COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF COMMERCE

GRADUATE STUDIES PROGRAM

DEPARTMENT OF PROJECT MANAGEMENT

ASSESSMENT ON THE LEVEL OF POLITICAL RISK IN FOREIGN DIRECT INVESTMENT A CASE OF "FOREIGN DIRECT INVESTORS LOCATED IN ADDIS ABABA AND SURROUNDING AREAS

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BY:-ENDRIAS TADESSE

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STATEMENT OF CERTIFICATION

This to certify that Endrias Tadesse Kinfemeskel has carried out this research work on the topic entitled "Assessment on the level of political risk in foreign direct investment a case of foreign direct investors located in Addis Ababa and its surrounding areas" Under my supervision. This work is original and it is Sufficient for submission for the partial fulfillment for the award of Degree of Masters of Art in Project management.

Assistant Professor Teklegiorgis Assefa

Signature _________________________

Date ______________________________

Statement of Declaration

I, the undersigned, declare that this project work is my original work, prepared under the guidance of Ass. Professor Teklegiorgis Assefa. All the Source of materials used for the project has been fully acknowledged. I further confirm that this project work has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Endrias Tadesse

Signature:__________________

Date: ___________________

Adviser: Teklegiorgis Assefa (Asst. Prof.)

Signature: _______________

Date: ________________

Addis Ababa University, School of Commerce

Addis Ababa, January 2019

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List of Abbreviations

CEO: Chief Executive Officer

CFO: Chief Finance Officer

EIC: Ethiopian Investment Commission

FDI: Foreign Direct Investment

GRF: Global Risk Affair

ISIC: International Standard Industrial Classification

MIGA: Multilateral Investment Guarantee Agency

MNCS: Multinational Corporations

OECD: Organization for Economic Co-operation and Development

SPV: Senior Vice President

SSA: Sub-Saharan Africa

UK: United Kingdom

UNCTAD: United Nations conference on trade and development

USAID: United States agency for international development

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Abstract

The study was conducted to Assess the level of political risk in foreign direct investment with a case study on foreign direct investors located in Addis Ababa and its surrounding area .The study tried to level/rank the different political risk factors MNCs are facing, Mitigation tools used and Risk management capability of the firms with overview on current unrest challenges faced. Questioners and an interview were conducted to assess the level with structured purposive sampling .The key finding of the study is that firms on the study have underestimated the extent of damage that political risk can cause to their Investment as and have been affected by the recent unrest in the country and while majority of the investors have a risk management department dedicated for risk monitoring ;they were low in implementing of existing political risk mitigation and week in evaluating new political risk mitigation strategies and in assigning roles and responsibilities for political risk management .They worry that Civil disturbance ,Transfer and convertibility restriction and adverse regulatory change might affect their future investment . It is obvious that political risk need to be given a prior attention for firms investing with proper risk risk monitoring ,Since Foreign direct investment is subject to a far wider range of political Risks it Should be managed with proper risk management strategy and if not managed by different mitigation mechanism it could affect the entire investment as can be seen from the recent Political Crises that has affected various foreign Investors .Political Risk Mitigation tools that are available for the investors and those that the investors think are effective for their firm at times may be different and Political Risk is not just any business risk that would be left for the management of the investors only , but big support need to come from the host nation and Ethiopian Investment need to work greatly beyond what is written in the proclamation and post risk damage compensation .

Key words: *Foreign Direct Investment, Political Risk*

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Organizations of all kinds whether the source of investment is local or foreign face challenging natural, political, socio-economic and cultural influences that make their operating environments uncertain. These influences may impact on the extent to which objectives can be met. Foreign Investment is not immune from risks and is required to manage risk. Risk management is an iterative process conducted during the entire life duration of a project and continues throughout the business endeavor.

Risk management can be justified on almost all Projects and investments, the level of implementation can vary from projects to projects, investment to investment depending on such factors as size of the investment, type of investment, place of investment, relationship with the corporate strategic plan and corporate culture.

Foreign Direct Investment is believed to serve as a good mechanism to boost businesses and economies developments for both developing and developed nations. FDI is particularly important for developing countries since it provides access to resources that would otherwise be unavailable.

In FDI, the Investor must take the risk to place his operations, money, equipment and human resource on the hands of the host nation local laws, customs and unpredictable political situations. Host country governments have their own regulation on how to run the society and when this rules and policies change, they may bring positive and negative results on the investment.

