine incentive strategy, to optimize their interaction with local context, and to develop strategies that are effectively attractive to more FDI, it promotes the intended industrial transformation and its associated economic, social, and technological profits.

1.3 Objective of the study

1.3.1. General objective of the study

To examine the effect of government incentives on foreign direct investment (FDI) inflows in Bole-Lemi Industrial Park, Addis Ababa, Ethiopia.

1.3.2. Specific objectives

To attain the general objective, the study will work on to achieve the following specific objectives:

1. To identify and categorize the government incentives provided to foreign investors in Bole-Lemi Industrial Park,
2. To determine the effect of fiscal incentives (corporate income tax holiday, customs duty exemption on capital goods and inputs, and investment allowances with loss carry-forward) on the total capital invested by foreign firms in Bole Lemi Industrial Park.
3. To assess the effect of non-fiscal incentives (guaranteed leasehold and land access, streamlined one-stop-shop services, and export facilitation with duty drawback schemes) on the number of foreign firms established and employment created in Bole Lemi Industrial Park.

4. To examine how other governments' incentives are correlated with foreign investors' decisions, such as foreign exchange regulation and trade laws.

1.4. Significance of the Study

The study has the following significance towards practical, academic, and policy-oriented values.

- Its practical value is the finding of the study that gives industrial park management and investors a clear understanding of government incentives that are most effective for the purpose of attracting more FDI into their park. And also how these incentives interact with the non-fiscal factors such as infrastructure and the available skilled manpower and how investment decisions can be refined to achieve the goal of industrial transformation.
- The academic significance of the study is in the context of Ethiopia, where micro-level empirical studies are scarce; this paper contributes to the literature on foreign direct investment and industrial park development.
- Its contribution to policy design is for the Ethiopian Investment Commission and other related government bodies; the study will provide recommendations for the purpose of the refinement of both fiscal and nonfiscal incentive development to increase the investment inflow, technology transfer, and job creation. It also helps to make sure incentives are well targeted, efficient, and aligned with the country's development priorities.

1.5. Scope of the study

The boundary of this study focuses on a single site called Bole Lemi Industrial Park, which is located in Addis Ababa, Ethiopia; its purpose is to analyze the effectiveness of incentives offered by the Ethiopian government for foreign investors. The period of the study covers from the starting time of the park, which is 2015, until 2025 to capture

the most recent trend of policy implementation in a single park. The focus of the research is on foreign manufacturing firms that have invested in the park for the past years to evaluate the impact of both fiscal and non-fiscal incentives from their perspectives. The study also investigates broader factors, like domestic as well as international market access; skilled manpower; and the quality and coverage of infrastructure in the indicated park. This single park-specific study allows detailed micro-level analysis of incentive effectiveness and investor behavior in a controlled and specific context.

1.5.1 Why Bole Lemi Industrial Park?

Figure 1.2 Bole lemi industrial park





Because of the following strategic and methodological justifications, the researcher selects Bole Lemi Industrial Park as a case study.

1. **Pioneering status and representativeness:** Bole Lemi Industrial Park is one of the first public industrial parks in the country. Its pioneering status makes it a critical case for evaluating the effectiveness of the country's incentive-based investment strategy, as its performance can serve as an initial benchmark for evaluating the broader national policy framework (Sime, E. D., 2020).
2. **Geographic accessibility for in-depth and micro-level analysis:** The location of Bole Lemi Industrial Park within Addis Ababa provides essential logistical feasibility for the researcher. This proximity enables a detailed, micro-level analysis of operational realities such as infrastructure quality and coverage, bureaucratic efficiency, and investors' behavior, which is often scarce in existing literature; most focuses on macro-level national trends (Daba Feyisa, B., & Mulu Gebremariam, F., 2019).
3. **Suitability for a controlled, single-case study design:** The park provides a controlled and specific context to isolate the relationship between government incentives and FDI inflows. By focusing on a single park, the research can conduct a detailed analysis of how various incentives interact with specific contextual factors such as skilled manpower and market access, providing nuanced, evidence-based insights that would be difficult to obtain from a broader, multi-site study (Walelegn, M., & Tafesse, T., 2024).

1.6 Limitations of the study

When interpreting the findings of this study, one should consider its several limitations.

- **Generalizability**: Luck on its finding generalizability to other industrial parks in Ethiopia or abroad; because even if the finding gives deep contextual insight, as it's a singular case study, it causes luck in its generalizability (Yin, 2018).
- **Causality cannot be firmly established:** Unlike longitudinal designs that can establish sequences of events (Caruana et al., 2015), cross-sectional studies cannot determine whether incentives precede FDI outcomes or whether unobserved factors influence both simultaneously (Solem, 2015). Therefore, without longitudinal data that tracks changes in incentive policies and their corresponding FDI responses over time, definitive causal relationships cannot be established.
- **Common method bias may be present:** All independent, dependent, and contextual variables were measured using the same self-report questionnaire from the same respondents at the same time. This raises the possibility of common method variance, where observed relationships may be inflated due to measurement artifacts rather than true underlying relationships (Podsakoff et al., 2003).
- **Social desirability and recall bias may affect responses:** Corporate respondents may have overestimated the importance of incentives or underreported operational challenges to present their firms or the park in a favorable position.
- **The impact of macroeconomic turbulence:** The study was conducted during the period of major policy shifts in Ethiopia, including foreign exchange liberalization, high inflation, a ban from AGOA, and recent civil conflict. Such factors may affect investor perceptions independently of the incentive framework, making it difficult to isolate the pure effect of government incentives.
- **Secondary data limitations constrained objective verification:** While firm-level perceptual data was collected, access to confidential administrative data (e.g., actual capital invested, exact employment figures, tax payments) from IPDC and EIC was

limited; as a result, the study relies primarily on perceptual measures rather than audited financial records.

1.7. Definition of key terms

1. Foreign direct investment (FDI): According to Liu and Shamshedin (2020), foreign direct investment (FDI) occurs when a company or individual invests from one country into interests in an enterprise operating/investing in another country.It's achieved through a different degree of ownership or managerial control. It not the same as purchasing stock, which is purely for financial speculation (portfolio investment).
2. Government incentives: the fiscal incentives such as tax holidays and customs duty exemptions, as well as nonfiscal incentives such as streamlined bureaucracy procedures and infrastructure supply, are the main policy measures implemented by the governments to attract and encourage more and more foreign investments (Appiah Kubi et al., 2021).
3. Industrial park: According to Kebede & Heshmati (2023), it's defined as a selected area that is equipped with infrastructure, services, and investment incentives for firms and facilitates clustering firms for efficient and developmental purposes.
4. Fiscal incentives: It's the tactic of host governments to attract more foreign investment from abroad and offer it as a direct monetary reward for firms (OECD, 2015; UNCTAD, 2020; World Bank, 2022).
5. Nonfiscal factors: According to Munongo & Robinson (2017) those are factors rather than monetary incentives that are used to get the attention of foreign investors.

6. Bole LemIndustrial Park: It’s established for the purpose of attracting foreign manufacturing companies as one of the first and main industrial hubs by offering both fiscal as well as non-fiscal incentives for foreign investors and is located in the capital city of Ethiopia (Ethiopian News Agency, 2025).
7. Special Economic Zone (SEZ): SEZs are those allocated in a specific area in which rules and regulations of business are different, especially those rules applied to manage investment, taxation, and trade, which are different from the rest of the nation (Farole and Akinci, 2011).

CHAPTER TWO
REVIEW OF RELATED LITERATURE

2.1 Introduction

For the study titled “Examine the effect of government incentives on foreign direct investment (FDI) inflows,” for the case of Bole Lemi Industrial Park relevant literature is reviewed to provide evidence-based recommendations to enhance incentive structures for the purpose of investment and development outputs. This chapter discusses concepts related to FDI, government incentive policies, promotion strategies, and other impacts that influence the country’s FDI attraction. Additionally, the evaluation includes fiscal and nonfiscal incentives, bureaucracy, institutional quality, and firm perceptions. FDI plays a key role in contributing to technological transfer and market access (Arkebe Oqubay, 2015). The chapter also identifies gaps in existing research and lays a basis for the conceptual framework of the research. At the end of the study, the researcher will state the convergence of empirical findings and theoretical perspectives on incentive-based investment promotions.

2.1.1 The concept and definition of government incentives and FDI inflows

This part of the chapter discussed government incentives, which include fiscal (tax holiday, exemptions, and subsidies) and nonfiscal incentives (such as infrastructure and regulatory and streamlined procedures) and also the monetary and regulatory factors with their planned effect on attracting FDI. The section also explains the idea of FDI inflows by interrelating the concept with how incentives, policy frameworks, and institutional context affect investment decisions and contributions at the local as well as national levels.

2.2 Theoretical literature review

This part of the review examines the theoretical foundations used to frame the study of how government incentives influence foreign direct investment (FDI) in the context of industrial parks, as well as how non-fiscal contextual factors this relationship. The review was sub-grouped according to their key international business theories, investor location decisions, incentive effectiveness, and the role of institutional and locational advantages.

2.2.1 The eclectic (OLI) paradigm

The Eclectic (OLI) Paradigm, created by John H. Dunning(Dunning, 1977, 1988, 1993), is still the greatest technique to describe why, where, and how corporations put money into other countries (Dunning & Lundan, 2008; Narula, 2022). According to the report, a company decides to go global based on how well three benefits work together: Ownership (O) advantages are things that are only available to a firm, such as its technology, names, or management skills, which are used to compete against local firms. Location (L) advantages are country- or location-specific factors, like market size, cost structure, and laws; they justify why the firm invest in that particular country. Internalization (I) advantages are the beneficial things that happen when you run a business yourself instead of selling it or joining a joint venture (Eden & Dai, 2010).

The location part of the paradigm, according to de Cruz, Floriani, and Amal (2020), is how firms invest their capital by minimizing costs and risks using tax savings, duty exemptions, and smooth administrative services, which are unique to a local area. The L advantage is not the same in every country; instead, issues such as the quality of infrastructure and the number of skilled personnel in places such as industrial parks have a huge effect on them (Cantwell, 2017; Nielsen et al., 2017). This support

methodology is in relation to Dunnings later claims on the importance of categorizing and sub-national settings in drawing FDI (Dunning, 2009).

The OLI approach also helps us to understand why some firms choose some destinations over others. They might be searching for advantages such as saving money, better market access, cheap and abundant resources, or strategic concerns (Dunning & Lundan, 2008).

The research is directly related to the OLI paradigm in two ways. At first it placed government incentives as a purposeful policy instrument to enlarge the location advantages of Bole Lemi Industrial Park. The second one is that it underlines that the effectiveness of those incentives cannot stand alone; instead, they must be assessed corporately within the park-specific institutional and infrastructural context, which are the moderating factors, such as infrastructure, skilled manpower, and market access, and they are the core of this study. Therefore, the OLI paradigm provides the foundational logic for hypothesizing that incentives can affect FDI inflows, and this relationship is conditional on the quality of local, non-fiscal conditions.

2.2.2 Incentive theory of investment promotion

Nowadays governments offer different packages of investment incentives, such as tax holidays, investment credits, and regulatory exceptions, which are the major tools for the purpose of attracting private investment from abroad by making target areas and sectors more appealing (Akuei, M. S., Wanjare, J., & Wafula, C. 2025). Several theoretical literature sources underline that those incentives do not exist in isolation; their effectiveness is also based on the wider investment environment, which includes infrastructure, institutions, peace and security, and regulator stability (Appiah-Kubi et al., 2021; OECD, 2024). The implications of incentives may be the result of market

failure or promoting a positive spillover, such as technology transfer and job creation. However, there are tangible challenges that hinder firm performances in Ethiopia, like working capital, peace & stability, and limited skilled labor; as a result, firms in the country operate below capacity (Arkebe Oqubay, 2015). With other views, incentives may develop for political reasons rather than purely the economic ones (Mataba, Lassourd, Readhead & Nikièma, 2023). The study from African sub-Saharan countries has empirical evidence suggesting that incentives such as tax holidays are only effective when they are paired with the broader institutional reforms (Appiah-Kubi et al., 2021).

According to the article from the OECD (2024), strategic use of incentives has become more and more complicated with the increasing global capital movement, sometimes resulting in competitive or subsidy races that can undermine public finances and policy coherence. Studies underline that incentive packages alone cannot become a payoff for weak economic fundamentals; they become effective only when they are integrated into a comprehensive investment promotion strategy that addresses infrastructure, skills, and governance (Olabisi & Wei, 2024).

To maximize social benefits, well-designed governance targeting, conditionality, time limits, transparency, and alignment with their policy goals are crucial (Chinetti, 2023; Kishibay,2025). In addition to these, the theory of investment incentives is evolving to prioritize sustainability and accountable investment, considering the great attention to environmental, social, and governance (ESG) objectives and local development linkages (Mataba et al., 2023). Eventually, incentives must be considered as tools within a holistic, context-driven development framework rather than as a standalone solution for attracting substantial investment from abroad.

2.2.3 Institutional theory

Institutional theory serves as a framework that coordinates the reality of human culture, belief, and interactions with the rational assumptions of existing formal rules. It conceptualizes the investment market as a complex structure that is susceptible to both internal and external influences (Chukwudumogu, C., et al., 2020). Also according to North (1990), institutions are the "rules of the game," which have the potential to shape economic interactions, minimize uncertainty, and enable coordinated action. Besides the economic factors such as market size and labor cost, the institutional capabilities, like the enforcement of laws and regulations, property right protection, political stability of the country, and corruption, as well as the presence of informal networks, are evaluated by investors before they make a decision (Scott, 2021; Meyer, 2020).

According to Peng (2022), either fiscal or nonfiscal incentives have their planned impact within a credible, stable, and transparent institutional environment; however, risks such as weak governance and inconsistent policy may hinder the incentive benefits and deter the investment. The idea of "institutional distance" further explains how the difference between home and host country institutions influences firms' entry strategies and risk evaluation (Meyer, 2020).

Institutional theory considers the relationship between formal (laws, regulations, policies, and agencies) and informal (social norms and trust networks) institutions, which impact how investment promotion strategies are received and exercised (Stevanovic, Markovic & Lepojevic, 2022). Well-organized institutions give a strong feedback loop, enhance investment, and more institutional development, whereas weak institutions result in discouraging investment and spreading insufficiencies

(Scott, 2021). Incentives must be aligned with the wider institutional reform and policy stability; it's a complement, not a substitute for institution building (Peng, 2022). Uncertainty diminishes the impact of incentives, whereas policy credibility, consistency, and transparency are dynamic (Meyer, 2020). In general, according to institutional theory, the effectiveness of investment incentives offered by governments is intercorrelated with institutional context and remarks on the need for integrated strategies that combine incentive design with institutional strengthening.

2.2.4 Location-Specific Advantage theory

The unique, abundant resource availability; infrastructure; skilled manpower; and agglomeration economics are the roots in international business literature for location-specific advantage (LSA) theory (Dunning & Lundan, 2020). The theory suggests that firms prioritize locations where LSA align with their own strategic needs and where their return on investment is higher with respect to their startup and operational costs. Nowadays, LSA theory has widened its view to incorporate knowledge base assets, human capital quality, innovation, and institutional governance, which are reflecting the significance of locations that give superhard absorptive potential, talent, and connections to worldwide innovation networks (Louloudi & Kottaridi, 2023).

The connection between LSA and incentives serves as a strategic approach; when LSA is strong, modest incentives, which are particularly important, are sufficient because the essential attractiveness is already high. However, in environments where LSA is weaker, more incentive packages are required, although these are likely to fail without basic location fundamentals (Dunning & Lundan, 2020).

The subdivision of LSA can be governance quality, agglomeration effects such as clustering and knowledge spillovers; and country-specific factors, which include

infrastructure, manpower, and resources (Louloudi & Kottaridi, 2023). Policymakers can use LSA theory as their guidance to design a tailored incentives regime in which it builds upon regional strengths and institutional contexts, highlighting that more productive investment promotion depends on aligning incentives with the real resources and advantages of each location.

2.2.5 Resource-based view (RBV) theory

The resource-based view (RBV) serves as a foundational framework for analyzing firm performance and sustainable competitive advantage by focusing on the role of exclusive internal resources, both tangible and intangible, to determine firm achievement (Barney, 1991). The theory highlights that resources must be valuable, unique, non-substitutable, and inimitable (VRIN framework) to assure a competitive advantage (Olawale& Garwe, 2010). Multinational enterprises (MNEs) confront leveraging firm-specific assets across borders while conducting international business (IB) (Beamish & Chakravarty, 2021). For the cross-border process, firm resources such as proprietary technology, organizational routine, patents, brand, and network ties are fundamental (Mailani, Hulu, Simamora, & Kesuma, 2024). Such resources are steady and socially compiled in production to sustain competitive advantages; however, their successful transfer during internationalization requires adaptation to local governance, regulatory, and cultural contexts.

According to RBV from a policy and theoretical perspective, besides quantity, the quality and applicability of firm resources are also considered to attract more foreign investment. The success of incentives is not always uniform because firms might lack key intangible assets or be incapable of managerial potential, which results in being unable to exploit host nation advantages, regardless of incentive magnitude, whereas

MNEs with capable FSA can thrive if basic resources such as infrastructure and skilled manpower are present. So the RBV considered firm capability as the primary driver in their investment decisions, in which incentives play a complementary role.

2.2.6 New economic geography and agglomeration theory

The new economic geography serves as the foundation for agglomeration theory by emphasizing productivity and innovation profits that result from the concentration of firms and their proximity to competitors, suppliers, and well-trained manpower (Peirone, Batista Pereira, Leitao, & Nezghoda, 2024). Such clustering results in positive externalities such as knowledge spillovers, skill sharing, and more efficient input-output networks which is generating cumulative advantages for the region. According to Marshalls(1920) the role of promoting information spillover, labor market development, and division of labor is highlighted in agglomeration economies. Because of firms' location choices are shaped by both individual incentives and the current density of economic activities and infrastructure. Recognizing these agglomeration forces is essential for the investment promotion. For the better impact of promotion strategies, policies should consider these three-dimensional factors; otherwise, incentives might be less effective in regions that are in the shortage of the necessary cluster benefits.

For the purpose of creating long-lasting locational advantages, NEG and agglomeration theory highlighted the path-dependent nature of regional attractiveness, noting the historic industrial concentration and established infrastructure and the collection of human capital. Even if digital infrastructure minimizes the geographic barriers, it does not fully replace the benefits that result from the physical proximity and localized knowledge (Zhang & Zhu, 2023). The current NEG interpretation

recognizes firm heterogeneity and sectorial differences with regard to innovation-driven companies employing even high value on agglomeration and collaborative networks (Wang, Xue, & Li, 2021). Therefore, effective investment promotion should consider how incentives interrelate with regional agglomeration. Small clusters may only need small incentives, while marginal areas need bigger, more focused incentives. In addition to size and proximity, supplier enterprises must prioritize the accessibility of research institutions, digital platforms, and collaborative networks, which are essential for knowledge transfer and innovation (Peirone et al., 2024). The dynamic interaction of corporate actions, regional attributes, and cumulative spatial benefits influences investment flows.

2.3 Empirical literature review:

The empirical literature on how government incentives impact foreign direct investment (FDI) underlines a sound and multidimensional relationship (Arcelius et al., 2005). In the current globalization, governments compete towards attracting foreign direct investment by offering different kinds of incentives, but the effectiveness of those incentives depends on the broader investment context, which includes macroeconomic stability, institutional quality, a skilled labor market, and infrastructure. So this review part first synthesizes global evidence before directly going to the Ethiopian context.

2.3.1 Global perspectives

For the purpose of attracting foreign direct investment (FDI), policymakers of the governments develop multiple fiscal, financial, and regulatory incentives (Nakpodia et al. 2018). According to Cakici (2023) the most common tools include corporate tax holidays, credits, and tax reductions for the purpose of lowering their investment costs

for cross-border firms; also, financial incentives such as grants, loans, and subsidies help them to reduce their startup finances. And the nonfiscal incentives such as infrastructure, industrial parks, special economic zones, and streamlined administrative procedures are serve as a complement to the fiscal one (UNCTAD, 2014). There is a debate on the success of specific incentives such as tax holiday as well as corporate tax rate changes (Chang et al., 2020). Some scholars on the filed suggests that its better to use predictable, tax rate are more efficient for sustainable investment than the temporary exemptions which can misrepresent the resource allocation (Klemm & Parys, 2009). Such kinds of tax competition may erode the domestic tax bases without considering proportionate of FDI gain (White & Case LLP, 2025); many of them argued that such incentives are becoming secondary factors rather than fundamental location factors such as market size, infrastructure, labor costs, and political stability for influencing firms' investment decisions (Hayes, 2023; Riker & Wickramarachi, 2020).