The economic benefits of FDI are real, but they do not accrue automatically. To reap the maximum benefits from foreign corporate presence a healthy enabling environment for business is paramount, which encourages domes-tic as well as foreign investment, provides incentives for innovation and improvements of skills and contributes to a competitive corporate climate (OECD 2002).

When there is a demand for change whether economic, political or social regulatory bodies should try to act in a right way by amending and effecting changes in existing regulations, policies and other enforcing mechanisms to solve the problem. Investments should be protected against negative factors of such regulations and changes so that they can flourish. Political risk is one of these factors.

Shotts (2015, P.1) states that ‘Political risk is the possibility that a government will change its policies in some way that is detrimental to a firm's profits’. The recent political situation in Ethiopia, the unrest in different regions, the state of emergency, the closed businesses due to unrest and all that comes with it is some of the facets of this risk. In Economy like us, investments and projects should be managed in a manner that maximum gain are obtained from our investment by avoiding unnecessary loss of Resource .

Political risk is deemed as one of the key elements in making a country unattractive for FDI. This research paper attempts to understand some underlying political risk factors that this foreign investors in Ethiopia are facing while investing and how such companies are managing such risks in Ethiopia. The economic development of emerging markets like Ethiopia depends to a large extent on the possibility to make profitable investments and accumulate capital. Koboekae (2012, p.4), in reporting Asiedu's study states that ' Multinational Corporations need to understand the political dynamics of the country they seek to invest '.

This research paper is important because of it creates an understanding and knowledge of what this Foreign investors are facing while investing in our country. According to Ethiopian Investment Commission(EIC) news report, a number of foreign investors are undertaking investment activities in different regions and new one are on the pipe line to invest in the Ethiopia and It is therefore important to all concerned bodies to know and understand the factors of political risk they are facing and identify the threat level of each political risk factor in the country and also try to show how they are managing the particular risks using their capabilities and tools they have at their disposal.

The assumption is that different industries may be faced with different types of political risks and the level of threats and concerns are different across different industries and regions and to curve this potential treat we need to know the degree of the problem at hand and make some sort of change. Political risk has many facet to the definition which I will describe later in my literature review but the main purpose of my Research is to investigate only on selected political risks factors and their degree of concern for the foreign direct investors and find out possible solutions to protect and promote those FDI projects that are implemented from such events/risks to enable future growth in FDI.

Those planning to invest in Ethiopia will definitely look at the sustainability of the country, economy and the regulation since it has a direct impact on the success and profitability of their investment. Managing risks has immense value and when planning to invest whether it's a single one time project or whether it's an investment performed by merger, acquisition or any type of new venture; it’s practical that investors that are new and willing to invest in Ethiopia will make an investigation or due-diligence in to the investment that they are planning to make including the risk situation in the country weather practical project driven risk or political risks before spending their money to the country.

So understanding the level of the risk situation and the risk management capability is important for both the investors and the host nation that attracted the Investment for future investment plan ,for proper risk management and for the regulatory bodies of the host nation which in this case is the Ethiopian Investment Commission .

1.2 STATEMENT OF THE PROBLEM

Risk is an integral part of a business activity. 'In project management, a risk is some future event that happens with some probability and results in a change, either positive or negative, to the project' (Wysocki 2014,P.74). Risk may result in losses or gains and may affect all forms in a class or particular firms.

It's also been stated that 'Risk can be seen as a combination of the probability that an event will occur and its consequences. ‘If risk results in gains (e.g. taxation), the risk is uninsurable and if risk affects all forms (e.g. interest rate changes) the risk is un-diversifiable' (Khattab , Anchor and Davies 2007, p.4).

Managing Risk is one of the basic elements for project success. If not Managed properly risks will affect the basic investment cost, time and Scope .This risk events should be leveled and planned in the beginning before we start spending our money and in each phase of the project the level of the risk should be rechecked and measure should be taken. Risk Management is also a critical part of a Business as 'unmanaged or unmitigated Risks are one of the primary cases of Business failure'(Royer Ps 2000).

In order to keep increased FDI flow to our country we have to make sure that various risks that come should be analyzed. Even though other forms of risks, such as economic risk and financial risk have been studied quite extensively ,political risk has not received much attention owning to various factors .