FDI attraction is not only influenced by fiscal incentives but also it based on macroeconomic stability, institutional quality, infrastructure reliability, and manpower of the host country (International Finance Corporation & World Bank, 2010; Blanton & Blanton, 2007; Mihalache-O'Keef, 2018; Borensztein, De Gregorio, & Lee, 1995). Context also plays a significant role for the effectiveness of proposed incentives. Parallel to fiscal incentives like a tax holiday and the reduction of corporate taxes, standard infrastructure and regulatory stability must be considered (Appiah-Kubi et al., 2021). The nonfiscal measures such as infrastructure provision and administrative facilities also play a significant role (Abille & Mumuni, 2023; Cuervo-Cazurra et al., 2022).

A report from UNCTAD (2023) to higher-quality foreign investment countries better integrate fiscal as well as nonfiscal incentives in their policy. In the case of Africa, industrial parks and multiple incentive packages such as tax holidays and custom exceptions result for the increment of FDI inflows, but their effectiveness relies on different contextual factors such as the availability of skilled manpower and infrastructure standards (World Bank, 2022; AfDB, 2021; UNCTAD, 2022; OECD, 2021) which show that incentives by themselves are not sufficient without the wider system change.

2.3.2 Ethiopian perspectives

In the case of Ethiopia FDI attraction, according to different studies, fiscal incentives like tax holidays, sector-specific special treatments, and duty exemptions are significant with respect to attracting foreign direct investment (FDI); also, their effectiveness is impacted and highly context-dependent (Kassahun Tadesse, 2012; Damtew, 2014; Chanie, 2017). Studies show that any kind of incentive to be successful towards strategic sectors such as manufacturing and agriculture would align with the wider national development priorities. Its necessary to consider all incentives are not equally influential for their purpose; as an example, custom duty may not have a strong impact on firms' investment decisions (Gebreeyesus, Ghebru, & van der Zwan, 2017). Rather, the overall investment context, such as macroeconomic stability, infrastructure quality, and political stability, are more decisive factors. In addition, also factors such as currency volatility & limitation, high inflation, and inadequate infrastructure cause operational risk and cost; moreover, bureaucratic inefficiencies and inconsistent policy administration cause the further dilution of the perceived value of incentives (Ashine, 2024; Dablo Law Firm, 2025; Gelawdewos, 2015).

The government of Ethiopia intensively promotes industrial parks and, recently, special economic zones to attract more foreign direct investment through them by offering generous fiscal as well as nonfiscal incentives, especially for investments such as textiles, agro-processing, and leather sectors (Ethiopian Investment Commission, 2023; IPDC, 2023; Tadesse, 2022; New Business Ethiopia, 2025).

But challenges such as inconsistent enforcement, weak integration with the local economy, inadequate skilled labor, and persistent infrastructure limitations exist even if there is an increase in foreign firm investment, but its quality and sustainability is undermined (Gebrehiwot, 2021; Abebe & Alemu, 2022). Furthermore, there is a limitation towards micro-level, park-specific research to analyze and understand how various incentives cooperate with local contexts. In general, incentives can encourage foreign direct investment, but in return they may incur fiscal costs, and they are not sufficient alone to ensure sustainable investment. An all-inclusive and balanced policy approach that incorporates infrastructure improvement, sound governance, and human capital development is essential for maximizing the development impact of foreign direct investment (FDI) in Ethiopia (U.S. Department of State, 2025; Ashine, 2024; Gebreeyesus et al., 2017).

2.3.3. Synthesis: Linking empirical findings to the Ethiopian context

2.3.3.1 Performance, Policy Learning, and the Ethiopian Context

The empirical evidence on FDI incentives in Ethiopia must be understood within the broader trajectory of the country's state-led industrial policy over the past two decades. The Growth and Transformation Plans (GTP-I, 2010/11–2014/15; GTP-II, 2015/16–2019/20) explicitly articulated a vision of transforming Ethiopia from an agriculture-

led to an industry-led economy, with export-oriented manufacturing and industrial parks (IPs) as central pillars (Oqubay, 2015; FDRE, 2010, 2015).

This strategic orientation positioned Ethiopia as one of Africa's most ambitious industrial policy laboratories, with the government developing integrated infrastructure and regulatory frameworks specifically designed to attract FDI. According to Oqubay (2015), the "development-oriented state" with proactive industrial policy can accelerate growth even in challenging African contexts. Ethiopia's approach has consequently become a reference point for other developing countries examining the effectiveness of incentive-based investment promotion strategies.

2.3.3.2 The evolution of Ethiopia's incentive regime

Ethiopia's incentive framework has undergone significant evolution, reflecting policy learning and adaptation in response to both domestic and international pressures. The Investment Proclamation No. 1180/2020 represents a significant milestone, consolidating and expanding previous incentive provisions while introducing greater clarity and predictability (EIC, 2023). The recent elevation of key industrial parks to Special Economic Zone (SEZ) status under Proclamation No. 1322/2024 further signals Ethiopia's commitment to maintaining competitive investment conditions.

Fiscal incentives in the Ethiopian context:

The Ethiopian government has offered increasingly generous fiscal incentives to compensate for perceived country risks and infrastructure deficits. The current framework provides:

- Corporate income tax holidays of up to 10 years (extendable to 15 years for priority sectors)

- 100% customs duty exemptions on capital goods, construction materials, and production inputs
- Investment allowances and loss carry-forward provisions (up to 10 years)
- Exemption from export taxes and other trade levies

These provisions are among the most generous in Sub-Saharan Africa, designed to offset Ethiopia's location disadvantages—landlocked geography, infrastructure gaps, and foreign exchange constraints (World Bank, 2023). However, as this study demonstrates (Section 4.12), the effectiveness of such fiscal generosity depends critically on policy stability, institutional credibility, and complementary investments in contextual enablers.

Non-Fiscal incentives in the Ethiopian context:

Complementing the fiscal package, Ethiopia has developed a comprehensive non-fiscal incentive framework:

- **Industrial park development corporation (IPDC):** Established to develop and manage industrial parks with ready-to-use factory sheds and shared infrastructure.
- **One-Stop-Shop services:** Ethiopian Investment Commission (EIC) provides streamlined business registration, licensing, and permit services.
- **Land access:** Guaranteed leasehold rights (up to 50 years) at competitive rates within industrial parks.
- **Export facilitation:** Duty drawback schemes, simplified customs procedures, and export processing zone (EPZ) regimes.

The effectiveness of these non-fiscal measures has been uneven, with implementation gaps and inter-agency coordination challenges frequently cited as constraints (Gebreeyesus et al., 2017; Dablo Law Firm, 2025). This study's findings ($\beta = .304$, p

< .001 for non-fiscal incentives) suggest that while these measures significantly contribute to FDI attraction, their impact is moderated by institutional quality and bureaucratic efficiency—consistent with Institutional Theory's emphasis on credible commitment (North, 1990; Peng, 2022).

2.3.3.3 Linking empirical findings to Ethiopian policy reality

The empirical findings of this study (Section 4.8–4.12) provide micro-level evidence that directly addresses the Ethiopian policy debate:

1. Fiscal incentives as the primary driver (β = .449, p < .001):

The finding that fiscal incentives are the strongest predictor of FDI outcomes validates Ethiopia's strategic emphasis on tax-based incentives. However, it also raises important policy questions:

- **Fiscal Cost vs. Benefit:** The study does not include a cost-benefit analysis. Ethiopia foregoes significant tax revenue through these incentives. The finding that incentives are effective does not automatically mean they are *cost-effective*. Policy-makers must weigh the fiscal cost against developmental outcomes (job creation, technology transfer, backward linkages).
- **Sustainability concerns:** The generosity of Ethiopia's fiscal incentives may not be sustainable in the long term, particularly as the country transitions to middle-income status and faces pressure to broaden its tax base. The recent macroeconomic reforms (IMF, 2022) and the shift toward a more flexible exchange rate regime may alter the fiscal calculus.

2. Nonfiscal incentives and institutional credibility (β = .304, p < .001):

The significant effect of non-fiscal incentives empirically validates the Ethiopian government's investment in:

- **The One-Stop-Shop system:** The EIC's streamlined investor services appear to effectively reduce transaction costs, though the relatively higher standard deviations on some non-fiscal items (e.g., SD = 0.695 for regulatory interactions) suggest implementation quality varies across agencies.
- **Institutional credibility:** The finding that incentive stability (M = 3.89) was rated more highly than incentive generosity (Section 4.12) directly supports the Ethiopian government's recent emphasis on policy predictability. The move to legalize SEZs under Proclamation No. 1322/2024 can be interpreted as an attempt to provide a credible, legally binding framework that enhances investor confidence.

3. Contextual factors and the "African paradox" (β = .177, p = .025):

The modest but significant effect of contextual factors aligns with the "African paradox" identified in the literature (Appiah-Kubi et al., 2021; Munongo & Robinson, 2017). Ethiopia's experience exemplifies this paradox:

- **Strengths:** The country offers generous fiscal incentives that are among the most competitive in Africa. Yet, as this study demonstrates, these incentives alone cannot compensate for infrastructure deficits and skilled labor shortages.
- **Weaknesses:** The composite mean for contextual conditions (M = 3.64) was the lowest among the three predictor categories, confirming that infrastructure (M = 3.63), water/wastewater systems (M = 3.61), and skilled labor availability (M = 3.61–3.62) are the weak links in Ethiopia's investment climate.
- **Policy implication:** The Ethiopian government must pursue a "dual-track" strategy maintaining competitive fiscal incentives while aggressively investing in infrastructure and workforce development. This aligns with the Location-Specific Advantage (LSA) Theory, which emphasizes that location

fundamentals and policy incentives are complementary inputs for FDI decisions rather than substitutes (Dunning & Lundan, 2020).

2.3.3.4 Ethiopia's industrial park strategy: Evidence and policy learning

Bole Lemi Industrial Park serves as a critical case study for evaluating Ethiopia's industrial park-led development strategy. The park's experience offers several insights:

Successes:

- **FDI attraction:** The park has achieved full occupancy (17 firms) and attracted over $160 million in capital investment.
- **Employment creation:** Approximately 15,900 jobs have been created, contributing to Ethiopia's employment targets.
- **Export generation:** Bole Lemi has contributed significantly to Ethiopia's export earnings, particularly in textiles and garments.

Challenges:

- **Local linkages:** Weak backward linkages with the local economy persist, limiting technology transfer and domestic value addition (Kebede & Heshmati, 2023).
- **Employment quality:** Job creation has been primarily low-skilled, with limited opportunities for skill upgrading and career progression.
- **Contextual deficits:** Infrastructure gaps and skilled labor shortages continue to constrain operational efficiency and productivity.
- **External vulnerabilities:** The suspension of AGOA (2022-2025) and foreign exchange shortages have highlighted the vulnerability of incentive-driven investment to external shocks (World Bank, 2023).

Policy learning:

The Ethiopian government has demonstrated capacity for policy learning and adaptation. The recent upgrades to SEZ status, the introduction of performance-based incentives, and the emphasis on policy stability reflect a responsive approach to emerging challenges. However, the findings of this study suggest that:

1. **Fiscal incentives alone are insufficient.** Their effectiveness is conditioned by institutional quality, policy stability, and complementary investments in contextual enablers.
2. **Credible commitment matters more than marginal generosity.** Incentive stability (M = 3.89) was rated more highly than any individual incentive item, supporting institutional theory's emphasis on credible commitment.
3. **Contextual investments are essential but underfunded.** The modest effect of contextual factors (β = .177) indicates that while they matter, they are not yet adequate to fully support the incentive framework.

2.3.3.5 Synthesis: What this study adds to the Ethiopian literature

This study makes several distinctive contributions to the Ethiopian FDI literature:

Table 2.1 Contribution of the study to Ethiopian literature

Contribution	How This Study Addresses It
Micro-Level Evidence	While most Ethiopian FDI research is macro-level or sector-wide, this study provides firm-level, park-specific evidence from Bole Lemi Industrial Park.
Multi-Dimensional Analysis	The study simultaneously examines fiscal incentives, non-fiscal incentives, and contextual factors—a comprehensive approach rarely attempted in Ethiopian FDI research.
Quantitative Rigor	The study employs robust statistical methods (multiple regression with diagnostic tests) and achieves a 100% response rate through census sampling.

Contribution	How This Study Addresses It
Theoretical Integration	The study integrates multiple theoretical perspectives (OLI Paradigm, Institutional Theory, LSA Theory, RBV) to provide a nuanced understanding of incentive effectiveness.
Triangulation	The combination of corporate and regulatory perspectives provides a balanced view of incentive design, implementation, and effectiveness.
Policy Relevance	The study generates evidence-based, actionable recommendations directly linked to empirical findings.

The findings contribute to the ongoing debate about Ethiopia's industrial policy by providing empirical evidence that:

1. **Fiscal incentives are effective** but require policy stability and institutional credibility to maximize their impact.
2. **Non-fiscal incentives matter** significantly, but implementation quality and inter-agency coordination need improvement.
3. **Contextual factors are important** but underdeveloped, representing the binding constraint to sustainable FDI attraction.
4. **A dual-track strategy**: combining stable fiscal incentives with aggressive investment in contextual enablers is essential for maximizing FDI's developmental dividends.

2.3.3.6 Implications for policy and practice

The synthesis of empirical findings and Ethiopian policy reality yields several specific implications:

For the Ethiopian investment commission (EIC):

- Maintain the competitiveness of fiscal incentives but prioritize policy stability and predictability over further generosity.

- Strengthen the One-Stop-Shop system by reducing bureaucratic bottlenecks and ensuring consistent implementation across agencies.
- Develop sector-specific incentive packages that reflect the strategic priorities of Ethiopia's industrial policy.

For the industrial parks development corporation (IPDC):

- Increase investment in infrastructure reliability (electricity, water, logistics) within industrial parks.
- Establish park-specific training centers to address the skilled labor gap (mean = 3.61 for mid-level technicians).
- Foster stronger linkages between park firms and the local economy (domestic suppliers, service providers).

For the Ministry of Trade and Industry (MoTI):

- Align incentive policies with broader industrial strategy, ensuring that incentives target sectors with the greatest development potential.
- Monitor and evaluate incentive effectiveness through regular, transparent reporting on fiscal costs and developmental outcomes.
- Coordinate with the Ministry of Labor and Skills to develop workforce training programs tailored to park industries.

For the National Bank of Ethiopia (NBE):

- Address foreign exchange constraints that undermine the value of incentive packages (Item 8 in regulatory survey: M = 4.08).
- Facilitate access to foreign currency for essential imports (raw materials, spare parts) to ensure uninterrupted production.

2.3.3.7 Conclusion: The Ethiopian paradox revisited

This study provides micro-level empirical evidence of the "African paradox" of FDI incentives in Ethiopia. On one hand, the combination of fiscal and non-fiscal incentives has a significant, positive effect on FDI attraction as demonstrated by the strong regression model ($R^2 = .646$) and the rejection of all three null hypotheses. On the other hand, this effect is moderated by the inadequacy of complementary factors such as infrastructure quality, workforce development, and institutional governance—as reflected in the low composite mean for contextual conditions ($M = 3.64$) and the modest but significant independent effect ($\beta = .177$).

For Ethiopia, the policy implication is clear: fiscal incentives are not a substitute for contextual investments but rather a complement to them. The country must continue to offer competitive fiscal incentives while simultaneously investing in infrastructure, workforce development, and institutional reform. Only through this dual-track approach can Ethiopia realize the full developmental benefits of FDI including job creation, technology transfer, and integration into global value chains transforming incentive-driven investment into sustainable industrial development.

2.4. Conceptual framework of the study

The relationship between the government incentive package and the foreign direct investment inflow into Bole Lemi Industrial Park is underscored by the moderating non-fiscal factors' role, which is illustrated in the following conceptual framework of the study. According to EIC (2022), incentive packages proposed by the Ethiopian government, such as income tax (CIT) holidays, custom duty exemption on capital goods and inputs, investment allowances & loss carryforward, are considered primary drivers for foreign investors' decisions. According to Ly, Esperança, and Davcik (2018), such incentives' outcomes directly impact FDI inflow, which is measured in

terms of the number of new foreign firms established, the total capital invested, and new employment opportunities generated within Bole Lemi Industrial Park.

The non-fiscal factors, such as the guarantee of leasehold and access to land, available shades, streamlined regulatory services, one-stop shops, export facilities, and duty drawback schemes, are considered as additional independent variables that directly influence FDI inflows alongside the incentive package for the purpose of foreign direct investment inflow (Oqubay, 2015; World Bank, 2023).

- Infrastructure quality is referred to access and reliability of electricity, transportation, water, and telecom services.
- Skilled labor availability is referred to the number of skilled manpower which meet the operational requirement of the firms.
- Market access refers to the efficiency with which firms to access the domestic as well as international markets. By integrating those contextual factors, the framework of this study acknowledges incentive alone may not be enough to attract more FDI; for its success, it should be complemented with quality infrastructure, skilled manpower, and domestic & international markets.

Corporate income tax (CIT) holiday: it's a complete exemption from paying corporate income tax for a limited period of time. This is the most prominent fiscal incentive. Ethiopia has offered extended tax holiday which sometimes up to 15 years for some target sectors in industrial parks. the intention of such extended income tax holiday is to increase investors initial profitability, improve their cash flow in the critical start up stage, and to speed up their payback period on the investment (Investment proclamation No. 1180/2020, Art. 16 and EIC, 2022).

Customs duty exemption on capital goods and inputs: it's the allowance of a total (100%) duty tax exemptions for all machineries, construction raw materials,

equipment's, production raw materials, other inputs which are not available locally. The objective is to support investors by lowering their up-front capital expenditure (Cap-Ex) and future production costs to make their investment venture become financially feasible and support firms to their competitiveness in the global market (Investment Proclamation No. 1180/2020, Art. 16 and EIC, 2022)

Investment allowances and loss carryforward: It's the tax deduction in addition to the tax holiday for some percentage of the cost of qualifying capital assets. The loss carryforward is the promise to offset losses that a firm incurred in start-up years against taxable profits in the upcoming profitable years; this one can be extended beyond the standard periods, which can go up to 10 years. The drive of such an incentive is to encourage firms to reinvest and to give them a long-term tax shield, knowing that profitability for firms may take time to materialize in the complex projects (Investment Proclamation No. 1180/2020, Art. 16 and EIC, 2022).

Guaranteed leasehold and access to land: It's one of the basic moderating investment factors. The Ethiopian government offers secure, long-term leases, which is up to 50 years, and relatively inexpensive lease rights for land & sheds within dedicated industrial parks (IPs) or within special economic zones (SEZs) (Fantu, 2014). In Ethiopia land is state-owned, so the grant is a fundamental requirement to remove one of the entry barriers for long-term investment (Investment proclamation No. 1180/2020; investment regulation No. 474/2020, and Investment Incentive Regulation 517/2022.).

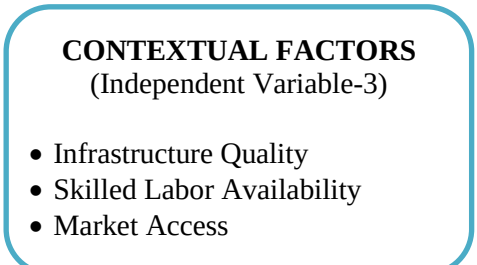
Streamlined regulatory services and "one-stop-shop": It's the process of forming a special and dedicated agency such as Ethiopian investment commission (EIC) which serves as a single point of contact for foreign investors. These services combine business licenses and tax registration with investment and work permits for expatriates. Its main objective is to shorten the long bureaucratic process, to minimize transaction

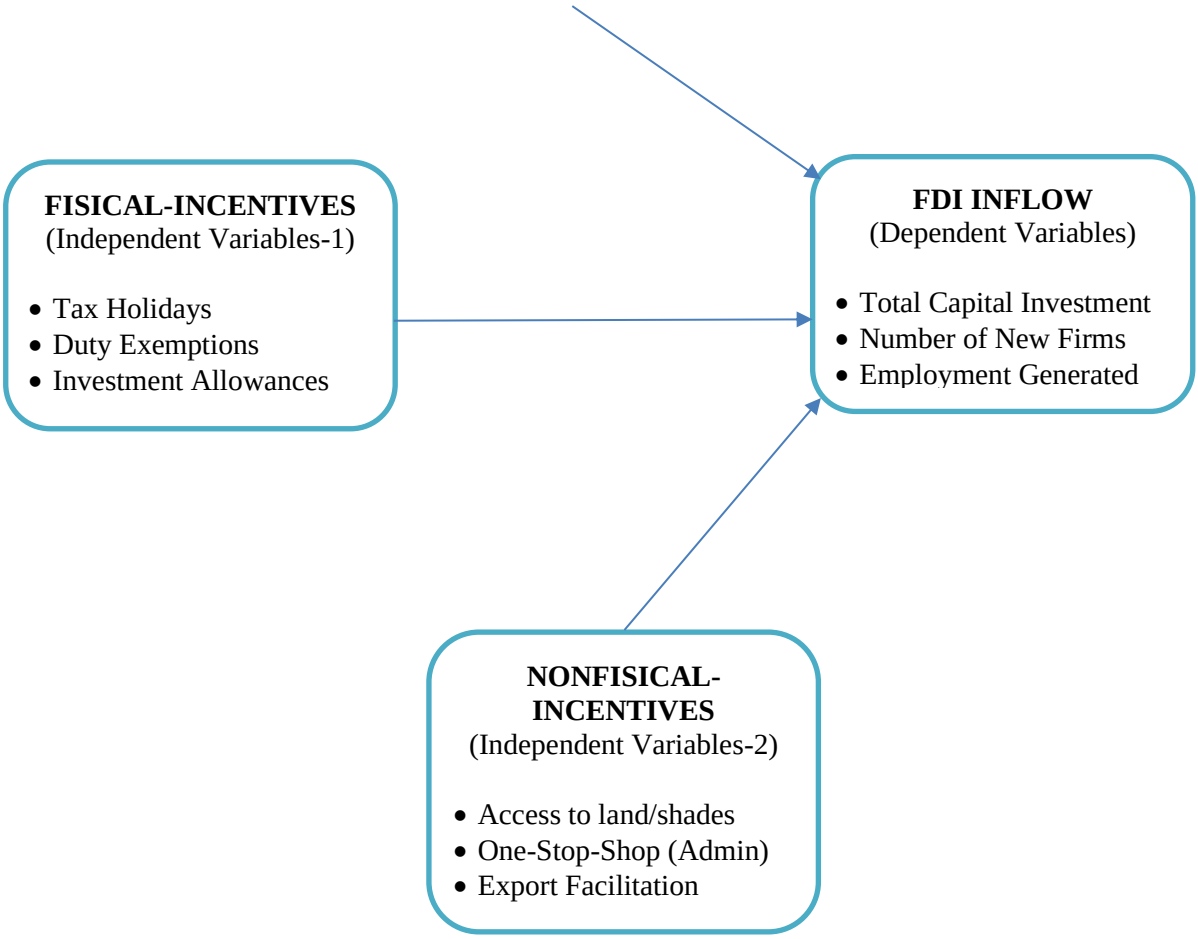
costs and delays, and to show how the government is committed to facilitating business ventures, thereby improving the overall ease of doing business (EIC establishment regulation, amended, 2022).

Export facilitation and duty drawback schemes: It's about export processing zones (EPZs). It's the facilitation for firms in designated industrial zones/parks to produce products primarily for export, which operate under a streamlined customs regime with minimal intervention. Duty drawback or exemption is the refunding of duty paid for imported resources that are used for the production of export items. The objective is to integrate firms into the wider global value chain by making them cost-competitive and reducing their administrative burden related to their importing and re-exporting, which is very important for export-oriented foreign direct investment (Dunning & Lundan, 2008; World Bank, 2020).

The framework of this study consider FDIs inflow within the period from 2015 up to 2025, to make sure the study capture the recent trends and policy effects. Data collection method uses multiple sources which include the Industrial Park Development Corporation (IPDC), Ethiopian investment commission records and a primary survey from foreign investors in Bole Lemi Industrial Park. The design of the conceptual framework is to provide a structured approach for analyzing the direct and mediatory effects of the government incentive package on the FDI inflow, also to generate a ground for evidence base policy recommendations to improve the investment promotion, industrialization, and skilled manpower & employment production in Ethiopia.

Figure 2.1. Conceptual framework diagram





Summary of the diagram

The conceptual framework presents three categories of predictors that directly influence FDI inflows:

- Fiscal incentives (CIT holiday, customs duty exemptions, investment allowances) which are directly affect total capital invested.
- Non-fiscal incentives (land access, one-stop-shop services, export facilitation) directly affect number of firm and employment creation through them.

- Contextual conditions (infrastructure quality, skilled labor availability, market access) directly affect overall FDI inflows.

All of the three predictors are hypothesized to determine their significant effect on FDI inflow in the following section.

2.5 Hypothesis of the study

Fiscal incentives:

According to multiple literatures, foreign investors' decisions are highly affected by both fiscal and nonfiscal incentives proposed by a country. Nowadays, many countries compute for FDI by offering fiscal benefits such as tax holidays and customs duty exemptions, investment allowances, and loss carry-forward, combined with non-fiscal supports like administrative facilitation and infrastructure, and experienced higher FDI inflows (Appiah-Kubi et al., 2021; Abille & Mumuni, 2023). Studies on the Ethiopian case also confirm that incentives increase the number and capital investment of foreign firms; their effectiveness is also affected by contextual conditions (Tadesse, 2022; IPDC, 2023).

- **H1**: Fiscal incentives, which are corporate income tax holiday, customs duty exemptions on capital goods and inputs, and investment allowances/loss carry-forwards, have a statistically significant positive effect on FDI inflows measured by the number of foreign firms established, total capital invested, and employment created in Bole Lemi Industrial Park.

Non-Fiscal Incentives:

The literature highlights the role of nonfiscal supports in reducing transaction costs and easing market entry barriers (Abille & Mumuni, 2023; UNCTAD, 2022). In the context of industrial parks, investment-streamlined regulatory services & "one-stop-shop" and export facilitation & duty drawback schemes are critical for investment decisions,

particularly for foreign firms evaluating location-specific advantages (OECD, 2021; Gebrehiwot, 2021).

- **H2**: Non-fiscal incentives, which are streamlined regulatory services and a one-stop shop, guaranteed leasehold and land access, and export facilitation with duty drawback schemes, have a statistically significant positive effect on FDI inflows in Bole Lemi Industrial Park.

- **Contextual factors hypotheses**

Institutional and location-specific theories suggest that incentives alone are insufficient to sustain investment. Empirical studies in Africa and Ethiopia show that infrastructure, skilled labor and market connectivity strengthen or weaken the effect of incentives on FDI (North, 1990; Wang, 2022; IPDC, 2023). For example, a tax holiday may attract initial investment, but its effectiveness is limited if skilled labor is scarce or regulatory processes are cumbersome.

- **H**3: Contextual factors such as infrastructure quality, skilled labor availability, and market access have a statistically significant positive effect on FDI inflows in Bole Lemi Industrial Park.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This part of the study represents the methodology of the research paper, which was used to examine the effect of government incentives on foreign direct investment inflow, particularly in Bole-Lemi Industrial Park, Addis Ababa, Ethiopia. This chapter outlines the research design, approach, study population, sampling procedure, and data sources to ensure the achievement of the study's objective. Also, to address the research questions in this chapter, how data is collected and analyzed will be described.

3.2 Research design

This paper deploys a quantitative research method, which is the design that incorporates explanatory and descriptive components of the study. Using an explanatory component, offer the utilization of inferential statistical techniques to investigate the direction and strength of correlational relationship between the two variables that are the dependent variable, which is FDI inflow, and the independent variables, which include the fiscal and nonfiscal incentives as well as contextual factors (Iran, Vismeh, 2021).

The descriptive component of the study enables the researcher to summarize the characteristics of foreign investors, to identify types of government incentives, and to see what the trend in FDI inflow within the park looks like. The study applies statistical techniques of such as frequencies, percentages, mean, and standard deviations.

Both the explanatory and descriptive characteristics of the research design make the study an objective measurement of variables and empirically rigorous to test the hypothesized relationships. The research goal is to produce the final finding, which is

going to be generalizable and statistically valid and can be an instrument for evidence-based policy decisions.

3.3 Research approach

For the purpose of evaluating the statistical relationships between specific government incentives and the outcome, a quantitative approach is ideal (Cerulli, G., Corsino, M., Gabriele, R., & Giunta, A., 2020). Both primary and secondary data's are used in this study; the primary data's are collected using structured questionnaires, which are designed to capture quantifiable responses from both sides of stakeholders, and the secondary data are gathered from the industrial park development corporation (IPDC) and the Ethiopian Investment Commission. The collected numerical data are used for statistical analysis to test the research hypotheses and to identify their relationship.

3.4 Population of the study

Based on policy implementation, incentive use, and investment decision-making, the population is categorized into two main clusters:

1. Corporate cluster: Foreign-owned manufacturing companies. and
2. Regulatory cluster: Government authorities and park management who are responsible for investment policies and managing Bole Lemi Industrial Park.

3.4.1 Corporate cluster

The corporate cluster comprises all of the seventeen foreign-owned companies currently active in Bole Lemi Industrial Park. According to their responsibility and position, six respondents from each firm are selected, including the chief executive officer/general manager and representatives from the finance, marketing, production, human resources, and operation/logistics departments, to make sure that the coverage of strategic, financial, human capital, and operational dimensions of FDI evaluates the critical impact of incentives and test the hypotheses.

3.4.2 Regulatory cluster

In this cluster, a total of twelve officials from both the Ethiopian Investment Commission (EIC) and the Industrial Park Development Corporation (IPDC) are included. Those officials are selected based on their responsibility for incentives administration and their industrial park management positions, which give them special knowledge that is needed to give their insights on policy design, administration, and the overall investment environment, which complements the firm-level data, which are summarized in the following table.

Table 3.1: Target population

S/No	Name of Manufacturing Company	Country of Origin	Management (CEO/GM)	Finance Dept.	HR Dept.	Ops/Logistics Dept.	Sales/Marketing	Production Dept.	Total Respondents
1	New Wide Garment Ethiopia	India	1	1	1	1	1	1	6
2	George Shoe Ethiopia PLC	China	1	1	1	1	1	1	6
3	Arvind Lifestyle Apparel	India	1	1	1	1	1	1	6
4	Shin TS ETP Garment PLC	South Korea	1	1	1	1	1	1	6
5	KEI Industrial Engineering	South Korea	1	1	1	1	1	1	6
6	Ashton Apparel Manufacturing	India	1	1	1	1	1	1	6
7	Jay Jay Garment PLC	India	1	1	1	1	1	1	6
8	Soufflet Malt Ethiopia PLC	France	1	1	1	1	1	1	6
9	Shangtex Holding Co., Ltd.	China	1	1	1	1	1	1	6
10	Vestis Garment Production	Italy	1	1	1	1	1	1	6
11	Carvico Ethiopia PLC	Italy	1	1	1	1	1	1	6
12	Pungkook Ethiopia Bag Mfg	South Korea	1	1	1	1	1	1	6

13	Saytex Spinning PLC	China	1	1	1	1	1	1	6
14	Strathmore Apparel Mfg	India	1	1	1	1	1	1	6
15	Evertop Sportswear PLC	China	1	1	1	1	1	1	6
16	Anda Vehicle Manufacturing	China	1	1	1	1	1	1	6
17	Aniy Furniture PLC	China	1	1	1	1	1	1	6
A	Sub-Total (Corporate Cluster)		17	17	17	17	17	17	102
B	Sub-Total (EIC & IPDC Officials)		-	-	-	-	-	-	12
Grand Total (Target Population)									**114**

Source: Author's compilation from IPDC Investor Directory and Company HR records (2025).

3.5 Sampling techniques and sample size

The research applies a purposive sampling for the regulatory cluster as well as a census approach for the corporate cluster, and the sample size is determined as follows for each of them.

1. **Corporate cluster:**

This cluster was formed using census data from all seventeen foreign-owned companies. To ensure the different departmental insights in their incentive utilization and investment outcomes from each firm, six key informants are targeted (general manager, finance, human resources, logistics, marketing, and production departments).

The total population of the corporate cluster becomes:-

Corporate sample size = No. of firms x No. of respondents/firm

$n_{cor} = 17 \times 6 = 102$, where n_{cor} is number of corporate respondant.

2. Regulatory cluster: From the Ethiopian Investment Commission (EIC) and Industrial Parks Development Corporation (IPDC), in total twelve officials were involved in the

study. Those directly engage, and their expertise plays a crucial role in administering the incentives offered by the government.

Regulatory sample size (n_{reg}) = 12. Then

Total sample size of the study = $N_{total} = n_{cor} + n_{reg}$ = 102 + 12 = 114

The above approach helps to make sure that there is a more complete representation of both the corporate and regulatory insights with respect to their knowledge and experience in policymaking and also supports both the descriptive and inferential analysis by maintaining methodological rigor.

The reason behind using the census sampling technique is that the population is small and entirely accessible, which makes it both feasible and practical to consider all firms in the study, which enables the researcher to ensure the complete coverage of the corporate population and capture the variation across sectors to identify countries of origin and the operational practices. Cooper & Schindler (2014) argue that a census is a best fit in situations such as when the cost and time of research are low, or when there is homogeneity, or whenever the entire population is too important for the research question. As a result, the approach significantly reduces sampling error and bias and also enhances the reliability as well as the validity of the findings.

Also to ensure high response rates and mitigate potential bias in self-reported data, this study will implement five strategies: (1) Pre-notification and institutional endorsement will be secured through an official introductory letter from Addis Ababa University co-signed by the Industrial Parks Development Corporation (IPDC) to establish research legitimacy; (2) A structured follow-up protocol will be applied, including email reminders at one and two weeks post-distribution, supplemented by phone calls to non-responding firms, while non-monetary incentives such as an executive summary of

findings will be offered to encourage participation without coercion; (3) To reduce common method bias, the questionnaire will feature temporal and psychological separation of independent, moderating, and dependent variables across distinct sections, with clear Likert scale anchors and assurances of no "right" or "wrong" answers; (4) Social desirability and retrospective biases will be addressed through self-administered anonymous responses, time-anchored questions, and explicit requests for honest, experience-based answers rather than expected responses; (5) Triangulation with secondary data from the Ethiopian Investment Commission (EIC) and IPDC annual reports will cross-validate self-reported FDI outcomes.

3.6 Data collection instruments

Because of the quantitative approach implied in the study, the data collection technique is relying on a structured questionnaire administered to the relevant stakeholders for the purpose of gathering primary data through google form. Which is ideal for collecting numerical data on key variables to analyze the effect of government incentives on foreign direct investment (FDI) inflow into Bole Lemi Industrial Park. In addition to this, secondary data was also sourced for the existing records and reports from different organizations. Therefore the applying of both primary and secondary quantitative data ensures a robust dataset for statistical analysis.

3.6.1 Structured questionnaires

By using the established survey design principles by Saunders et al., 2019 the structured questionnaire development step follow. Also for the independent variables items were drawn from UNCTADs, 2023 framework, while items for dependent variables stated using the OECD and IMF, 2009 definition such as capital investment, employment, and firm establishment. Using DeVellis, 2017 a 5-point Likert scale perceptual data also captured. The validity of each content is ensured by mapping items

to the study objectives and conceptual framework of Haynes et at., 1995, and using Israel & Hay, 2021 standard guidelines for the purpose of ethical assurances.

3.6.2Secondary data

The secondary data was used for the purpose of capturing the historical record of FDI inflows into Bole-Lemi Park to document the actual level of FDI in the park with regard to the number of firms, capital invested, and jobs created over time Sanders, M., Lewis, P., & Thornhill, A. 2019 which gives the dependent variable a numeric baseline against which the effect of incentives can be measured because it's not sound to claim an "effect" without first establishing what the investment levels are. For the purpose of data verification to enhance the accuracy and reliability of the dataset by allowing for consistency checks between the self-reported and officially recorded information, Wooldridge (2019) uses a cross-validation technique between the primary data captured from the investor perception against the secondary data from the official sources.

3.7. Validity and reliability test

3.7.1 Validity of instruments

Different measurements were conducted to ensure the validity of the instruments. By systematically checking of each questionnaire item for its relevance and comprehensive coverage of the study objectives and variables, content validity is ensured. Such validating steps make sure the instruments effectively capture the intended information on government incentives, FDI inflow, and the relevance of fiscal and nonfiscal moderators. The expert reviewers' feedback and suggestions were incorporated into the final version of the questionnaire guide (Saunders, Lewis, & Thornhill, 2019). In addition to this pilot testing will be conducted to assess the clarity, relevance, and directness of the items, and the feedback for the pilot testing will be

used as a refinement mechanism of the questions to reduce ambiguity and to improve the overall reliability and validity of the instruments, which can enhance confidence in the accuracy and consistency of the data collected in the final study (Bolarinwa, 2015).

3.7.2 Reliability of instruments

The core purpose of pilot testing is for feasibility and validity assessment, but it also gives clues to check on the reliability because it gives a chance for the researcher to identify problematic items that are unclear or interpreted inconsistently (Polit & Beck, 2006). For firm outside the main study sample, to assess the reliability of the items, a pilot test was conducted using 12 respondents from Kilinto Industrial Park for the corporate cluster. Which allows me to identify any items that are in need of modification or even removal from the main data collection.

Cronbach's alpha is used to make sure the internal consistency of the questionnaire is within the predetermined acceptable threshold of 0.7 or more. According to Tavakol & Dennick (2011) questionnaire items with the reliability coefficients higher than the threshold are an indication that the item is coherent and measures the intended variables consistently.

3.8 Data process and analysis

Data analysis is conducted by using a quantitative method to rigorously evaluate the government incentives for the need of attracting foreign direct investment (FDI) inflows into Bole Lemi Industrial Park. The study uses descriptive statistics for the purpose of summarizing the data and to identify patterns, and this is followed by an inferential statistics test that is used to analyze the strength and significance of the hypothesized associational relationships.

3.8.1 Preparation of data

After collecting all the responses, the data are carefully coded, and to analyze them, they are entered into SPSS version 27. Before start the analysis part the data set pass through cleaning to identify inconsistencies and potential outliers, correct the missing values that could distort the result to make sure the reliability and validity of the dataset. After organizing the data descriptive statistics is deployed to summarize the respondent demography, the distribution and utilization of incentives, and to access FDI inflows across firms in Lemi Industrial Park. this preliminary stage lie the foundation for the more advanced inferential analysis and to make sure that the collected data accurately and representatively describe the characteristics.

3.8.2 Operationalization of the dependent variables: FDI inflows

The response variable that is foreign direct investment inflow represents the tangible outcome of investment attraction efforts within Bole Lemi Industrial Park. It acknowledges the multidimensional nature, it will be operationalized using three distinct but complementary indicators, drawing from the OECD benchmark definition (OECD, 2009) and UNCTAD guidelines (UNCTAD, 2020).

Table 3.2: Indicators of FDI inflow

Indicator	Operational Definition	Measurement & Data Source	Justification
Capital Investment	The total monetary value of physical assets, working capital, and equity contributed by a foreign firm.	- Primary: Self-reported data from questionnaire Section A (USD/ETB). - Secondary: IPDC Annual Reports (2015–2025); EIC Investment Registry; NBE Foreign Investment Records.	Captures the scale and financial commitment of FDI, the primary metric for investment promotion success.

Indicator	Operational Definition	Measurement & Data Source	Justification
Firm Establishment	The entry and sustained operation of a foreign-owned enterprise.	- Primary: Survey confirmation. - Secondary: IPDC Tenant Lists (2015–2025); EIC Business Licensing Database.	Measures the attraction capacity of the park and incentives.
Employment Generation	The number of full-time jobs directly created by the foreign firm.	- Primary: Self-reported from questionnaire Section A. - Secondary: IPDC Annual Employment Reports (2015–2025); EIC Employment Registry; Company HR records (aggregated).	A linking FDI to poverty reduction, skills transfer, and social impact.

Sources of Secondary Data:

- IPDC Annual Reports: Industrial Parks Development Corporation, *Annual Performance Reports* (2015, 2020, 2025). Addis Ababa, Ethiopia.
- EIC Investment Registry: Ethiopian Investment Commission, *Foreign Investment Registration Database* (2015–2025). Addis Ababa, Ethiopia.
- NBE Foreign Investment Records: National Bank of Ethiopia, *Foreign Direct Investment Inflow Reports* (2015–2025). Addis Ababa, Ethiopia.
- Company HR Records: Aggregated employment data from Bole Lemi tenant firms (provided via IPDC).

3.8.3 Operationalization of independent variables: Government incentives

The government incentive is divided into fiscal as well as nonfiscal, which are representing government incentives. Both are perceptual constructs used to determine the effectiveness of incentives as perceived by investors.