FDI operational work supports the business environment where new projects in the investment are executed .As a result ,there is significantly amount of interaction between its operational department and the project team as they work together to achieve project goals .So Investment risks in the operational area could definitely affect investment plans in to new deliverable that are intended to modify or contribute to the existing investment or on internal project that affects the structure ,staffing and overall culture of the investing organization.

Political Risk is more critical important and more multifaceted in impact ,becoming more prominent especially in developing countries .Political risk if not detected initially and mitigated can decrease the flow of new foreign investment or new projects and the economy of a country as well. political risk is very volatile risk and should be put as integral part of a company's Risk management .

The Study tried to identify some of the practical political risk factors (concerns) foreign investors in Addis Ababa and surrounding area faces and tries to identify the political risk mitigation gaps against theoretical risk mitigation practices.

Regarding the topic of the study, No research has been done which focus on political Risk of any Foreign Investment or Project.

1.3 RESEARCH QUESTIONS

General Questions

- What are the different political risk factors MNCs are facing, how are they mitigate it and challenges faced.

Specific Research Questions

- What are the main Political risk concerns Investors are facing currently & in the future?
- What is the overall political Risk Management Capability of the firms?
- What is the effect of the recent political turmoil on the investment and its implication on their future investment plans compared to the current investment?
- What political risk mitigation tools the Investors are using and Ethiopian Investment Commissions Role in risk mitigation, past action taken and future mitigation plans when risk like the current political unrest unfolds in the country?

1.4. RESEARCH OBJECTIVES

This study sets the following general and specific objectives.

1.4.1 GENERAL OBJECTIVE

The general objective of this thesis is to identify the threat level of each political risk factor and to suggest, direct, and focus for solutions so as to create a fertile ground for existing and new Foreign investors wanting to invest.

1.4.2 SPECIFIC OBJECTIVES

The Specific objectives of the research are to

1. To level the type of political risks of most concern to the investors currently and in the near future.
2. To assess the overall political Risk Management capability and anticipate future challenges this foreign direct investors face in the future.
3. To assess the investors current and future investment plan in comparison with recent political unrest.
4. To see the risk mitigation tools Investors are using currently and see Ethiopian Investment Commission role of in reconstruction of damaged investment due to recent political turmoil and future Mitigation plans .

1.5. SIGNIFICANCE OF THE STUDY

The research paper has great importance in creating further knowledge on some of the current political risk factors that exist and seen by foreign investors investing in Ethiopia. The aim is to find out practical Solutions that are available for the problems by pointing out possible risk management mechanisms and incites for concerned bodies to serve as a strategy for further studies and research; although more Studies need to be undertaken to bring a comprehensive understanding of the situation.

1.6 SCOPE OF THE STUDY

This research is intended to evaluate on specific political risk factors components he investors are facing, Risk management problems, Current and future investment plan of this Foreign Direct Investors and risk Mitigation Mechanisms

□□To make this project work successful the project is specific on a firm level study “Assessment on the level political risks in foreign direct investment a case of "Foreign investors located in Addis Ababa and surrounding areas”

□□Selected Investors will be hand selected and included in the study and row data from the investment commission and other concerned agencies will also be incorporated and

□□ Since Political Risk by its self is a big concept only specific Political Risk Factors will be selected for evaluation

1.7. TERMS AND DEFINITIONS

Political risk: The term political risk has had many different meanings over time. According to Matthee 'Political risk is a type of risk faced by investors, corporations, and governments that political decisions, events, or conditions will significantly affect the profitability of a business actor or the expected value of a given economic action'.

Foreign Direct Investment (FDI): According to Financial Times (n.d.), definition 'it is an investment in the form of a controlling ownership in a business in one country by an entity based in another country'.

1.8. LIMITATION OF THE STUDY

The limitation faced during the period of research was lacking of giving adequate time and attention by the respondents to fill in the questioners and return. I overcome the limitation by following up the respondents and making them understand the usefulness of their response to my study and for others.

1.9. ORGANIZATION OF THE STUDY

The thesis is organized and divided into five parts. Chapter one which is the introductory part presents background study, statement of the problem, objectives of the study, significance of the study, scope and Term and Definition. Chapter two comprises of literature review, and quotes the various related works done in this area of study .Chapter three which is the research methodology part covers research design, target population, sampling techniques, and data collection tools. Chapter four which is data analysis and findings part reveals findings and analysis from mainly qualitative and quantitative data collected from Questionnaires and an Interview and chapter five that is the Summary, conclusion and recommendation part.