Table 3.3: Lists of government incentives

Variable Category	Specific Variable	Operational Definition (Perceived Effectiveness)	Measurement
Fiscal Incentives	Tax Holiday (TH)	The degree to which the corporate income tax exemption period is seen as a decisive, sufficient, and risk-reducing factor for investment.	**Scale:** 5-point Likert **Source:** Questionnaire Section B1 (Items B1.1-B1.3).
	Customs Duty Exemption (CDE)	The perceived impact of duty-free imports on making initial investment to lowering ongoing production costs.	**Scale:** 5-point Likert. **Source:** Questionnaire Section B2 (Items B2.1-B2.3).
	Investment allowances & loss carry-forward (IA)	The perceived encouragement for re-investment and their role in improving long-term project financial viability.	**Scale:** 5-point Likert. **Source:** Questionnaire Section B3 (Items B3.1-B3.3).
Non-Fiscal Incentives	Land Access (LAND)	The perceived importance of secure, long-term, and reasonably priced land lease.	**Scale:** 5-point Likert. **Source:** Questionnaire Section C3 (Items C3.1-C3.3).
	Administrative Facilitation (ADMIN)	The perceived efficiency of the "One-Stop-Shop" and regulatory services in reducing setup time.	**Scale:** 5-point Likert. **Source:** Questionnaire Section C1 (Items C1.1-C1.3).
	Export Facilitation (EXPORT)	The perceived efficiency of export procedures and customs regimes for the firm's export-oriented operations.	**Scale:** 5-point Likert. **Source:** Questionnaire Section C2 (Items C2.1-C2.3).

3.8.4 Operationalization of contextual variables: Independent variables

The contextual factors are represented the local operating environment. They are speculated to strengthen or weaken the relationship between different incentives and the FDI.

Table 3.4: Lists of contextual variables

Contextual Variable	Operational Definition (Perceived Quality/Availability)	Measurement
INF: Infrastructure Quality	The perceived utilities (power, water) and logistical connectivity (internal roads, port/airport access) for smooth operations.	Scale: 5-point Likert. Source: Questionnaire Section D1 (Items D1.1-D1.3).
SKL: Skilled Labor Availability	The perceived sourcing trainable entry-level labor and qualified mid-level technicians/supervisors, and the helpfulness of local training programs.	Scale: 5-point Likert. Source: Questionnaire Section D2 (Items D2.1-D2.3).
MA: Market Access	The logistical efficiency of reaching both the domestic Ethiopian and international markets (for exports and imports) from the park's location.	Scale: 5-point Likert. Source: Questionnaire Section D3 (Items D3.1-D3.3).

3.9 Data analysis

3.9.1 Descriptive analysis

Descriptive analysis was conducted for the purpose of giving a clear overview of the study variables and the sample characteristics. Then, following the data analysis procedure of Pallant (2020), frequencies, percentages, means, and standard deviations are determined. It helps to summarize the kind and utilization of government incentives such as tax holidays, customs duty exemptions, and so on. The number of new firms and capital invested, described in accordance with nonfiscal contextual factors such as infrastructure adequacy are use as key indicators of FDI inflows. According to Tabachnick & Fidell (2019) the initial descriptive analysis is basic step to identify trends, patterns, and variety across the data set. Also, by highlighting the area of interests, it provides the foundational work for the next inferential analysis.

3.9.2 Inferential Analysis

SPSS version 27 deployed to examine the hypothesized causal relationships and for multiple regression analysis. The analytical framework will utilize panel data regression to evaluate both firm specific and time specific effects within the study period of 2015 until 2025, following the standard econometric approach for such

longitudinal data (Wooldridge, 2016). The general regression model is specified as follows:

3.9.3. The general regression equation

For the purpose of panel data study (2015–2025), the developed model should include the following variables and interaction terms:

$$Y_{it} = \beta_0 + \beta 1X1_{it} + \beta 2X2_{it} + \beta 3X3_{it} + \varepsilon_{it}$$

Where:

- Y_{it}: is the FDI inflow: The dependent variable
- β_0: is the constant (intercept) representing the baseline level of FDI.
- $X1_{it}$: is fiscal incentives; composite independent variables. Eg. Tax holidays, duty exemptions, and investment allowances & loss carry-forward**.**
- $X2_{it}$: is the nonfiscal incentives; composite independent variables. Eg. One-stop-shop, land access, export facilitation.
- $X3_{it}$: Contextual conditions; composite independent variables. Eg. Infrastructure, Skilled Labor, and market access.
- ε_{it} : Is the error term.

Each predictor will be considered to have a statistically significant effect on FDI inflows if its associated p-value is less than 0.05 and the beta coefficient is positive. The overall model fit will be assessed using the coefficient of determination (R^2) and the F-statistic.

3.9.4 Statistical tests for each hypothesis

Given the cross-sectional nature of this study (data collected once from 102 corporate respondents), all hypotheses will be tested using multiple linear regression performed with SPSS statistics version 27. The specific tests for each hypothesis are outlined below.

3.9.5 Rationale for composite variable approach

There are three reasons why this study employs composite variables. First reason is theoretical frameworks such as the Eclectic (OLI) Paradigm approach the whole bundle of location-specific benefits (including the whole package of incentives) as the driver of FDI decisions and not the isolated components (Dunning & Lundan, 2008). Secondly, the Ethiopian investment proclamation (No. 1180/2020) offers benefits to investors as a package and not as separate possibilities. Third, exploratory factor analysis (see Appendix C) confirmed that all fiscal incentive items loaded onto one single factor, and all non-fiscal incentive items loaded onto one single factor, validating aggregation. Thus, the composite approach is conceptually and statistically valid to examine the overall efficiency of Ethiopia's incentive framework even if individual incentive impacts differ. The model treats contextual factors as direct predictors of FDI outcomes, reflecting the theoretical position that location-specific advantages are not merely moderators but fundamental determinants of investment decisions (Dunning & Lundan, 2020).

Hypothesis test for H1 (Fiscal incentives and FDI inflow)

H1: Fiscal incentives such as corporate income tax holiday, customs duty exemption on capital goods and inputs, and investment allowances/loss carry-forward have a statistically significant positive effect on FDI inflows measured by the number of foreign firms established, total capital invested, and employment created in Bole Lemi Industrial Park.

Statistical Test: Multiple linear regression will be conducted with the composite fiscal incentive variables as the independent variable and the composite FDI outcome variable as the dependent variable. The null hypothesis (H_{01}) states that fiscal incentives have no significant effect on FDI inflows ($\beta = 0$), while the alternative

hypothesis (H_1) states that fiscal incentives have a significant positive effect ($\beta > 0$). The hypothesis will be supported if the p-value is less than 0.05 and the standardized beta coefficient (β) is positive.

Hypothesis test for H2 (Nonfiscal incentives and FDI inflow)

H2: Nonfiscal incentives (streamlined regulatory services and one-stop-shop, guaranteed leasehold and land access, and export facilitation with duty drawback schemes) have a statistically significant positive effect on FDI inflows in Bole Lemi Industrial Park.

Statistical Test: Multiple linear regression will be conducted with the composite non-fiscal incentives variable as the independent variable and the composite FDI outcome variable as the dependent variable. The null hypothesis (H_{02}) states that non-fiscal incentives have no significant effect on FDI inflows ($\beta = 0$), while the alternative hypothesis (H_2) states that non-fiscal incentives have a significant positive effect ($\beta > 0$). The hypothesis will be supported if the p-value is less than 0.05 and the standardized beta coefficient (β) is positive.

Hypothesis Test for H3 (Contextual Conditions and FDI Inflow)

H3: Contextual factors (infrastructure quality, skilled labor availability, and market access) have a statistically significant positive effect on FDI inflows in Bole Lemi Industrial Park.

Statistical Test: Multiple linear regression will be conducted with the composite contextual conditions variable as the independent variable and the composite FDI outcome variable as the dependent variable. The null hypothesis (H_{03}) states that contextual conditions have no significant effect on FDI inflows ($\beta = 0$), while the alternative hypothesis (H_3) states that contextual conditions have a significant positive

effect ($\beta > 0$). The hypothesis will be supported if the p-value is less than 0.05 and the standardized beta coefficient (β) is positive.

3.10 Description of variables

The research evaluating the effect of government incentives on foreign direct investment (FDI) inflow into Bole Lemi Industrial Park. To conduct a rigorous analysis the variables in the study categorized into dependent, independent, and moderating variables. Each of the above three variables is clearly defined, operationalized, and linked to a specific measurement methods to make sure accuracy, replicability, as well as the alignment with the study objectives.

3.11. Ethical considerations

First the participant of this study are aware of the purpose and voluntary nature of the study; participants right to withdraw at any time (Marczyk, DeMatteo & Festinger, 2005). The study conduct aligned with the ethical guideline of Addis Ababa University to make ensure the safety of the participants and the integrity of the study. For the purpose of preventing any identification of individuals participants the confidentiality and anonymity is preserved by coding the responses and reporting results in aggregate form. Also the researcher make sure honesty and transparency with regard to data collection, analysis and reporting of the result without any form of data manipulation or plagiarism Resnik, (2020); Israel & Hay, (2021). This procedure would work inline with the ethical guideline on Addis Ababa university.

CHAPTER FOUR
RESULTS AND DISCUSSION

4.1 Introduction

Findings presented in this chapter are drawn from the analysis of primary data collected from foreign manufacturing firms operating in Bole Lemi Industrial Park-I and regulatory officials of the Ethiopian Investment Commission (EIC), the Industrial Parks Development Corporation (IPDC), and the Ministry of Trade and Industry (MoTI). The analysis follows in a systematic sequence, aiming to respond to each of the specific objectives of the study and to examine the three composite hypotheses outlined in Chapter Two. The chapter starts with the presentation of the questionnaire response rate. Then the demographic features of respondents are shown, in order to construct the profile of the sample. The descriptive statistics of each construct are then provided and discussed. Then, correlation analysis is used to analyze bivariate relationships. Diagnostic tests are used to check the assumptions of regression. Multiple regression analysis is used to assess the hypothesized relationships. Each hypothesis is tested at the significance level of $p < .05$. The chapter finishes with a full discussion of findings, setting the results in the context of the broader theoretical and empirical literature.

4.2 Response rate

A total of 114 questionnaires were administered to the target population of 102 respondents from the 17 foreign-owned manufacturing firms in Bole Lemi Industrial Park-I (6 respondents per firm, namely, chief executive officer or general manager, finance manager, human resource manager, operation or logistics manager, sales or marketing manager, and production manager) and 12 officials from EIC, IPDC and MoTI making up the regulatory cluster. The corporate cluster yielded a perfect response rate of 100% (102 of 102 questionnaires returned and usable), a reflection of the success of the census approach and the full collaboration of park management and firm leadership. The response rate for the regulatory cluster was equally 100% (12 of 12). The overall response rate of 100% (N=114) is considerably higher than the 70% cut-off point regarded as excellent in social science survey research (Mugenda & Mugenda, 2003), which implies that the findings are fully representative of the target population within Bole Lemi Industrial Park-I and non-response bias is not a threat to internal validity.

TABLE 4.1: Response rate of questionnaires

Category	Questionnaires Distributed	Questionnaires Returned	Response Rate
Corporate Respondents (Foreign Firms)	102	102	100%
Regulatory Officials (EIC, IPDC, MoTI)	12	12	100%
Total	114	114	100%

Source: Survey data, 2026

4.3 Respondents' demographic characteristics

This section provides the demographic profile of the 102 corporate cluster respondents to provide information on the makeup of the sample and to evaluate the sample's representativeness of the respondent pool. The variables that were studied were gender, age group, nationality, highest educational qualification, functional department and years of operation in the park. A separate sub-section presents the demographic profile of the 12 regulatory officers. Understanding these qualities is vital to evaluate the reliability and diversity of perspectives present in the dataset (Saunders, Lewis, & Thornhill, 2019).

4.3.1 Gender distribution

Table 4.1.1: Gender distribution

		Frequency	Percent
Valid	Female	24	23.5
	Male	78	76.5
	Total	102	100.0

Source: Survey data, 2026

The gender distribution of corporate respondents reveals a substantial male predominance. From total respondents 76.5% of the sample (n = 78) is constituted by male, while female respondents accounted for 23.5% (n = 24). From the result, there is a gender imbalance between respondents, dominated by males, but the gender diversity is somehow captured in the data set, which makes the assessment more comprehensive for incentive effectiveness across demographic categories.

4.3.2 Age distribution

Table 4.2: Age distribution of respondent

		Frequency	Percent
Valid	20-29	9	8.8
	30-39	46	45.1
	40-49	32	31.4
	50-59	10	9.8
	60+	5	4.9
	Total	102	100.0

Source: Survey data, 2026

The age distribution of the business respondents shows that the managerial and professional personnel in Bole Lemi Industrial Park is in the prime productive years. From the total 45.1% age group is in the range of 30 - 39 yrs old which is n = 46 followed by 40 – 49 age group cover 31.4% with n = 32; both together cover 76.5% of the total population. Beside that the younger population age ragenof 20 – 29 is only take 8.8%, n = 9 the smallest portion and the other 9.8% is covered by 50 – 59 age group with n = 10 finally the remining age group which are 60 yrs old and above are 4.9%, n = 5. These age composite is the indication of respondant are the mixture of experience and organizational maturity which increase the trustworthiness of their assessment of the long-tern effectiveness and stability of investment incentives in the park. The highest concentration of age group is in the range 30 - 49 which implies most of enterprises in the park run by mid career professinals who are likely to have first-hand experience with the incentive application and usage processes in several years of operation (Kebede & Heshmati, 2023).

4.3.3 Nationality distribution

Table 4.3: Nationality of the respondent

Nationality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	China	54	52.9	52.9	52.9
	France	6	5.9	5.9	58.8

	India	29	28.4	28.4	87.3
	Italy	2	2.0	2.0	89.2
	Other	7	6.9	6.9	96.1
	South Korea	4	3.9	3.9	100.0
	Total	102	100.0	100.0	

Source: Survey data, 2026

From the survey Asian origin investors are dominate investment in the park which is consistent with Ethiopia's broader foreign direct investment landscape. From total Chinese nationals cover 52.9% of corporate respondents (n = 54), followed by Indians, which is 28% (n = 29) together they account for 81.3% of the total. It's a reflection of the Chinese and Indian investors' dominance, particularly in textiles, garments, and manufacturing. French nationals represent 5.9% (n = 6), South Koreans account for 3.9% (n = 4), Italians constitute 2.0% (n = 2), and other nationalities represent 6.9% (n = 7).

4.3.4 Educational attainment

Table 4.4: Education level of the respondents

Education_Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bachelor	65	60.2	59.8	59.8
	Master	37	36.3	36.3	96.1
	Total	102	100.0	100.0	

Source: Survey data, 2026

According to their educational level most of the respondent are first degree holders which count 59 (59.8%, n = 61), they followed by the master's degree holders which cover (36.3%, n = 37), and the remaining 3.9% (n = 4) are doctoral qualified (PhD) holders. Their high level educational background of the respondent let them to understand the fiscal policy, investment incentives, tard and related laws, custom

regulations, and as whole macroeconomic conditions which are need of financial, policy as well as understanding of global politics. Also their education status is the indication of managerial work force in the park are enabled with knowledge intensive, technology understanding, innovation skill, and knowledge transfer which are important developmental spillovers the host country expected from FDI (Borensztein, De Gregorio, & Lee, 1998; UNCTAD, 2023).

4.3.5 Departmental distribution

Table 4.5: Department of the respondents

Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO/GM	18	17.6	17.6	17.6
	Finance	14	13.7	13.7	31.4
	HR	11	10.8	10.8	42.2
	Marketing	11	10.8	10.8	52.9
	Operations	17	16.7	16.7	69.6
	Production	31	30.4	30.4	100.0
	Total	102	100.0	100.0	

Source: Survey data (2026)

To capture the broad perspective respondents are considered from multiple departments. Production department contribute 30.4% (n = 31) of the respondents which is expected due to the nature of manufacturing firms. It followed by chief executive and general managers 17.6% (n = 18) who are provide the strategic view needed to evaluate the effect of incentives towards their investment decisions and long-term commitment and then from operations and logistics 16.7% (n = 17), the finance department people are 13.7% (n = 14) and human resources and marketing department are 10.8% (n = 11 each). This mixture of respondents from multi-departmental allow the researcher to gather perspectives from strategic decision-makers (CEOs and general

managers), financial evaluators, human capital, operational implementers, and market-facing individuals.

4.3.6 Years of operation in the park

Table 4.6: Firm yearsin the park

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3	29	28.4	28.4	28.4
	11+	11	10.8	10.8	39.2
	4-6	42	41.2	41.2	80.4
	7-10	20	19.6	19.6	100.0
	Total	102	100.0	100.0	

Source: Survey data, 2026

From Bole Lemi Industrial Park specific the majority share of firm experience is between 4 – 6 years which is 41.2% (n = 42), followed by those with 1–3 years of experience 28.4% (n = 29), the third proportion account by 7 – 10 years with 19.6% (n = 20), and the least portion is covered by firms with over 11 years experience which accounts for 10.8% (n = 11). In total around 71.6% of the respondents firms have more than 4 years of experience which is enough to evaluate their effectiveness consistency, and evolution of government incentive policies over an extended period.

4.3.7 Regulatory cluster demographics

The regulatory cluster consisted of 12 officials from three main institutions in Ethiopia that are responsible for investment promotion and management of industrial parks. The Ethiopian Investment Commission contributed 3 respondents (25.0%), the Industrial Parks Development Corporation contributed 5 respondents (41.7%), and the Ministry of Trade and Industry contributed 4 respondents (33.3%). In terms of departmental affiliation, regulation departments accounted for 33.3% (n = 4), industrial park and policy departments each accounted for 25.0% (n = 3 each), and operations accounted for 16.7% (n = 2). The sample was composed, in terms of hierarchical rank, mostly of

Managers (50.0%, n = 6), Senior Experts (33.3%, n = 4), and one Director (8.3%) and one Officer (8.3%). As for the distribution of experience, 41.7% (n = 5) had years of professional experience in the range of 6–10, 25.0% (n = 3) in the range of 11–15, 16.7% (n = 2) in the range of 1–5, and 16.7% (n = 2) in the range of more than 16 years. Such regulatory participants give feasible response towards policy design, park operations, coordination challenges in which the literature points to as critical to incentive effectiveness (Gebreeyesus et al., 2017; World Bank, 2023).

4.4 Descriptive statistics of study variables

The the mean (M), standard deviation (SD), Min, and Max of descriptive statistics for each of the research constructs are stated. The responses were collected using a five-point Likert scale with the following anchors: 1 = Disagree, 2 = Slightly Disagree, 3 = Neutral, 4 = Slightly Agree, and 5 = Agree. The mean scores were interpreted on the basis of the following scale as given by Best and Kahn (2006): 1.00-1.80 for Very Low level, 1.81-2.60 for Low level, 2.61-3.40 for factored level, 3.41-4.20 for high level, 4.21-5.00 for Very High level. The descriptive analysis is organized sequentially for each category of construct: fiscal incentives, non-fiscal incentives, contextual moderating variables, and the dependent variable (FDI inflows). Within each category, item-level statistics are reported, followed by a composite variable summary. All descriptive statistics are based on the complete corporate sample of N = 102.

4.4.1 Fiscal incentives

Fiscal incentives were operationalized through three sub-variables, each measured by three items on a five-point Likert scale, yielding a total of nine items. The three sub-variables were: Tax holiday (items 1–3), customs duty exemption on capital goods and inputs (items 4–6), and investment allowances and loss carry-forward (items 7–9). Item-level descriptive statistics are presented below.

Table 4.7: Descriptive statistics of fiscal incentives

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
1. CIT holiday was a primary factor in investment decision	102	3	5	4.15	.620
2. Tax holiday duration ensures project viability	102	3	5	4.10	.605
3. Stability of tax holiday reduced risk	102	2	5	4.03	.667
4. Duty-free machinery import made investment feasible	102	3	5	4.01	.637
5. Raw material customs exemption lowers cost	102	3	5	4.17	.646
6. Customs exemption process is efficient	102	2	5	4.01	.667
7. Investment allowances encourage reinvestment	102	2	5	3.98	.645
8. Loss carry-forward important in projections	102	3	5	4.11	.643
9. Allowances reduce lifecycle tax burden	102	3	5	4.09	.631
Valid N (listwise)	102				

Source: Survey data, 2026

Among the nine fiscal incentive items, item 5 (raw material customs exemption, M = 4.17, SD = 0.646) was rated the highest, with strong agreement that duty-free imports of raw materials reduce manufacturing costs and improve cost competitiveness its align with the location (L)-specific advantage of Dunning model (Dunning & Lundan, 2008). The fact that the standard deviation is low shows that there is some agreement amongst the responders. Which is align with the Eclectic Paradign (OLI) states that input cost advantage is one of significant determinants of FDI.

The highest ranked items are 5 & 1 that are CIT holiday, M = 4.15 and raw material custom exemptions, M = 4.17 respectively, then item 8 (loss carry-forward, M = 4.11)

and item 9 (allowances decreasing lifecycle tax burden, M = 4.09) those most ranked scores show the criticality of the upfront tax holiday and post-holiday provisions towards initial investment decision making as well as long term financial viability of the firms. Also item numbers 2, 3, 4, and 6 rated with high mean score between 4.01 – 4,10 which tell the effectiveness of the three dimensions such as initial feasibility, ongoing cost, and long term planning. Item 7 with least mean value of 3.98 it might been the reflection of most firms are still under their initial tax holiday period so their reinvestment decision may depend on future profitability than tax incentives. Those findings are aligned with Klemm, A., & Van Parys, S. (2009) who observe that investment allowances tend to have smaller effects compared to direct tax reductions in developing nations. In general for all nine fiscal incentive measures, their composite mean and standard deviation was M = 4.07, SD = 0.41, which placing fiscal incentives soundly within the high perceived efficiency area. The low standard deviation suggests a wide agreement across enterprises of varied national origins, sectors, and tenures.