CHAPTER TWO

LITERATURE REVIEW

2.1 RISK AND RISK MANAGEMENT

The Notion of Risk embodied uncertainty about how the future will unfold in an increasingly complex, dynamic, and fast, changing world .The implication of risk is that ,sometimes that what we did not expect could happen and it will lead to huge losses; and off course ,risk is a state of nature as a walk of life is surrounded by certain level of Risk .However, it can't be generalized that risk only leads to cost(loss) but could also involve opportunity (reward) if it is dealt with wisely as like in the case of undertaking business activity .(Bereket 2017)

It is this twofold nature of risks-the potential treat and the opportunity linked to it -that makes them so challenging to manage. Eliminating Risks completely is neither feasible nor desirable as cited in Habegger b,ed,2008) for at list three reasons : one there is no absolute control as such for human beings in dealing with the future ,second the (financial) resources available for prevention and precaution are always limited and third taking risks is at the heart of the innovation process and a necessary condition for economic growth and social progress.

Therefore, the management of risk and crises is determined by timely leadership. A wise leader assumes that he or she will eventually have to deal with a major crisis. Thus, early investments in risk analysis capacity and in tools to help minimize the consequences of the unavoidable crisis are cost effective measure to ensure a continued successful business. Although it is not guaranteed that such leadership and management capacities will be sufficient against all the risk odds, their absence would surly reduce the ability to provide leadership when it matters most and that's why we need to have a good risk management.

Risk management is one of the ten knowledge areas in which a project manager must be competent. According to the Project Management Institute's PMBOK; Risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk. Whether it is for time business project or an investment the principles of risk management remains fairly the same regardless of the strategies used.

2.2 POLITICAL RISK

According to Shotts (cited in Erkekoglu & Kilicarslan 2016) described political risk as the possibility that a government will change its policies in some way that is detrimental to a firm's profits. Broadly defined, political risk is the probability of disruption of the operations of multinational organizations by political forces or events, whether they occur in host countries, home country, or result from changes in the international environment MIGA (2009).

Haslam Cited in ,Koboekae (2012) stated nine different variables are key determinants of political risk and they include assassinations, coups, government crises, anti-government demonstrations, riots, strikes, purges, guerrilla activity and revolutions. Husni, Ali .K & Walid ,Zakaria (also Cited in Thabo K.(2012) states political risk components as government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tensions, law and order, ethnic tensions, democratic accountability, and bureaucracy quality.

Spacey (2015) states that there are 6 types of political risks namely, Trade barriers like tariffs ,Tax changes ,legislation change ,administration delays ,political instability and economic management. He also breaks down Political instability as Terrorism, Riots, Coups, Civil war, and Insurrection as it can completely disrupt business operations in the country for a long period of time.

For the purposes of the research political risk is more specifically defined as breach of contract by governments, restrictions on currency transfer and convertibility, expropriation, political violence (war, civil disturbance and terrorism), non honoring of government guarantees, adverse regulatory changes, and restrictions on FDI outflows in home countries as per MIGA(2009) Definition .

The economic process of a country and in particular the inflow of FDI into a country can be disrupted by unsettled, implicit or explicit, internal or external political disputes and crises. Without stable political conditions, whatever the economic environment may be, a county's effort to create a more hospitable environment for oversea investors cannot be fruitful. Political instabilities can delay FDI until the storm weathers away or diverts away for good (Nega &Moges 2003).

2.3 EVOLUTION OF POLITICAL RISK

Although risk assessment in terms of political environment has always been part of any business venture, the reception of political risk in economic and financial literature only dates back to the 1960s (Sottilotta 2013).

According to Simon cited in (Sottilotta 2013) ,The 1970s were marked by two events, both – unsurprisingly –with a relevant impact on the perception of political risk by the business world: the 1973 oil-shock and the 1979 Iranian revolution. The occurrence of such grand scale events highlighted the importance of political risk assessment and management, and the political risk industry began to flourish, with the proliferation of consulting firms as well as of applications for political risk coverage, provided both by public and private insurers.

The risk of expropriation was prominent in the 1970s, when MNCs found themselves at the core of public scrutiny, with their operations nationalized or controlled tightly .Over that period, expropriation losses resulted primarily from outright confiscation of foreign assets. Although losses related to expropriation episodes have declined over time Concerns over expropriation have reemerged over the past few years MIGA (2009).

Epstein (cited in Jarvis & Griffiths 2007) wrote that the 1980s witnessed new forms of political risk associated with a spate of sovereign defaults as a Result of the Third World debt crisis that began in Mexico in 1982 and spread throughout Latin America, Africa, and parts of Southeast Asia including Indonesia and Thailand.

The most recent and obvious interest in political risk, however, stems from the events surrounding 11 September 2001 and the turbulence associated with terrorist attacks in the Middle East, Bali, Jakarta, Kenya, Yemen, Istanbul, Madrid and London, the instability caused by geopolitical actions in Afghanistan and Iraq, and possible exposure to future terrorist attacks from fallout due to the “war on terror” Jarvis & Griffiths (2007).

Transfer and expropriation risks appeared to ease significantly throughout the 1990s, as many countries began to liberalize their economies. Financial liberalization resulted in floating exchange rate regimes and the allocation of foreign exchange via market mechanisms through the banking sector, while capital controls were relaxed MIGA (2009).

2.4 TYPES OF POLITICAL RISK

Rubins & Kinsella (2005) has categorized political risk in to seven parts/components namely 1.Expropriation (including confiscation and nationalization), 2.Regulatory interference (including Indirect and creeping expropriation, 3.Currency risk 4.Civil unrest 5.Breach of State contract 6.Coruption and 7.Trade restrictions.

1. Expropriation

Expropriation is taking of owner’s property of the investor as:

> Expropriation “is the taking by a host state of property owned by a foreign investor and located in the host state. In a classic expropriation, the state accomplishes the "taking” by acting under local law to annul the investor's title to or beneficial ownership of the property in question. The taking can, if necessary, be implemented through the use of force against the investor. Rubins & Kinsella 2005,P.6)

There is also indirect Expropriation as puts it characterizes by high tax rates and adverse regulation change that have negative effect and results in deprivation of the investor from his ownership, control or interests in the investment . This form of indirect expropriation is also referred to as “disguised” or “creeping expropriation”(Schlemmer-Schulte 1999). In contrast to the case of direct expropriation, there is no generally accepted definition of indirect expropriation in international law (Azzimonti & Daniel 2007).

2. Regulatory interference

Regulatory actions /interference are taken by a government in order to affect or interfere with decisions made by individuals, groups, or organizations regarding social and economic matters.

'Regulatory changes and breach of contract are the greatest impediment to doing business in developing economies' (MIGA 2013, p.22).

3. Currency risk

Currency risk is normally the risk that comes with interaction between local and international risk. As Stated in (Rubins,N & Kinsella,N 2005) Investors that invest in a foreign country is vulnerable to a range of alterations in the currency regime and since their decision to invest is in consideration of a reasonable rate of return from foreign-based operations, it is very much linked in many ways to interactions between local and international money and as such government may take measures that can have an important impact on the foreign investor's ability to realize the expected return. There is also a risk that the host state will either bar the conversion of local currency revenues into the exchange or "hard" currency, or otherwise increase controls over the exchange of currency (Ibid).

4. Civil Unrest

The risk of civil unrest/disturbance cannot be ignored as it affects foreign and local operations. Such a risk includes a range of different levels of disorder and violence, including strikes, sabotage, terrorism, riots, revolution, and at times may extend to civil or external war (Rubins & Kinsella 2005). If a country is unable to control businesses from the direct and indirect effects of civil strife, investors may find their property damaged or destroyed, or they may be unable to carry on day-to-day operations due to various reasons like shortage in workforce, violence threat, or supplies disruption of connection or markets situations of war also sometimes it may lead to commandeering of buildings and factories by government like state of emergency or it could be held by rebel military forces.

5. Breach of state contracts

An investor who has acquired rights in the host country through a concession, license, or other contracts concluded directly with the local government or its instrumentality must remain alert to the possibility that the state will either annul the contract or compel a change in its terms. This Breach may of contract will undermine the enforceability of a contract and reduce the effectiveness. According to LETCO (cited in Rubins & Kinsella) State contracts are more Vulnerable to breach than private agreements, because under the law most jurisdictions, they may subject to a separate body of jurisprudence or administrative law. This gives significant weight to public interest concerns in assessing liability for state violation of obligations. Many governments require that their own law govern any contracts that they sign with foreign entities, so that their administrative law will be given full effects, and some national laws grants exclusive jurisdiction over administrative law disputes to a specialized courts ,often known as a council of state (Ibid).