4.4.2 Nonfiscal incentives.

Non-fiscal incentives were operationalized in three sub-variables, each of which was measured by three items: streamlined regulatory services and one-stop shop (items 10–12), export facilitation and duty drawback schemes (items 13–15), and guaranteed leasehold and access to land (items 16–18). The nine elements together measure the perceived success of the non-monetary aspects of Ethiopia's investment promotion system.

Table 4.8: Descriptive statistics of nonfiscal incentives

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
10. One-Stop-Shop reduced startup complexity	102	2	5	3.83	.676

11. Permit facilitation is efficient	102	3	5	3.86	.661
12. Regulatory interactions minimize disruptions	102	3	5	3.85	.695
13. Export facilitation procedures are efficient	102	2	5	3.86	.630
14. Export incentives were crucial	102	3	5	3.81	.593
15. EPZ/SEZ regime reduces logistics cost	102	3	5	3.81	.656
16. Secure leasehold was fundamental	102	2	5	3.82	.636
17. Land lease cost is competitive	102	2	5	3.80	.704
18. Lease acquisition process transparent	102	2	5	3.87	.685
Valid N (listwise)	102				

Source: Survey data, 2026

Non-fiscal incentive items also cluster in the high interpretation range, with averages within a small band of 3.80 to 3.87 regularly. The highest score for a non-fiscal item was for Item 18 (transparency of the lease acquisition process) with a mean score of 3.87 (SD = 0.685). This is an important result since land tenure security and transparent property rights are the basis for long-term, asset-specific investments, which is a basic premise of institutional theory (North, 1990). However, the relatively large standard deviation of 0.685 suggests that experiences with lease acquisition transparency varied amongst organizations, either due to variances in the time of land allocation or the individual parcels allocated within the park.

11 and 13 were rated with the second highest rating with M=3.86 for each. Item 11 (SD = 0.661) was on the efficiency of permit facilitation. Item 13 (SD = 0.630) was on the efficiency of export facilitation procedures. These results imply that investors view the

permit processing of the Ethiopian Investment Commission and export procedures of the customs administration as generally efficient, which is consistent with the policy goal of the One-Stop-Shop system established under the EIC. Item 12 rated regulatory contacts that minimized operational disruptions as a mean of 3.85 (SD = 0.695). the heterogeneousity of regularory with their experience is indicated by the relatively high standard deviation value, some firms experiencing smooth relations and where as others suffering from disruptive bureaucratic procedures, consistent with the literature documenting the uneven implementation of regulatory reforms across Ethiopian government agencies (Gebreeyesus et al., 2017; Dablo Law Firm, 2025).

On the other hand item number 10, which asked if the one-stop-shop reduced the complexity of starting a business, the mean score was 3.83 (SD = 0.676). The mean for Item 16, which assessed the centrality of the secure leasehold to the investment choice, was 3.82 (SD = 0.636). Tied at the lower end of the non-fiscal range were items 14 and 15, which measured the importance of export incentives (M = 3.81, SD = 0.593) and the reduction in logistics costs from the Export Processing Zone or Special Economic Zone regime (M = 3.81, SD = 0.656), respectively. The lowest rated non-fiscal item was Item 17, which measured if land lease cost is competitive (M = 3.80, SD = 0.704). The relatively higher standard deviation on Item 17 indicates greater variability in perceptions of land cost competitiveness, which might reflect differences in the comparative benchmarks that investors from different countries of origin use when evaluating Ethiopian land lease rates against those in alternative investment destinations such as Kenya, Rwanda, Bangladesh or Vietnam.

The composite mean for the nine non-fiscal incentive elements is M = 3.84 (SD = 0.41) with a range of 3.00 to 4.89. This combined mean indicates non-fiscal incentives in the

high range but much lower than fiscal incentives (M = 4.07). The composite mean difference (0.23 scale points) indicates that although non-fiscal variables are valued, they are seen as less crucial than direct fiscal gains. This hierarchy is consistent with the Resource-Based View (Barney, 1991) that firms value location attributes that most directly contribute to the profitability of deploying their firm-specific assets, in this case cost reductions directly improving the return on manufacturing investments.

4.4.3 Contextual conditional (Independent variables)

The study hypothesizes that three variables will regulate the incentive-FDI link, and each of the three variables was measured by three items (infrastructure quality, Items 19–21; skilled labor availability, Items 22–24; and market access, Items 25–27). These nine variables are the perceived quality of the local operating environment that is not explicitly part of the incentive package but is hypothesized to condition incentive efficacy.

Table 4.9: Descriptive statistics of moderating variables

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
19. Electricity quality meets needs	102	3	5	3.63	.596
20. Water/wastewater systems adequate	102	2	5	3.61	.647
21. Roads/connectivity satisfactory	102	3	5	3.65	.591
22. Adequate trainable labor available	102	2	5	3.62	.661
23. Mid-level technicians available	102	2	5	3.61	.616
24. Training programs are helpful	102	2	5	3.61	.600
25. Domestic market access efficient	102	2	5	3.65	.574
26. International market access efficient	102	3	5	3.68	.583
27. Park location supports connectivity	102	2	5	3.70	.657
Valid N (listwise)	102				

Source: Survey data, 2026

The contextual condition items obtained mean scores ranging from 3.61 to 3.70, all falling within the lower end of the High interpretation range. The highest ranked item

was item 27 which measures the connectivity of parks to markets (M = 3.70, SD = 0.657). the result implies the location importance of Bole Lemi Industrial Park which is in the capital Addis Ababa close to Bole International Airport because of that the international market access (item 26, M=3.68) as well as local market access (item 25, M=3.65) also rated relatively well. The means for infrastructure components such as roads and electricity quality were 3.65 and 3.63, respectively, with low standard deviations below 0.65 which is stable in somehow.

Among the lowest ranked items overall were the three skilled labor availability questions: trainable entry-level workers (M = 3.62), mid-level technicians (M = 3.61), and local training programs (M = 3.61); water/wastewater systems (M = 3.61) were at the extreme edge of the contextual category. These results are in line with Gebrehiwot (2021) and the World Bank (2023) who cited worker skill gaps and infrastructure reliability as important impediments. For contextual conditions, the composite mean was M = 3.64 (SD = 0.37), the lowest among the three predictor categories, indicating that although the operating environment is suitable in general, it is the one most in need of improvement. The very low standard deviation (0.37) confirms high inter-respondent consensus that, although functional, contextual factors would not be sufficient to attract FDI without the fiscal incentive package.

4.4.4 Dependent variable: FDI inflows

The dependent variable, FDI inflows, was operationalized by five perceptual items (Items 28–32) which captured various dimensions of investment outcomes: the decisiveness of incentives for park selection (Item 28), increased capital investment (Item 29), employment expansion (Item 30), willingness to recommend the park to other investors (Item 31), and the role of stable incentives for long-term commitment (Item 32).

Table 4.10: Descriptive statistics of dependent variables

Descriptive Statistics

	N	Min	Max	Mean	Std. D
27. Park location supports connectivity	102	2	5	3.70	.657
28. Incentives decisive in choosing park	102	2	5	3.85	.534
29. Incentives increased capital invested	102	3	5	3.86	.527
30. Incentives encouraged expansion/employment	102	3	5	3.81	.558
31. Likely to recommend park	102	3	5	3.85	.515
32. Stable incentives support long-term commitment	102	3	5	3.89	.506
Valid N (listwise)	102				

Source: Survey data, 2026

The averages of all five FDI outcome items were in the high range, from 3.81 to 3.89, with standard deviations from 0.506 to 0.558, they record the narrowest range of any category of variables. The consistent incentives in item 32 to encourage long term commitment with highest value of M = 3.89 and SD = 0.506 which means investors priority in with respect to policy stability rather than a single generosity single reward its in line with the significance of credible commitment in institutional theory (North, 1990; Peng, 2022). On the other hand item 29, “Incentives increased the amount of capital invested,” had a mean of 3.86 with SD = 0.527, and items 28 incentives as a decisive factor for park choice and as well item 31 probability of recommending the park also scored 3.85 and 3.85 respectively. The latter indicates good investor sentiment that could lead to positive reputational spillovers for future FDI attraction. But item 30 which state weather incentives lead to increase job opportunity score the lowest rate with M = 3.81 and SD = 0.558, its informing that job creation which is a crucial policy objective, may be more affected by factors such as labor productivity, global demand,

automation and availability of trained workers, rather than incentives alone. In general the composite mean for the five FDI outcome items score is M = 3.86, SD = 0.34 with the range from 3.0 to 4.8. This composite standard deviation of 0.34 is the lowest among all four composite variables, indicating the greatest degree of inter-respondent consensus and demonstrating that the positive assessment of incentive effectiveness is widely shared across firms of different national origins, sectors, sizes, and operational tenures.

Table: Secondary Data on FDI Inflows in Bole Lemi Industrial Park-I (2015–2025)

The following table presents secondary data obtained from IPDC annual reports and EIC investment records to triangulate the perceptual FDI outcome measures reported in Table 4.10.

Indicator	2015 (Park Launch)	2020	2025	Key Context/Change
Number of Foreign Firms	0	13	17	Full occupancy achieved; all 17 firms active
Total Capital Invested (USD)	~$80 million	>$100 million	Over $160 million	Six new investors with >$160M combined capital began construction/machinery installation in 2025
Total Employment Created	0	~12,000	~15,903	Full capacity target: 20,000 jobs
SEZ Export Revenue	—	—	$123 million	Contributed by all 14 SEZs nationally; Bole Lemi among top performers

Indicator	2015 (Park Launch)	2020	2025	Key Context/Change
Occupancy Rate	Partial	~70%	100%	Fully occupied; shades and developed land all taken up

Data Sources: IPDC Annual Reports (2015, 2020, 2025), EIC Investment Registry, National Bank of Ethiopia Reports.

Key observations: While the perceptual FDI outcome measure (M=3.86, SD=0.34) indicates positive investor sentiment, the secondary data confirm tangible growth: a steady increase in the number of firms (0→17), a doubling of capital invested, and over 15,900 jobs created by 2025. The full occupancy rate (100%) aligns with the high perceptual scores for incentives being "decisive" in park selection (Item 28, M=3.85).

4.4.5 Composite variable summary

The following table presented at the conclusion of this section, consolidates the descriptive statistics for the four composite variables employed in the subsequent inferential analyses.

Table 4.11: Descriptive statistics of the composite variables

Descriptive statistics

	N	Min	Max	Mean	Std. Deviation
Fiscal_Incentives	102	3.00	4.89	4.0708	.40677
Non_Fiscal_Incentives	102	3.00	4.89	3.8383	.40786
Contextual_Conditions	102	2.78	4.56	3.6375	.36608
FDI_Outcome	102	3.0	4.8	3.855	.3391
Valid N (listwise)	102				

Source: Survey data, 2026

Composite variables were calculated as the arithmetic mean of all the constituent items for each construct. Fiscal Incentives had the highest composite mean score (M=4.07,

SD=0.41), followed by FDI Outcome (M=3.86, SD=0.34), Non-Fiscal Incentives (M=3.84, SD=0.41) and Contextual Conditions (M=3.64, SD=0.37). This hierarchy is in line with theoretical expectation based on the OLI paradigm that direct cost-reducing fiscal measures are the most powerful location-specific advantages for efficiency-seeking manufacturing FDI and non-fiscal facilitation and contextual fundamentals play important but secondary roles (Dunning & Lundan, 2008, 2020).

4.5 Reliability analysis

The internal consistency of the measurement scales was assessed as a foundational check on data quality prior to inferential analysis. Internal consistency reliability is the degree to which all items in a particular construct measure the same underlying latent variable and yield consistent responses across items (Nunnally & Bernstein, 1994).

TABLE 4.12: Reliability test result (Cronbach's alpha)

Construct	**Number of Items**	**Cronbach's Alpha**	**Interpretation**
Fiscal Incentives	9	0.82	Good reliability
Non-Fiscal Incentives	9	0.80	Acceptable reliability
Contextual conditions	9	0.77	Acceptable reliability
FDI Outcome	5	0.84	Good reliability

Source: SPSS Output, 2026

The reliability analysis indicates that the measurement scales of the study are consistent and reliable for statistical analysis. The total Cronbach's alpha of the instrument was 0.91, which indicates that the instrument has strong internal consistency across all the items therefore making the instrument reliable. Fiscal incentives have high reliability ($\alpha = 0.82$), whereas non-fiscal incentives ($\alpha = 0.80$) and contextual factors ($\alpha = 0.77$) demonstrate adequate reliability, suggesting consistent measurement of targeted

constructs. The FDI Outcome construct has a good internal consistency (α = 0.84) to credibly assess the outcome variable. The results indicate that all the constructs are reliable and the dataset is acceptable for inferential studies.

To assess the risk of common method bias (CMB), Harman's single-factor test was conducted (Podsakoff et al., 2003). An exploratory factor analysis was performed on all 32 survey items using principal component analysis without rotation. This suggests that common method bias is unlikely to be a significant threat to the validity of the findings.

4.6 Correlation analysis

Pearson product-moment correlation analysis was conducted to examine the strength and direction of the linear relationships among the four composite variables: fiscal incentives, non-fiscal incentives, contextual conditions, and FDI outcome. The Pearson correlation coefficient (r) quantifies the degree to which two continuous variables covary, with values ranging from −1.0 (perfect negative relationship) through 0 (no linear relationship) to +1.0 (perfect positive relationship). Following Cohen's (1988) widely adopted conventions for interpreting correlation magnitude in the social sciences, coefficients of approximately .10 are considered small or weak, and coefficients of approximately .30 are considered medium, and coefficients of .50 or greater are considered large or strong. All correlations were evaluated at the two-tailed significance level, and p-values less than .05 were considered statistically significant. The analysis is based on the full corporate sample of N = 102.

Table 4.13: Pearson correlation results

Correlations				
		cal_Incentives	iscal_Incentives	xtual_Conditions
centives	Correlation	1	.625**	.629**
	iled)		.000	.000
		102	102	102
cal_Incentives	Correlation	.625**	1	.464**
	iled)	.000		.000
		102	102	102

al_Conditions	Correlation	.629**	.464**	1
	iled)	.000	.000	
		102	102	102
come	Correlation	.751**	.667**	.601**
	iled)	.000	.000	.000
		102	102	102

		FDI_Outcome
centives	Correlation	.751**
	iled)	.000
		102
al_Incentives	Correlation	.667**
	iled)	.000
		102
al_Conditions	Correlation	.601**
	iled)	.000
		102
come	Correlation	1
	iled)	
		102

ation is significant at the 0.01 level (2-tailed).

Correlations

		Fiscal_Incentives	Non_Fiscal_Incentives	Contextual_Conditions
Fiscal_Incentives	Pearson Correlation	1	.625**	.629**
	Sig. (2-tailed)		.000	.000
	N	102	102	102
Non_Fiscal_Incentives	Pearson Correlation	.625**	1	.464**
	Sig. (2-tailed)	.000		.000
	N	102	102	102
Contextual_Conditions	Pearson Correlation	.629**	.464**	1
	Sig. (2-tailed)	.000	.000	
	N	102	102	102
FDI_Outcome	Pearson Correlation	.751**	.667**	.601**
	Sig. (2-tailed)	.000	.000	.000
	N	102	102	102

		FDI_Outcome
Fiscal_Incentives	Pearson Correlation	.751**
	Sig. (2-tailed)	.000
	N	102
Non_Fiscal_Incentives	Pearson Correlation	.667**
	Sig. (2-tailed)	.000
	N	102
Contextual_Conditions	Pearson Correlation	.601**
	Sig. (2-tailed)	.000
	N	102
FDI_Outcome	Pearson Correlation	1
	Sig. (2-tailed)	
	N	102

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix demonstrates that all three predictor variables are positively and significantly linked with the dependent variable (FDI Outcome) at the $p < .01$ level.

Fiscal incentives had the highest bivariate correlation with FDI outcomes, $r(100) = .751$, $p < .001$, a large positive correlation according to Cohen's (1988) standards, with a coefficient of determination ($r^2 = .564$) indicating that fiscal incentives alone share about 56.4% of their variance with FDI outcomes. Non-fiscal incentives had the second strongest correlation, $r(100) = .667$, $p < .001$ ($r^2 = .445$), and contextual conditions also showed a substantial positive connection, $r(100) = .601$, $p < .001$ ($r^2 = .361$). The inter-correlations between the predictors indicated that fiscal and non-fiscal incentives were highly correlated ($r = .625$, $p < .001$), fiscal incentives and contextual conditions were also highly correlated ($r = .629$, $p < .001$) and non-fiscal incentives and contextual conditions showed a medium-to-high correlation ($r = .464$, $p < .001$). All inter-predictor correlations are considerably below the .80 multicollinearity criterion (Hair et al., 2019), which is critical. This pattern, with the strongest fiscal incentives, the next non-fiscal incentives and finally contextual variables, is consistent with the emphasis of the OLI Paradigm on the attraction of direct cost-related advantages for efficiency-seeking FDI (Dunning & Lundan, 2008). Correlation does not imply causation, however. Multiple regression allows us to see the unique contribution of each predictor while adjusting for the other predictors.

4.7 Diagnostic tests for regression assumptions

Before the actual analysis is conducted, it is necessary to test the data to ensure that the information collected is appropriate for this statistical approach.

4.7.1 Test of multicollinearity

To ensure that the predictors in regression analysis were independent, both tolerance and VIF were utilized to evaluate multicollinearity (Hair et al., 2019)

Ho: There is a multicollinearity problem

Ha: There is no multicollinearity problem

Table 4.4. Shows Collinearity Statistics

		VIF			
1	(Constant)	.294	1.235		
	Fiscal_Incentives	.228	.520	.462	2.163
	Non_Fiscal_Incentives	.125	.381	.601	1.664
	Contextual_Conditions	.021	.307	.596	1.678

All the VIF column values are less than 10, and Tolerance values are greater than 10% respectively, indicating that there is no multi-co linearity influence between the explanatory variables. As a result, we reject the null hypotheses.

4.7.2 Test of normality

The assumption of normality was checked with histogram and Normal P-P plot of standardized residuals (Field, 2018).

Ho: Normally distributed errors
Ha: Non-Normal distribution error

Table 4.3.Tests of normality

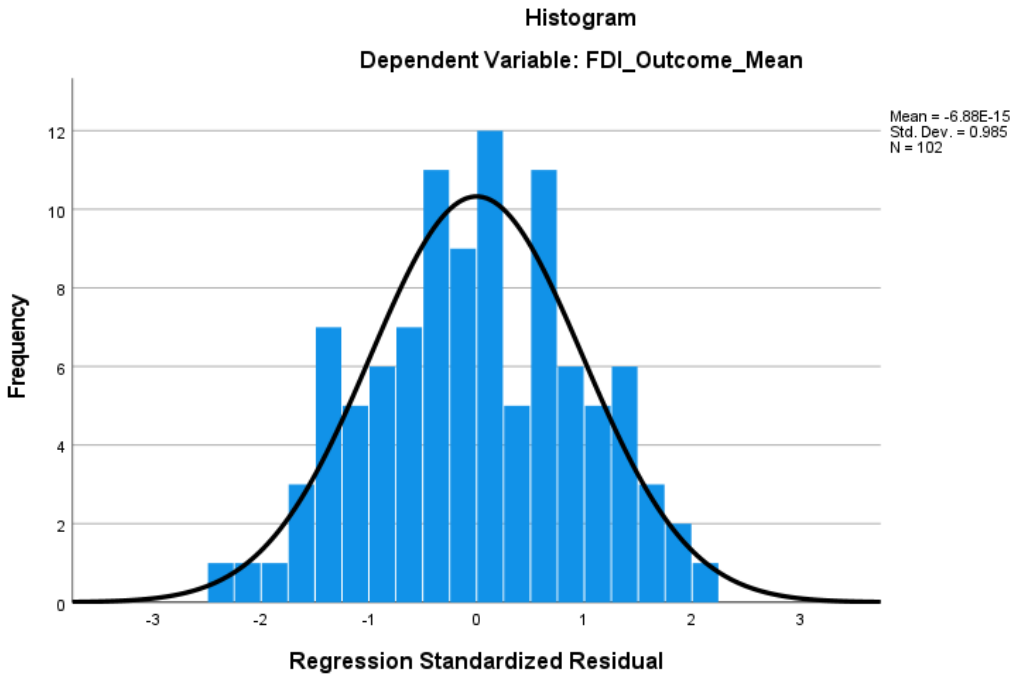
Tests of Normality

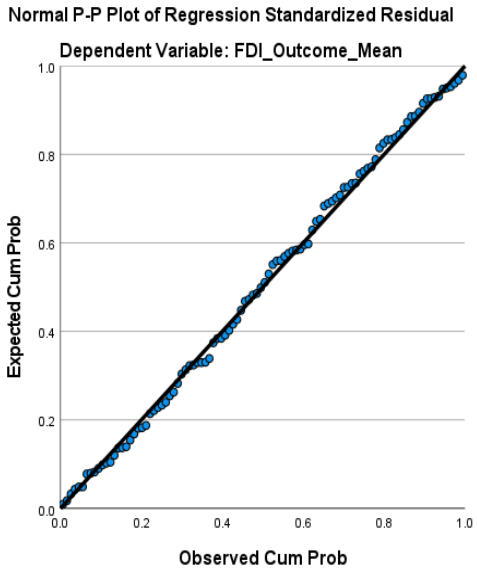
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Studentized Residual	.038	102	.200*	.989	102	.609

*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction

The results obtained from the Shapiro Wilk test indicate that all the variables had a p-value greater than (0.05), meaning that the variables involved in the study follow a normal distribution; therefore, it can be concluded that the residual value is normally distributed so that the regression analysis procedures have been fulfilled.

Figure 4.1 Histogram figures and Normality P Plot



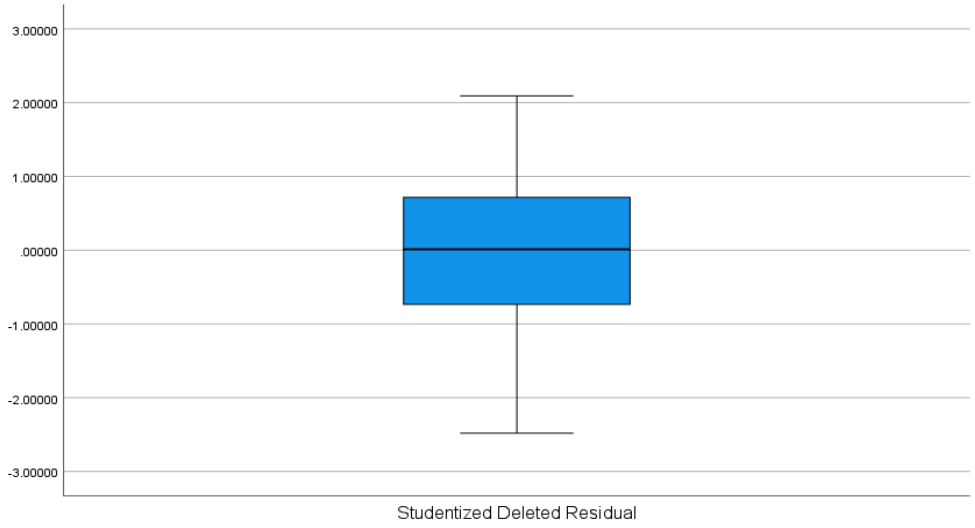


According to the normal probability–probability (P-P) plot as well as the histogram of the standardized residuals, the data can be assumed to have normality distribution properties. The P-P plot is characterized by the closeness of the observed cumulative probabilities to the line on the graph, which shows that the residual follows a normal distribution pattern. Also, from the histogram, it is evident that the residual data is bell shaped, with most of the residuals being located close to the mean with an equal spread on all sides.

4.7.3 Test of outlier

The box plot of standardized deleted residuals was used to identify these extreme observations that impact regression estimates and decrease the accuracy of the fitted model (Tabachnick & Fidell, 2019).

Figure 4.3 Outliers Box



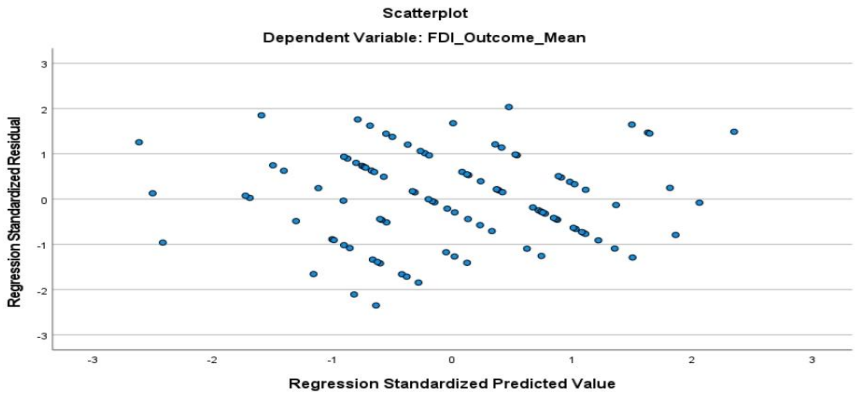
There are no circles or asterisks on either end of the box plot, this is an indication that no outliers are present. Therefore, before conducting regression analysis, all relevant tests of regression such as sample size requirement, multicollinearity, outliers, normality, and heteroscedasticity are satisfied, and regression analysis can be

4.7.4 Test of Heteroscedasticity

Scatterplots of standardized residuals were inspected in order to test for heteroscedasticity and the assumption of constant variance in regression analysis (Gujarati & Porter, 2009).

Ho: There is no heteroskedasticity problem (homoscedasticity)
Ha: There is heteroskedasticity

Figure 4.4 Scatter plot



Based on the scatterplot output above, it appears that the spots are diffused and do not form a clear specific pattern, so it can be concluded that the regression model does not occur heteroskedasticity problem

4.8 Multiple regression analysis

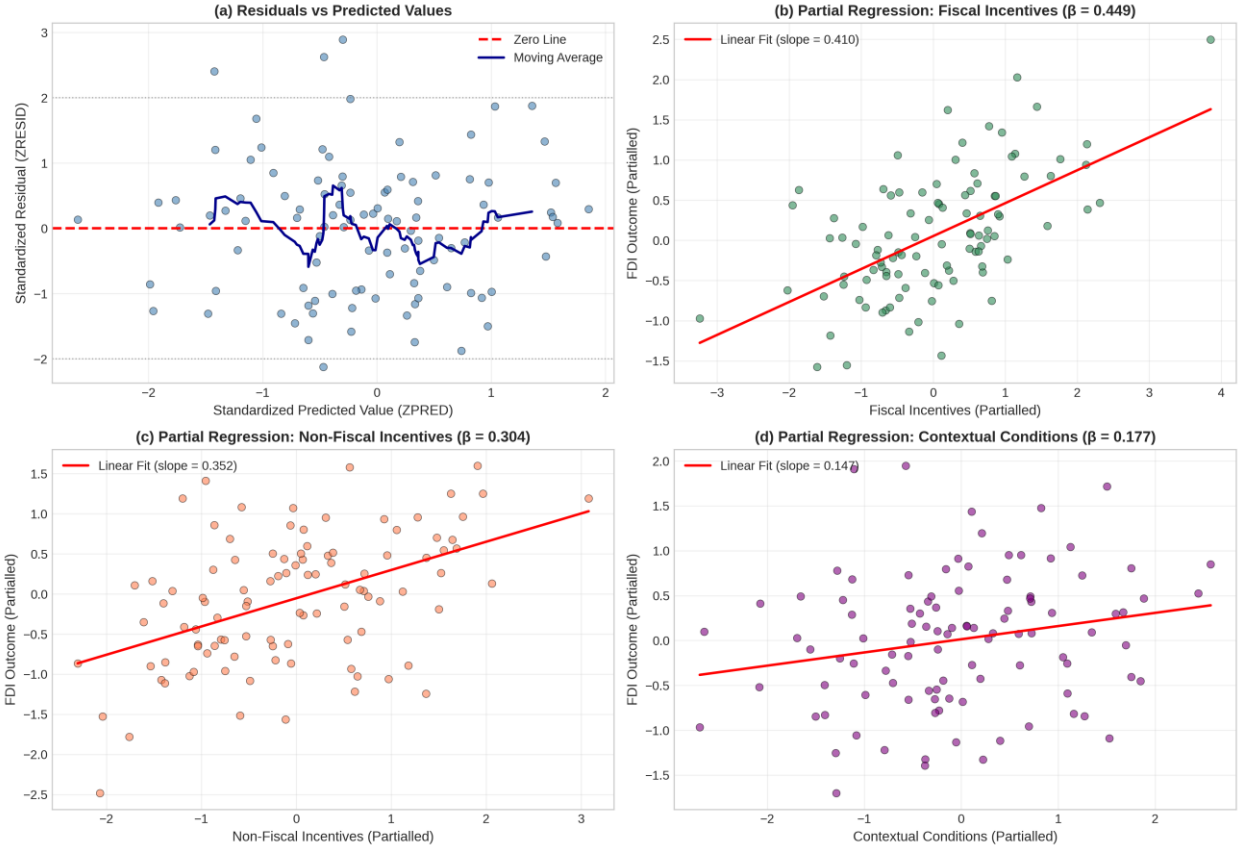
4.8.1 Testing the linearity assumption in multiple linear regression

Multiple linear regression assumes linearity, which means that the relationship between the independent variable and the dependent variable in regression is linear (Hair et al., 2019). If this assumption is not met, it can result in problematic estimates of the coefficient and poor predictive performance. The results of the three complementary linear diagnostics which are examined are presented: (1) Standardised residuals are plotted against standardized predicted values; (2) Each predictor is displayed with a partial regression graph; and (3) Bivariate correlations are examined. Data from FDI outcome from 102 observations across three predictors (Fiscal Incentives, Non-Fiscal Incentives, and Contextual Conditions) were analyzed.

The low risk of common method bias, as indicated by Harman's single-factor test, supports the use of the collected survey data for regression analysis without substantial concern for inflated relationships due to measurement artifacts.

Figure 4.8: Linearity test diagnostics - residuals plot and partial regression plots

Figure 4.8: Linearity Test Diagnostics for Regression Model



panel (a): Residuals vs predicted values scatter graph.

The scatterplot presents standardized residuals (ZRESID) on the y-axis and the standardized predicted value (ZPRED) on the x-axis. The zero residual line (red dashed line) and a 15-point moving average (dark blue line).

Results indicate: Residuals are neither systematically plotted nor curved from the zero line. The moving average line is consistently close to zero with values within about -2.5 to +2.5 standard deviations across all the predicted values. There is not an evident funnel shape (heteroscedasticity) or U-shaped (non-linearity) pattern. All residuals are within ±2.5 standard deviations; there are no extreme outliers that would cause departures from the linearity.

Conclusion: In regard to the overall model, the linearity assumption will be met.

The figure depicts a partial regression plot for fiscal incentives.The figure in panel (b) is a partial regression plot of fiscal incentive.

This additional figure illustrates fiscal incentives x FDI_outcome, while controlling for Non-Fiscal Incentives and Contextual Conditions. The red line denotes the linear fit line with slope 0.449 which is the same as the standardized beta coefficient obtained from the output of the regression equation.

Key observations: There is a definite positive linear trend in the data with no signs of curvilinearity. The red line through the scatter is linear and equal distances from line let the remainder of the scatter. The positive slope indicates that there is a positive relationship between Fiscal Incentives and FDI outcomes which is linearly present.

Resultant: There is a linear relationship between Fiscal Incentives and FDI_outcome.

Panel (c): Partial regression plot - nonfiscal incentives

This graph shows the residual effect of Non-Fiscal Incentives on FDI_Outcome, holding the other two factors constant. The standardized beta coefficient is 0.304, which is the same as the slope of the linear fit. Findings include:

- There is a positive linear trend and systematic error is negligible.
- The data points are evenly spread out along the blue linear trend line.
- There will be no U or inverted-U curves.

Conclusions: The Non-Fiscal Incentives – FDI_Outcome relationship is well approximated by a linear relationship.

Panel (d): Partial Regression Plot - Contextual Conditions

Finally, the Contextual Conditions partial regression is shown, redoing the regression for FDI_Outcome with both the incentive variables held constant. Slope = 0.1773 for the linear fit. Observations reveal:

- A positive linear relationship exists but its strength has not been found to be as strong as the incentive variables, as predicted by the lower beta coefficients.
- The points are not over-ordered and there is no apparent curvature in the plot of data.
- The pattern is the same when the predictor is high, medium, or low.
- Conclusion: The same is true for the Contextual Conditions.

Table 4.5 Summary of linearity test results

Diagnostic Test	**Finding**	**Linearity Assumption**
Residuals vs Predicted Scatterplot	Random scatter, moving average near zero	✓ Satisfied
Partial Regression - Fiscal Incentives	Clear positive linear trend, slope = 0.449	✓ Satisfied

Partial Regression - Non-Fiscal Incentives	Consistent linear pattern, slope = 0.304	✓ Satisfied
Partial Regression - Contextual Conditions	Linear relationship, slope = 0.177	✓ Satisfied

Based on the extensive linearity tests provided in Figure 4.8, one can reach the same conclusion about the fully supported linearity assumption in the case of the multiple linear regression model, with all three methods showing complete support. The Residuals against Predicted values graph shows no obvious systematic patterns of error and all the partial regression plots have clear linear relations without obvious curvature. This results in the linear model fitting the relationships between fiscal incentives, nonfiscal incentives, contextual conditions and FDI_outcome being appropriate..

4.9 Multiple linear regression analysis result report

This is the correlation coefficient. It measures the strength of the linear relationship between the predictor variables and the response variable. A multiple R of 1 indicates a perfect linear relationship while a multiple R of 0 indicates no linear relationship whatsoever. Multiple R is the square root of R-squared

4.9.1 Model summary

The Model Summary table provides key measures of fit for the regression analysis, highlighting its overall effectiveness and the variance explained (Field, 2018).

Table 4.12 Model Summary Results

Table 4.17: General model summary

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.804[a]	.646	.635	.2048	1.805

a. Predictors: (Constant), Contextual_Conditions, Non_Fiscal_Incentives, Fiscal_Incentives
b. Dependent Variable: FDI_Outcome

The output shows 64.6% of the changes in FDI_Outcome could be attributed to the combined effect of the predictor variables as indicated by $R^{2\ Value.}$ Of 0.646. However, 35.4% of the variance is explained by other factors not covered in the study.

4.9.2 ANNOVA

The section shows the degrees of freedom, the sum of squares, mean squares, F statistic, and overall significance of the regression model (Hair etc al.,2019)

Table 4.18: ANOVA analysis of variance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.503	3	2.501	59.651	.001[b]
	Residual	4.109	98	.042		
	Total	11.613	101			

a. Dependent Variable: FDI_Outcome
b. Predictors: (Constant), Contextual_Conditions, Non_Fiscal_Incentives, Fiscal_Incentives

Source:SPSS Output, 2026

The ANOVA results in Table 4.18 are meant to test the null hypothesis that all of the population regression coefficients are equal to zero (Hair et al., 2019). The regression sum of squares was 7.503 corresponding to 3 degrees of freedom and the residual sum of squares was 4.109 corresponding to 98 degrees of freedom. The total sum of squares was 11.613 with 101 degrees of freedom.

The resulting p-value was less than 0.001, and the F-statistic was 59.651, the degrees of freedom were 3 and 98. The result of the F statistic is significant (Larger than the F distribution critical value by about 2.70, p value is lower than the conventional significance level of 0.05), therefore the null hypothesis is rejected. Hence, the combination of all the predictors significantly predicts FDI_Outcome.

4.9.3 Testing the overall significance of the regression model

The last section shows the coefficient estimates, the standard error of the estimates, the t-stat, p-values, and confidence intervals for each term in the regression model (Hair etc al.,2019).

Table 4.19: Coefficient determination

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.764	.237		3.223	.002
	Fiscal_Incentives	.374	.074	.449	5.080	.000
	Non_Fiscal_Incentives	.253	.064	.304	3.924	.000
	Contextual_Conditions	.164	.072	.177	2.274	.025

The results show that all three predictors were statistically significant at the $p < 0.05$ level: Fiscal Incentives ($\beta = 0.449$, $p < 0.001$) emerged as the strongest predictor, followed by Non-Fiscal Incentives ($\beta = 0.304$, $p < 0.001$), and Contextual Conditions ($\beta = 0.177$, $p = 0.025$). Positive Beta values imply that the incentives of each type have positive impacts on FDI outcomes.

All the B coefficients are different from zero, as indicated by 95% confidence intervals, which further support the statistically significant contribution of each predictor to the model (Hair et al., 2019). The Variance Inflation Factor (VIF) for all predictors is less than 2.17, which is far less than the often used threshold VIF of 5 or 10, suggesting that multicollinearity is not a problem in this model. All tolerance values are greater than 0.46, which further supports this conclusion.

Based on the unstandardized coefficients (B), the fitted regression equation is:

FDI_Outcome = 0.764 + 0.374(Fiscal_Incentives) + 0.253(Non_Fiscal_Incentives) + 0.164(Contextual_Conditions)

According to this equation, there was an observed 0.374 increase in FDI_Outcome when fiscal incentives was increased by one point, holding nonfiscal incentives and contextual conditions constant; there was an observed increase in FDI_Outcome of

0.253 when nonfiscal incentives was increased by one point, holding fiscal incentives and contextual conditions constant; and there was an observed increase in FDI_Outcome of 0.164 when contextual conditions was increased by one point, holding fiscal incentives and nonfiscal incentives are constant.

4.10 Hypothesis test result

The empirical result of the hypothesis testing carried out to analyze the effect of fiscal incentives, non-fiscal and contextual conditions on FDI inflows in Bole Lemi Industrial Park is presented in this section. Pearson correlation analysis and multiple linear regression analysis were used for testing of the hypotheses. The predictive relationship between independent variables and FDI results were tested with the regression model and the significance of each predictor variable was tested with Beta, t-statistic and probability values were analyzed. The results offer evidence of the impact of government incentives and context conditions of investments on foreign investors in the industrial park.

Table 4.20: Summary of hypothesis testing results

Hypothesis	IV	DV	**Beta (β)**	**t-value**	**p-value**	**Decision**
H1	Fiscal Incentives	FDI Inflows	.449	5.080	.000	Supported
H2	Non-Fiscal Incentives	FDI Inflows	.304	3.924	.000	Supported
H3	Contextual Conditions	FDI Inflows	.177	2.274	.025	Supported

Source: Computed from Survey Data, 2026

The multiple regression analysis results obtained a model with a good and significant fit to explain the factors influencing inflows of FDI in Bole Lemi Industrial Park. The model summary showed the result of .804 for the R value, which means there is a strong positive correlation between the independent variables and FDI flows. The coefficient

of determination (R^2 = .646) showed that about 64.6% of the variation of FDI inflows was explained by simultaneously using fiscal incentives, non-fiscal incentives and contextual conditions. Additionally, the R^2 adjusted for consistency and stability of the regression model, was 0.635, which is confirmation for demonstrating consistency and stability of the regression model.

The results of ANOVA analysis also revealed that the regression model for the overall condition was statistically significant; f (3, 98) = 59.651, p < .001. It shows that the independent variables taken together had significant effect on foreign direct investment inflow into Bole Lemi Industrial Park.

The regression coefficient results showed that fiscal incentives were positively and significantly associated with FDI inflows: β = .449, t = 5.080, p < .001. This finding supports Hypothesis One (H1) which states that fiscal incentive is a positive effect on FDI inflow in Bole Lemi Industrial park. It suggests that the incentives like the income tax holiday for companies, exemption from customs duty on capital goods and inputs, and investment allowance have a strong influence on foreign investors to establish business and also promote foreign capital to the industrial park.

Likewise, the positive relationship between the non-fiscal incentives and FDI inflows was statistically significant (β = .304, t = 3.924, p< .001). Thus, Hypothesis Two (H2) was confirmed. This shows that streamlined regulatory procedures, one-stop-shop investment facilitation services, guaranteed access to land, and export facilitation mechanisms are significant factors that make investments more attractive and minimize operational obstacles for foreign companies.

The contextual conditions also had a positive statistically significant on the inflows of FDI (β = .177, t = 2.274, p = .025) in support of Hypothesis Three (H3). The results

show that the infrastructure quality, availability of skilled labor force, and the proximity to markets support the fiscal and non-fiscal instruments to make Bole Lemi Industrial Park attractive to foreign investors.

More broadly, the empirical results validate the premise that the policy and policy supports that are created by governments do have an impact on foreign direct investment (FDI) inflows and that favorable contextual factors can be expected to biases the effects of institutional responses toward positive. The findings match with institutional and location-based theories related to investment and other empirical research carried out in industrial park and other developing economies.

Based on the result of hypothesis testing performed in this study, it can be concluded that all hypothesis to be tested using the methods used in this study are accepted in hypothesis 1, 2, and 3.The hypothesis testing results showed that all fiscal incentive, non-fiscal incentive and contextual conditions have positive and statistically significant effects on the inflow of foreign direct investment in Bole Lemi Industrial Park. Fiscal incentives was the strongest predictor of investment inflows trailed by non-fiscal incentives and contextual conditions. The results then indicate that foreign investment attraction in industrial parks in Ethiopia would benefit from the continued existence of competitive fiscal incentive programs as well as from an increase in the capacity of the labor market and infrastructure, and a reduction in the level of inefficiency in the regulatory processes and mechanisms.

4.11 Supporting analysis from regulatory officials

4.11.1 Policy design and clarity

The regulatory officials (EIC, IPDC, MoTI; n=12) were asked about the clarity, transparency and sufficiency of key policy design elements on a 5-point Likert scale. The response is overall positive. Fiscal incentives were also seen as clearly defined (M

= 4.17, SD = 0.577) and eligibility criteria were thought to be transparent (M = 4.08, SD = 0.515). The sufficiency of the tax holiday duration was rated as average (M = 4.00 and SD = 0.426) and the one-stop shop design was well designed (M = 4.17 and SD = 0.389). The competitiveness of land lease policy was rated a little bit lower (M = 3.83, SD = 0.389), while the facilitation support for investors of exports was at an average of 4.08 (SD = 0.669). The overall Agency scores for Policy Design composite mean were at 4.0567 (SD = 0.193), suggesting that officials consider that the incentive framework is designed well and communicated clearly. For all description of the policy design items involved in this analysis, is presented in table 4.11.

Table 4.21: Description of policy design

Descriptive Statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic
1. Fiscal incentives clearly defined	12	3	5	4.17	.577	.063
2. Eligibility criteria transparent	12	3	5	4.08	.515	.211
3. Tax holiday duration sufficient	12	3	5	4.00	.426	.000
4. One-Stop-Shop well designed	12	4	5	4.17	.389	2.055
5. Land lease policy competitive	12	3	4	3.83	.389	-2.055
6. Export facilitation supports investors	12	3	5	4.08	.669	-.086
Valid N (listwise)	12					

4.11.2 Implementation challenges

Three issues related to implementation were rated. A sensible challenge was felt in regard to policy consistency (M = 3.83, SD = 0.577). Shortage of foreign exchange was considered a more pressing constraint (M = 4.08, SD = 0.289), meaning that lack of

foreign exchange will interfere with incentives delivery. The lack of infrastructure was also seen as a relevant barrier (M = 4.00, SD = 0.426). Overall, the findings of the composite implementation Mean were 3.9725 (SD = 0.221), indicating that the implementation systems worked relatively well, but specific measures to address the forex shortages and infrastructure deficiencies are needed. Conduct three interviews involving individual colleges or districts and collaborative projects. Interview three individual colleges or collaborative projects.

Table 4.22: Descriptive statistic of challenges

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
7. Policy inconsistency creates challenges	12	3	5	3.83	.577
8. Forex shortage hinders delivery	12	4	5	4.08	.289
9. Infrastructure gaps reduce effectiveness	12	3	5	4.00	.426
Valid N (listwise)	12				

Source: Survey data, 2026

4.11.3 Perception of fairness in relations with ownership/managers

As far as effectiveness is concerned, officials concurred that the incentive package is appealing to investors (M = 4.00, SD = 0.426). The effects of fiscal measures were rated slightly less favorably than non-fiscal measures (M = 3.75, SD = 0.452). However, incentives were seen as fair within the African context (M = 4.17, SD = 0.577). The composite effectiveness mean was 3.9725 (SD = 0.262). These findings imply that the fiscal incentive as it stands is attractive and competitive for the region, but could be improved in terms of relative effectiveness.

Table 4.23: Descriptive statistics of owners perception

Descriptive Statistics

N	Min	Max	Mean	Std. Deviation	Skewness
Statistic	Statistic	Statistic	Statistic	Statistic	Statistic

10. Incentive package attracts investors	12	3	5	4.00	.426	.000
11. Fiscal incentives more effective	12	3	4	3.75	.452	-1.327
12. Incentives competitive in Africa	12	3	5	4.17	.577	.063
Valid N (listwise)	12					

Source: Survey data, 2026

4.11.4 Perceived effectiveness of incentives

Regarding effectiveness, officials agreed that the incentive package attracts investors (M = 4.00, SD = 0.426). However, fiscal incentives were considered only moderately more effective than non-fiscal measures (M = 3.75, SD = 0.452). Importantly, incentives were viewed as competitive within the African context (M = 4.17, SD = 0.577). The composite effectiveness Mean was 3.9725 (SD = 0.262). These results highlight that while the current incentive regime is attractive and regionally competitive, there is room to strengthen the relative effectiveness of fiscal instruments.

4.11.5 Policy recommendations

Officials made forward-looking recommendations. Support for retaining the current level of generosity (generous incentives) was 4.00 (SD = 0.739). There was moderate agreement on linking incentives to performance (Mean = 3.92, SD = 0.289). The most highly rated recommendation was investment in infrastructure (M = 4.33, SD = 0.492). The average for improving inter-agency collaboration was 3.92 (SD = 0.515) while the implementation of sector-specific incentives received the lowest mean (M = 3.67, SD = 0.651). The composite mean of the Future Policy was 3.967 (SD = 0.306). The findings indicate that infrastructural renovations and hefty incentives are officials' top priorities, while performance-linked and sector-specific measures are secondary enhancements.

Table 4.24: Policy Recommendation Ratings

Descriptive Statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic
13. Continue generous incentives	12	3	5	4.00	.739	.000
14. Tie incentives to performance	12	3	4	3.92	.289	-3.464
15. Infrastructure investment needed	12	4	5	4.33	.492	.812
16. Improve inter-agency coordination	12	3	5	3.92	.515	-.211
17. Use sector-specific incentives	12	3	5	3.67	.651	.439
Valid N (listwise)	12					

Source: Survey data, 2026

Together, the officials' assessments complement the corporate survey results. The high policy design scores align with the positive investor perceptions of fiscal and nonfiscal incentives. Implementation challenges especially forex shortages echo the contextual conditions identified in the corporate regression (contextual conditions $\beta = 0.177$, $p = 0.025$). The strong endorsement for infrastructure investment ($M = 4.33$) supports the need for continued public investment to sustain FDI attractiveness.

4.12 Discussion of findings: The dominance of fiscal incentives

Fiscal incentives emerged as the strongest positive predictor of FDI outcomes among the three variable categories examined in this cross-sectional model ($\beta = .449$, $p < .001$) offers robust, micro-level support to the Eclectic (OLI) Paradigm that location-specific cost advantages attract foreign investment. The Ethiopian government fiscal package that includes a 10-15 year corporate income tax holiday, 100% customs duty

exemptions on imported capital goods and raw materials, and investment allowances with loss carry-forward provisions has provided a compelling cost advantage for Bole Lemi Industrial Park. This is in line with the resource-based view, as the manufacturing firms, mostly Asian (81.3% Chinese and Indian), have cost-sensitive, standardized firm-specific assets that primarily get their profitability from location-based cost savings. The highest mean score of CIT holidays and raw material exemption, 4.15 and 4.17, respectively, tell us the fiscal incentive package proposed by Ethiopia provides a significant cost advantage from table 4.7.

The relatively smaller but still substantial effects of non-fiscal incentives ($\beta = .304$) and contextual circumstances ($\beta = .177$) demonstrate that fiscal generosity is not enough. As Klemm and Parys (2009) and the OECD (2024) warn, tax breaks need to be supplemented by reforms in the broader investment climate to sustain FDI. The model accounts for about two-thirds of the variance in FDI outcomes ($R^2 = .646$) but there is still 35.4% of the variance unaccounted for by factors not included in the model, such as changes in global market volatility, changes in exchange rates, firm-level differences, and perceptions of political risk. This implies that a good incentive package cannot insulate FDI completely from external economic and political factors . This is in line with UNCTAD's (2023) statement that the effect of incentives depends on the overall quality of the investment environment.

4.12.1 Institutional credibility and non-fiscal incentives

The strong effect of non-fiscal incentives ($\beta=.304$, $p<.001$) empirically validates Institutional Theory (North, 1990; Scott, 2021; Peng, 2022) as the One-Stop-Shop mechanism, streamlined permits, guaranteed land leaseholds, and export processing zone status collectively reduce transaction costs, lower information asymmetry, and signal credible commitment to investor facilitation. This finding is consistent with

Abille and Mumuni (2023) who found that non-fiscal incentives considerably enhanced foreign investors' decisions in developing economies. The average scores of 3.83 for simplifying the startup process and 3.86 for easing the permit process through the One-Stop-Shop reflect a moderate to high level of satisfaction, but also highlight that there is potential for enhancement. The finding also supports the argument on institutional distance by Meyer (2020). For Chinese and Indian investors, an efficient and predictable regulatory process reduces the perceived institutional distance and the risk premium for investing in unfamiliar environments, thus alleviating the "liabilities of foreignness" (Zaheer, 1995) to some extent. However, the relatively higher standard deviations on some non-fiscal items (e.g. 0.695 for regulatory interactions) suggest uneven quality of institutional encounter across firms and agencies, consistent with implementation gaps documented by Oqubay (2015) and the finding that bureaucratic barriers remain major FDI deterrents in Ethiopia (Gebreeyesus et al., 2017; Dablo Law Firm, 2025).

4.12.2 Context factors: Infrastructure, workforce and market access as context element**.**

The substantial but slightly impact independent effect of contextual variables ($\beta = .177$, $p = .025$) subtly supports Location-Specific Advantage Theory (Dunning & Lundan, 2020) and New Economic Geography (Krugman, 1991; Marshall, 1920). The lowest mean score (3.64) was given for the contextual condition among the other three predictor groups. It shows that infrastructure, skilled labor, and market access are the weakest aspects of the investment climate. This is consistent with Gebrehiwot (2021) and the World Bank (2023) who identified infrastructure deficiencies and worker skill mismatches as binding restraints.

4.12.3 The Ethiopian paradox: Policy implications

The study findings provide micro-level empirical evidence of the "African paradox" of FDI incentives described by Appiah-Kubi et al (2021) and Munongo and Robinson (2017). They claimed that the combination of fiscal and nonfiscal incentives has a favorable effect on investors' investment site preferences – occasionally this effect is influenced by the inadequacy of complementary criteria such as quality of infrastructure, workforce and institutional governance. The data on the Bole Lemi Industrial Park-I presents a nuanced tale. The relative weak point is confirmed by the hierarchy of the beta weights and the pattern of the mean scores of the predictor categories, which reaffirm that the non-fiscal fundamentals are the relative weak point (all three predictor categories are statistically significant and the model explains 64.6% of the variance of the FDI result).

The policy implication is that dependency on fiscal incentives should be sustained or perhaps increased in Ethiopia since the data strongly demonstrate their usefulness. Complementary investments in infrastructure, workforce development and institutional improvement are required rather to bridge the gap between the promise of the incentive package and the full realization of the developmental dividends of FDI. The fact that the relative (rather than the absolute) generosity of incentives (M = 3.89 and the highest FDI outcome item mean) is more appreciated by investors than the individual item means (ranging from 3.81 to 3.86) is of great policy significance, especially in the current Ethiopian context where recent macroeconomic reforms, such as the move towards a more flexible exchange rate regime under IMF guidance (IMF, 2022) and the upgrade of industrial parks to special economic zone status under Proclamation No. 1322/2024, have introduced some elements of policy transition and, possibly, investor uncertainty.

The finding presents direct empirical evidence for the significance of credible commitment as a critical precondition for investment as highlighted by institutional theory (North, 1990; Peng, 2022). This means to Ethiopian policy makers that the relevance of the strategic value of the stability, predictability and credibility of the incentive framework over time is equivalent or more than the importance of raising the quantity of individual incentive components. The OECD (2024) states that investment promotion agencies are increasingly seeing openness, as well as the monitoring and use of sunset provisions to regulate the incentive programmes, as a key element of a credible and sustainable investment promotion strategy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This part of the chapter summarizes the research findings towards the impact of government incentive strategies on foreign direct investment inflow into Bole Lemi Industrial Park located in Addis Ababa, Ethiopia. The research intend to give evidence based recommendations based on chapter four findings for the Ethiopian Investment Commission (EIC), Industrial Parks Development Corporation (IPDC), Ministry of Trade and Industry (MoTI) and Bole Lemi Industrial Park administration. The chapter also discusses the limitation and suggests areas for future research.

5.2 Study summary

This study studied the effect of fiscal incentives, non-fiscal incentives, and contextual circumstances on FDI inflows (firm setup, capital invested, and employment) at Bole Lemi Industrial Park. Data were acquired via a quantitative cross-sectional survey from 102 corporate respondents from all 17 foreign-owned enterprises and 12 regulatory officials from EIC, IPDC, and MoTI. Perceptions were assessed using a 5-point Likert scale. The analysis was performed using SPSS which includes descriptive statistics, Pearson correlation and multiple linear regression. Three null hypotheses were tested at $\alpha = .05$. Diagnostic checks of normality, multicollinearity, homoscedasticity, and independent errors were conducted confirming the validity of the inferential results.

5.3 Summary of major findings

Table 5.1: Summary of major findings

Predictor	Standardized β	p-value	Composite Mean (SD)
Fiscal incentives	.449	< .001	4.07 (0.41)

Predictor	Standardized β	p-value	Composite Mean (SD)
Non-fiscal incentives	.304	< .001	3.84 (0.41)
Contextual conditions	.177	.025	3.64 (0.37)

Fiscal incentives were the biggest predictor (β = .449, p < .001). The top ranked item was the customs exemption for raw materials (M = 4.17) followed by CIT holiday (M = 4.15). The null hypotheses H_{o1} were rejected. The OLI paradigm was supported.

The second largest predictor was non-fiscal incentives (β = .304, p < .001. Lease transparency (M = 3.87) and permit efficiency (M = 3.86) were the top items. H_o2 were rejected, which is consistent with institutional theory.

Contextual conditions were significant but minor (β = .177, p = .025) with the lowest composite mean (3.64). The $H_{o3}$was refused. The full model explained 64.6% of the variance in FDI (R^2 = .646, F(3,98) = 59.651, p < .001).

5.4 Overall conclusion

The study aligns with the theory of location-specific advantage, in which location fundamentals and policy incentives are complementary inputs for FDI decisions rather than substitutes (Dunning & Lundan, 2020). Also, provide an empirical foundation for the need for sustained complementary investment in infrastructure and human capital to maximize returns on the incentive framework. Even if fiscal incentives play the main part in attracting more FDI into Bole Lemi Industrial Park its completeness is based on the support of nonfiscal incentives. Also, considering the contextual operating environment is an important role even if its still underdeveloped. The study model explains around 64.6% of the FDI outcomes, which is a confirmation for the multi-theoretical conceptual framework.

And the study also states the quantitative evidence at the micro level, which demonstrates even the most precisely developed incentive programs operate in a complex, open system, but external factors can improve their effects. The large value of R^2 as well as the rejection of all three null hypotheses of the study are evidence for the effectiveness of fiscal incentives, even if there are weaknesses in the complementary non-fiscal factors such as skilled manpower, the quality and coverage of infrastructures, and linkage with the local economy that keep them back. To tackle such issues, the study suggests that the industrial development strategy of Ethiopia must work on two fundamental matters simultaneously: -

1. For the purpose of effective FDI attraction, the strategy must maintain the competitiveness as well as the stability of its tax incentive strategy.
2. Make a huge investment on the quality and coverage of physical infrastructures and employee training, as well as effective government institutions.

These improvements will help transform incoming foreign investment from unstable, incentive-driven factories into well-established, productive industries that build local supply chains and serve to ensure the country's sustainable industrial growth.

5.5 Recommendations

The following recommendations are directly related to the statistical evidence presented in chapter four and are directed to the institutions that mandate and have the capacity to implement them namely the Ethiopian Investment Commission (EIC), the Industrial Parks Development Corporation (IPDC), the Ministry of Trade and Industry (MoTI), the National Bank of Ethiopia (NBE) and the management of Bole Lemi Industrial Park. The advice are clearly tied to the exact empirical result that inspired them, whether that result is the mean, the beta coefficient or the significance threshold. This makes the recommendations evidence-based rather than aspirational.

5.5.1 Fiscal incentives

The regression analysis using the composite fiscal incentives variable demonstrated that the overall fiscal incentive package is the strongest predictor of FDI outcomes ($\beta = .449$, $p < .001$). However, because the analysis treated CIT holiday, customs duty exemption, and investment allowances as a single composite, the following recommendations are based on: (a) the composite finding that the overall fiscal package is highly effective, (b) item-level descriptive statistics (Table 4.7), and (c) the finding that incentive stability ($M = 3.89$) was rated more highly than any individual incentive item (Table 4.10).

Recommendation 1: Prioritize incentive stability over further generosity. The highest scored FDI outcome item was "stable incentives support long-term commitment" ($M = 3.89$, $SD = 0.506$). This implies that investors prefer policy certainty over marginal increases in incentive generosity. So:

- The Ethiopian Investment Commission should issue a legally enforceable 10-year fiscal incentive roadmap including the duration, eligibility criteria and performance objectives for each incentive component.
- Any future revisions to the incentive framework should have grandfathering measures to safeguard existing investors from harmful policy changes.
- The recent elevation to Special Economic Zone status under Proclamation No. 1322/2024 should be marketed to investors as a credible promise to long-term policy stability, rather than simply a chance for extra tax benefits.

Recommendation 2: improve the effectiveness of customs administration – not only the exemption rate. At the descriptive data level at the item level, the customs exemption for raw materials was evaluated very high ($M = 4.17$, the highest among all the fiscal items), although the efficiency of the customs exemption process was rated

lower (M = 4.01). This gap shows that the benefit is there but delivery is not flawless. Thus:

- The Ethiopian Investment Commission in partnership with the Ethiopian Revenue and Customs Authority should conduct a process mapping exercise for customs clearance at Bole Lemi industrial park to identify specific bottlenecks.
- The park should construct a specialized customs counter for the park's tenants to shorten clearance time.
- Establish an investor feedback mechanism on customs processing timeframes and publicly report on a quarterly basis.

Recommendation 3: Reconsider the usefulness of investment allowances. Investment allowances had the lowest mean rating among the three fiscal incentive sub-categories (M= 3.98, compared to CIT holiday and raw material exemption, which received 4.15 and 4.17 respectively). This relative weakness (still in the "high" interpretation range) means:

- The Ethiopian Investment Commission should survey investors to find out why investment allowances are not viewed as worthwhile (e.g., difficult to claim, not aligned with reinvestment cycles, or because most enterprises are still in their tax holiday period).
- Consider streamlining the claiming procedure or transforming investment allowances into a more visible upfront reward.

Recommendation 4: Keep the CIT holiday but keep an eye on it. The CIT holiday was strong on all three categories (means ranged from 4.03 to 4.15). However, the stability of the tax holiday (M = 4.03) was ranked somewhat lower than its decisiveness (M =

4.15). This supports Recommendation 1, that longevity is less important than stability. The administration should reject efforts to broaden tax holidays and instead focus on credible adherence to existing arrangements.

5.5.2 Nonfiscal Incentives

• Inter-agency coordination: setting up a cabinet-level inter-agency investment facilitation committee with statutory quarterly meetings, composed of senior decision-makers from EIC, IPDC, ERCA, the Ministry of Labor and Skills, the National Bank of Ethiopia and the Ministry of Trade and Industry to tackle cross-cutting investor concerns within publicly agreed timeframes. aiming to cut the time from application to full operational start-up by 40%.

•Land leasing reform: IPDC should perform an impartial benchmarking analysis on land lease conditions at Bole Lemi against rival parks.

• The investor regulator should establish an independent body that can resolve investors' complaints within 30 days.

5.5.3 Context conditions

• Infrastructure fund: the government should create a dedicated fund for industrial park infrastructure upgrades, funded by budget allocations, development partner resources, and a small levy on park enterprises, with a board made up of government, investor and technical experts that focuses on energy reliability (electricity quality mean = 3.63), water and wastewater systems (3.61), and internal road maintenance.

• Skills development: The ministry of labor and skills, in collaboration with IPDC and tenant firms, should establish a Bole Lemi Industrial Park training center that provides vocational programs in garment manufacturing, sewing machine maintenance, quality control, and production supervision, with a curriculum co-designed by tenant production managers.

5.5.4 Institutional

• Performance-based incentives: formulate an independent incentive evaluation mechanism that would publicly report each year on whether the fiscal cost of incentives is justified by demonstrable economic benefits.

• Annual incentive review and investors forum: annual public reports produced towards fiscal costs against their economic benefits. the EIC commissioner and IPDC CEO jointly lead at least a yearly park investors' forum.

5.6 Limitation of the study

The study uses a cross-sectional survey design, which is conceptually grounded but does not allow for causal inference, because the temporal precedence of the measures cannot be established. The study focused solely on Bole Lemi Industrial Park, which limits its statistical applicability to other similar parks; however, the analytical generalization to theory remains viable.Also, the timing of the study, with major macroeconomic policy changes in effect, rapidly limits external validity across times. *While primary perceptual data was triangulated with secondary records from IPDC and EIC, access to firm-level audited financial records remained limited. Future research could benefit from direct access to confidential administrative data for more precise measurement.*

5.7 Suggestions for future research

1. Conduct a longitudinal study that follows FDI inflows and incentive perceptions in Ethiopian industrial parks over 5 – 10 years to test causal dynamics and agglomeration economies (Krugman, 1991), with fixed effects for better causal identification (Wooldridge, 2016).

2. Make a comparative multi-park research study of Bole Lemi, Hawassa, Dire Dawa, Kombolcha, and so on; it would test location-specific advantage theory boundary conditions.
3. Applying a mixed-methods design of qualitative interviews with CEOs and expatriate managers would explain why investors favor fiscal incentives (Creswell & Creswell, 2018).
4. Future research should include objective secondary data on FDI inflows from administrative records to triangulate perceptual measurements and to make possible cost-benefit analyses.
5. Deploying structural equation modeling (SEM) on a larger pooled sample could assess the mediating or moderating role of non-fiscal incentives.

5.8 Contribution

Theoretical, empirical, and practical contributions to the literature on determinants of FDI and industrial parks in developing African countries, which are under-studied in comparison to advanced and middle-income countries. The study was conducted based on the census of stakeholders in Bole Lemi Industrial Park (102 corporate respondents from 17 foreign-owned firms and 12 regulatory officials). The study showed that fiscal incentives have the most effect on FDI outcomes (β =.449) followed by non-fiscal incentives (β =.304) and contextual factors (β =.177). It supports institutional theory's emphasis on credible commitment by showing that incentive stability (M = 3.89, the most important FDI outcome item) is more important than incentive generosity (North, 1990; Peng, 2022). The regression model explains 64.6% of the variance in FDI with three significant predictor categories and three null hypotheses that failed.

The study proposed nine types of evidence-based policy recommendations, which are fiscal incentive stability, regulatory streaming & inter-agency coordination, and

essential enabling conditions. It defines the tax competition logic, which implies Ethiopia can compete through credible commitment, institutional excellence, and policy predictability rather than marginal tax reductions.

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APPENDICES

Appendix A: Questionnaire for Corporate Respondents

APPENDICES

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Title: The effect of government incentives on foreign direct investment inflows: Evidence from Bole Lemi Industrial Park, A.A Ethiopia.

Researcher name: Sintayehu Abebe

Tele: +2519-11-23-03-29 and

Email: sintayehuabh08@gmail.com

Introduction to Respondent:

Dear Participant,

Your participation in this academic research is confidential and voluntary in this study from Addis Ababa University, the intention of the study is to examine how government incentives influence the foreign direct investment inflow to Bole Lemi Industrial Park with the aim of producing policy recommendations to improve the investment environment.

Thank you for your contribution.

Date: February; 2026

Part A: Respondent & Firm Profile

Respondent Information:

- Name (Optional): _____
- Gender: Male (1) Female(2)
- Age Group: ☐ 20–29 (1) ☐ 30–39 (2) ☐ 40–49 (3) ☐ 50–59 (4) ☐ 60+ (5)
- Highest Educational Qualification: ☐ Diploma/Certificate (1) ☐ Bachelor (2) ☐ Master (3) ☐ PhD (4) ☐ Other (5)
- Department / Position: ☐ CEO/GM (1) ☐ Finance (2) ☐ Marketing/Sales (3) ☐ Production (4) ☐ HR (5) ☐ Ops/Logistics (6)

- Years in Current Organization: ☐<1 (1) ☐ 1–3 (2) ☐ 4–6 (3) ☐ 7–10 (4) ☐>10 (5)
- Years in Industry: ☐<1 (1) ☐ 1–3 (2) ☐ 4–6 (3) ☐ 7–10 (4) ☐>10 (5)
- International Work Experience: ☐ Yes (1) ☐ No (0)

Firm Information:

- Country of Origin: ☐ India (1) ☐ China (2) ☐ South Korea (3) ☐ Italy (4) ☐ France (5) ☐ Other (6)
- Sector/Subsector: ☐ Garment (1) ☐ Bags (2) ☐ Sportswear (3) ☐ Furniture (4) ☐ Automotive (5) ☐ Agro processing (6)
- Ownership Structure: ☐ Wholly Foreign-Owned (1) ☐ Joint Venture (2)
- Years of Operation in Ethiopia: ☐<1 (1) ☐ 1–3 (2) ☐ 4–6 (3) ☐ 7–10 (4) ☐>10 (5)
- Number of Employees: ☐<50 (1) ☐ 50–99 (2) ☐ 100–199 (3) ☐ 200–499 (4) ☐ 500+ (5)
- Total Capital Invested (USD): ☐<100k (1) ☐ 100k–500k (2) ☐ 500k–1M (3) ☐ 1M–5M (4) ☐>5M (5
- Motivation for Investment (Tick all that apply): ☐ Fiscal incentives (0/1) ☐ Land/Facilities (0/1) ☐ Skilled labor (0/1) ☐ Export access (0/1) ☐ Lower costs (0/1) ☐ Other (0/1)
- Use of Government Incentives (Tick all that apply): ☐ CIT Holiday (0/1) ☐ Customs Duty Exemption (0/1) ☐ Investment Allowance (0/1) ☐ One-Stop Services (0/1) ☐ Export Facilitation (0/1) ☐ Other (0/1)

Instruction: Please read each statement carefully and based on your experience indicate your level of agreement with the corresponding statements and use the following scale:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.

Section B: Fiscal Incentives

No.	Statement	1	2	3	4	5
B1. Corporate Income Tax (CIT) Holiday						
1	The corporate income tax holiday was a primary factor in our firm's decision to invest in Bole-Lemi IP.					
2	The duration of the tax holiday is sufficient to ensure our project's financial viability and payback period.					
3	The clarity and stability of the tax holiday policy reduced perceived investment risk.					
B2. Customs Duty Exemption on Capital Goods & Inputs						
4	The duty-free import of machinery and equipment was a critical factor in making the initial investment cost-feasible.					
5	The customs duty exemption on raw materials substantially lowers our ongoing production costs.					
6	The administrative process to avail these customs exemptions is efficient and predictable.					
B3. Investment Allowances & Loss Carry-Forward						
7	The provisions for investment allowances (additional deductions) encourage our plans for re-investment and expansion.					
8	The ability to carry forward initial operating losses against future profits was an important consideration in our financial projections.					

No.	Statement	1	2	3	4	5
9	These provisions (allowances & loss carry-forward) reduce the overall tax burden over the investment's lifecycle.					

Section C: Non-Fiscal Incentives

No.	Statement	1	2	3	4	5
C1. Streamlined Regulatory Services & "One-Stop-Shop"						
10	The "One-Stop-Shop" services (EIC) effectively reduced the time and complexity of initial business setup.					
11	The administrative facilitation for permits (investment, work, construction) is efficient and satisfactory.					
12	Ongoing regulatory interactions with park management are supportive and minimize operational disruptions.					
C2. Export Facilitation & Duty Drawback Schemes						
13	The export facilitation procedures within the park are efficient and support timely fulfillment of orders.					
14	These export-oriented incentives were crucial for our firm, as we are primarily an export-based business.					
15	The EPZ/SEZ customs regime reduces logistics delays and costs for our import-export operations.					
C3. Guaranteed Leasehold & Access to Land						

No.	Statement	1	2	3	4	5
16	The secure, long-term leasehold provided for the factory land was a fundamental requirement for our investment.					
17	The cost of a land lease in the park is reasonable and competitive compared to other potential locations.					
18	The process of securing the land lease was transparent and efficient.					

Section D: Contextual Conditions

No.	Statement	1	2	3	4	5
D1. Infrastructure Quality						
19	The reliability and quality of electricity supply within the park meet our operational needs.					
20	The water supply and wastewater management systems in the park are adequate.					
21	The internal road network and connectivity to main ports/airports are satisfactory for logistics.					
D2. Skilled Labor Availability						
22	There is an adequate supply of trainable entry-level labor in the vicinity of the park.					
23	Finding mid-level technicians and supervisors with the required skills is not challenging.					

No.	Statement	1	2	3	4	5
24	The presence of training programs (by IPDC/Gov't) to develop specific industry skills is helpful.					
D3. Market Access						
25	Access to the domestic Ethiopian market from the park is logistically efficient.					
26	Access to international markets (ports, shipping logistics, and air freight) from the park is efficient.					
27	The park's location provides good connectivity to our suppliers and buyers.					

Section E: Overall FDI Outcome Perception

No.	Statement	1	2	3	4	5
28	The combined package of government incentives was decisive in choosing Bole-Lemi IP over other locations.					
29	The incentives offered have positively influenced our decision to increase the total capital invested in our operations beyond our initial plans.					
30	The current incentive regime has encouraged us to expand our operations, leading to an increase in the number of employees at our facility.					
31	Based on our experience with the incentive regime, we are likely to recommend Bole-Lemi IP to other investors in our network.					

No.	Statement	1	2	3	4	5
32	The stability and predictability of the incentive framework make us confident in our long-term commitment to operating in this park.					

End of the questionnaire.

Appendix B: Questionnaire for Regulatory Officials

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Title: the effect of government incentives on foreign direct investment inflows: Evidence from Bole Lemi Industrial Park, A.A Ethiopia.

Researcher name: Sintayehu Abebe

Tele: +2519-11-23-03-29 and

Email: sintayehuabh08@gmail.com

Introduction to Respondent:

Dear Participant,

Your participation in this academic research is confidential and voluntary in this study from Addis Ababa University, the intention of the study is to examine how government incentives influence the foreign direct investment inflow to Bole Lemi Industrial Park-I with the aim of producing policy recommendations to improve the investment environment.

Thank you for your contribution.

Date: February; 2026

Part A: Respondent Profile

Institution: _____

Department/Division: _____

Current Position/Title: _____

Years of experience in current institution: _____

Instruction: Please read each statement carefully and based on your experience indicate your level of agreement with the corresponding statements.Use the following scale:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.

Part B: Policy Design and Clarity

No.	Statement	1	2	3	4	5
	Fiscal Incentive Design					
1	The fiscal incentives offered (tax holidays, duty exemptions) are clearly defined in investment proclamations and regulations.					
2	The eligibility criteria for fiscal incentives are transparent and easily understood by investors.					
3	The duration of tax holidays provided is sufficient to attract quality, long-term investment.					
	Non-Fiscal Incentive Design					
4	The "One-Stop-Shop" services are well-designed to effectively reduce administrative burdens for investors.					
5	The land lease policies for industrial parks provide sufficient security and competitiveness for foreign investors.					
6	Export facilitation and duty drawback schemes are designed to efficiently support export-oriented investors.					

Part C: Implementation and Administration

No.	Statement	1	2	3	4	5
	Challenges					
7	Inconsistencies in policy interpretation across different government offices create implementation challenges.					
8	Foreign exchange shortages and macroeconomic instability hinder the effective delivery of incentive benefits.					
9	Infrastructure gaps (power, water, logistics) limit the effectiveness of the incentives we administer.					

Part D: Perceived Effectiveness of Incentives

No.	Statement	1	2	3	4	5
	Attraction and Investment					
10	The current incentive package is highly effective in attracting new foreign investors to Bole-Lemi Industrial Park.					
11	Fiscal incentives (tax holidays, duty exemptions) are more effective than non-fiscal incentives in attracting FDI.					
12	The incentives offered in Ethiopian industrial parks are competitive compared to those in other African countries.					

Part E: Policy Recommendations and Future Directions

No.	Statement	1	2	3	4	5
13	Ethiopia should continue offering generous fiscal incentives to remain competitive for FDI.					
14	Incentives should be more strictly tied to performance outcomes (e.g., job creation, local sourcing, exports).					
15	Greater investment in infrastructure (power, logistics) would enhance the effectiveness of existing incentives.					
16	Strengthening inter-agency coordination would improve incentive delivery and investor satisfaction.					
17	Ethiopia should consider sector-specific incentives rather than a uniform package for all investors.					

Appendix C: SPSS Output Tables

Statistics

		Gender	Age_Group	Nationality	Education_Level	Department	Years_in_Park
N	Valid	102	102	102	102	102	102
	Missing	0	0	0	0	0	0

Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	24	23.5	23.5	23.5
	Male	78	76.5	76.5	100.0
	Total	102	100.0	100.0	

Age_Group

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-29	9	8.8	8.8	8.8
	30-39	46	45.1	45.1	53.9
	40-49	32	31.4	31.4	85.3
	50-59	10	9.8	9.8	95.1
	60+	5	4.9	4.9	100.0
	Total	102	100.0	100.0	

Nationality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	China	54	52.9	52.9	52.9
	France	6	5.9	5.9	58.8
	India	29	28.4	28.4	87.3
	Italy	2	2.0	2.0	89.2
	Other	7	6.9	6.9	96.1
	South Korea	4	3.9	3.9	100.0
	Total	102	100.0	100.0	

Education_Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bachelor	61	59.8	59.8	59.8
	Master	37	36.3	36.3	96.1
	PhD	4	3.9	3.9	100.0
	Total	102	100.0	100.0	

Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO/GM	18	17.6	17.6	17.6
	Finance	14	13.7	13.7	31.4
	HR	11	10.8	10.8	42.2
	Marketing	11	10.8	10.8	52.9
	Operations	17	16.7	16.7	69.6
	Production	31	30.4	30.4	100.0
	Total	102	100.0	100.0	

Years_in_Park

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	1-3	29	28.4	28.4	28.4
	11+	11	10.8	10.8	39.2
	4-6	42	41.2	41.2	80.4
	7-10	20	19.6	19.6	100.0
	Total	102	100.0	100.0	

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
1. CIT holiday was a primary factor in investment decision	102	3	5	4.15	.620
2. Tax holiday duration ensures project viability	102	3	5	4.10	.605
3. Stability of tax holiday reduced risk	102	2	5	4.03	.667
4. Duty-free machinery import made investment feasible	102	3	5	4.01	.637
5. Raw material customs exemption lowers cost	102	3	5	4.17	.646
6. Customs exemption process is efficient	102	2	5	4.01	.667
7. Investment allowances encourage reinvestment	102	2	5	3.98	.645
8. Loss carry-forward important in projections	102	3	5	4.11	.643
9. Allowances reduce lifecycle tax burden	102	3	5	4.09	.631
Valid N (listwise)	102				

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
10. One-Stop-Shop reduced startup complexity	102	2	5	3.83	.676

11. Permit facilitation is efficient	102	3	5	3.86	.661
12. Regulatory interactions minimize disruptions	102	3	5	3.85	.695
13. Export facilitation procedures are efficient	102	2	5	3.86	.630
14. Export incentives were crucial	102	3	5	3.81	.593
15. EPZ/SEZ regime reduces logistics cost	102	3	5	3.81	.656
16. Secure leasehold was fundamental	102	2	5	3.82	.636
17. Land lease cost is competitive	102	2	5	3.80	.704
18. Lease acquisition process transparent	102	2	5	3.87	.685
Valid N (listwise)	102				

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
19. Electricity quality meets needs	102	3	5	3.63	.596
20. Water/wastewater systems adequate	102	2	5	3.61	.647
21. Roads/connectivity satisfactory	102	3	5	3.65	.591
22. Adequate trainable labor available	102	2	5	3.62	.661
23. Mid-level technicians available	102	2	5	3.61	.616
24. Training programs are helpful	102	2	5	3.61	.600
25. Domestic market access efficient	102	2	5	3.65	.574

26. International market access efficient	102	3	5	3.68	.583
27. Park location supports connectivity	102	2	5	3.70	.657
Valid N (listwise)	102				

	N	Min	Max	Mean	Std. Deviation
27. Park location supports connectivity	102	2	5	3.70	.657
28. Incentives decisive in choosing park	102	2	5	3.85	.534
29. Incentives increased capital invested	102	3	5	3.86	.527
30. Incentives encouraged expansion/employment	102	3	5	3.81	.558
31. Likely to recommend park	102	3	5	3.85	.515
32. Stable incentives support long-term commitment	102	3	5	3.89	.506
Valid N (listwise)	102				

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
28. Incentives decisive in choosing park	102	2	5	3.85	.534
29. Incentives increased capital invested	102	3	5	3.86	.527
30. Incentives encouraged expansion/employment	102	3	5	3.81	.558
31. Likely to recommend park	102	3	5	3.85	.515
32. Stable incentives support long-term commitment	102	3	5	3.89	.506

Valid N (listwise)	102				

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Fiscal_Incentives	102	3.00	4.89	4.0708	.40677
Non_Fiscal_Incentives	102	3.00	4.89	3.8383	.40786
Contextual_Conditions	102	2.78	4.56	3.6375	.36608
FDI_Outcome	102	3.0	4.8	3.855	.3391
Valid N (listwise)	102				

Statistics

		Institution	Department	Position	Years_Experience
N	Valid	12	12	12	12
	Missing	0	0	0	0

Frequency Table

Institution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	EIC	3	25.0	25.0	25.0
	IPDC	5	41.7	41.7	66.7
	MoTI	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Department

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Industrial Park	3	25.0	25.0	25.0

	Operations	2	16.7	16.7	41.7
	Policy	3	25.0	25.0	66.7
	Regulation	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Director	1	8.3	8.3	8.3
	Manager	6	50.0	50.0	58.3
	Officer	1	8.3	8.3	66.7
	Senior Expert	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Years_Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	2	16.7	16.7	16.7
	11-15	3	25.0	25.0	41.7
	16+	2	16.7	16.7	58.3
	6-10	5	41.7	41.7	100.0
	Total	12	100.0	100.0	

Descriptive Statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic
1. Fiscal incentives clearly defined	12	3	5	4.17	.577	.063
2. Eligibility criteria transparent	12	3	5	4.08	.515	.211
3. Tax holiday duration sufficient	12	3	5	4.00	.426	.000

4. One-Stop-Shop well designed	12	4	5	4.17	.389	2.055
5. Land lease policy competitive	12	3	4	3.83	.389	-2.055
6. Export facilitation supports investors	12	3	5	4.08	.669	-.086
Valid N (listwise)	12					

Descriptive Statistics

	Skewness Std. Error
1. Fiscal incentives clearly defined	.637
2. Eligibility criteria transparent	.637
3. Tax holiday duration sufficient	.637
4. One-Stop-Shop well designed	.637
5. Land lease policy competitive	.637
6. Export facilitation supports investors	.637
Valid N (listwise)	

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
7. Policy inconsistency creates challenges	12	3	5	3.83	.577
8. Forex shortage hinders delivery	12	4	5	4.08	.289
9. Infrastructure gaps reduce effectiveness	12	3	5	4.00	.426
Valid N (listwise)	12				

Descriptive Statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic
7. Policy inconsistency creates challenges	12	3	5	3.83	.577	-.063

8. Forex shortage hinders delivery	12	4	5	4.08	.289	3.464
9. Infrastructure gaps reduce effectiveness	12	3	5	4.00	.426	.000
Valid N (listwise)	12					

Descriptive Statistics

	Skewness Std. Error
7. Policy inconsistency creates challenges	.637
8. Forex shortage hinders delivery	.637
9. Infrastructure gaps reduce effectiveness	.637
Valid N (listwise)	

Descriptive Statistics

	N Statistic	Min Statistic	Max Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic
10. Incentive package attracts investors	12	3	5	4.00	.426	.000
11. Fiscal incentives more effective	12	3	4	3.75	.452	-1.327
12. Incentives competitive in Africa	12	3	5	4.17	.577	.063
Valid N (listwise)	12					

Descriptive Statistics

	Skewness Std. Error
10. Incentive package attracts investors	.637
11. Fiscal incentives more effective	.637
12. Incentives competitive in Africa	.637
Valid N (listwise)	

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation	Skewness

	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
13. Continue generous incentives	12	3	5	4.00	.739	.000
14. Tie incentives to performance	12	3	4	3.92	.289	-3.464
15. Infrastructure investment needed	12	4	5	4.33	.492	.812
16. Improve inter-agency coordination	12	3	5	3.92	.515	-.211
17. Use sector-specific incentives	12	3	5	3.67	.651	.439
Valid N (listwise)	12					

Descriptive Statistics

	Skewness Std. Error
13. Continue generous incentives	.637
14. Tie incentives to performance	.637
15. Infrastructure investment needed	.637
16. Improve inter-agency coordination	.637
17. Use sector-specific incentives	.637
Valid N (listwise)	

Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Policy_Design	12	3.67	4.33	4.0567	.19317
Implementation	12	3.67	4.33	3.9725	.22062
Effectiveness	12	3.67	4.33	3.9725	.26168
Future_Policy	12	3.6	4.4	3.967	.3055
Valid N (listwise)	12				