6. Corruptions

The Definition of Corruption has been given Different meaning over the years by various papers. One of the definition given is that there are two additional necessary conditions for corruption ,The first condition is that the bias must be intentional – accidental violation of the arm's-length principle Second, there must be some advantage for the individual who commits a violation of the arm's-length principle; otherwise, there is no corruption (Begovic 2005).Even if The problem of corruption has been received as a great deal of attention in recent years ,it was often-ignored segment of political risk and the fact is corruption can have a significant impact on the establishment, operation, expansion, and disposal of foreign-owned assets in the host country given the tools and is an important part of political risk(Rubins & Kinsella 2005). Corruption is generally understood to occur when government officials demand some personal benefit as a condition to fulfilling official function (Ibid).

Referring to Transparency International (TI) report in corruption(Cited in Ayele 2017,p.3), Ethiopia is ranked 108 out of 176 countries, which puts it in the category of highly corrupt countries'.

7. Trade Restrictions

Foreign direct investment is subject to a far wider range of political risks than either portfolio investment or trade Since most profit -making activities take place within the territorial jurisdiction of the host state and in addition unexpected new trade restrictions can have a negative impact upon investors as well as upon those who directly trade in the affected goods and services(Rubins & Kinsella 2005).

A good example could be found in dispute, which arose as a result of France's ban on the import of British beef in response to "Mad Cow disease" which arouse when the beef that had been cleared for import from Britain into France was denied entry because of the newly-imposed French embargo (Ibid).

2.5 POLITICAL RISK MANAGEMENT

Political Risk Can't Be Avoided, But It Can Be Managed. Political risk may have different characteristics than other types of risk, but it can be managed. Effective management of political risk can enable companies to enter and navigate new markets and business environments, providing a potential for competitive advantage (Clup, 2012). Political risk management can be integrated into existing enterprise risk management systems.

According to Clup (2012) there is three-step process that enables companies to identify key political risks, measure their potential impact on performance, and determine the best method to manage such risks: Identify, Measure and manage.

***Identify**: - The key question at this stage is: "How can political actors or conditions directly affect our objectives?" Risk managers can develop an inventory of political risk types to scan the horizon for potential risks. Some situations may create significant political or social instability but few real implications for the business; they may, in fact, present an opportunity to gain market share. The risk management team will then develop an evidence-based set of risk scenarios, based on both well-defined and highly specific data directly relevant to the company's objectives. A scenario set gives risk and business managers a basis upon which to define their data requirements.*

***Measure:-** In the second stage, armed with a very specific set of political risk scenarios, risk managers assess and quantify the potential impact of each scenario on the business. One of the most important aspects of measurement is the translation of projected events into readily identifiable and comprehensible metrics, such as dollar figures, an impact index, or an ability-to-influence index. Using these metrics, risk managers can assess whether the risk level surpasses the organization's risk appetite or tolerance.*

***Manage**:- Once risks have been identified and measured, an effective system for active political risk management can be put in place. The first element in managing political risks is to map potential risk management methods against the priority risks. Once the organization establishes a course of action, the risk management team can assign responsibilities and* *establish a schedule for consultation, reporting and review, as with other risk controls. Companies actually have multiple options for addressing identified risks.*

2.6 POLITICAL RISK MITIGATION TOOLS

Political Risk needs to be mitigated since it can have an adverse effect if not corrected at the right time . Proper risk mitigation starts with due diligence. Only risks that have been identified can be fully addressed in advance like any type of other risk, there are political risk mitigation tools that have been known by Risk managers of companies and organization all over the world that are used as ways of mitigation. Some of the Tools are listed below.

Political risk insurance: is a type of insurance that can be bought with premium for risks like revolution or other political conditions that will result in a loss . Political risk insurance (PRI) is a tool for businesses to mitigate and manage risks arising from the adverse actions—or inactions—of governments. As a risk-mitigation tool, PRI helps provide a more stable environment for investments into developing countries, and to unlock better access to finance (MIGA n.d).

Political risk insurance can cover many possibilities, such as expropriation (e.g., government confiscation of property), political violence (e.g., acts of civil unrest or insurrection), the inability to convert local currency and repatriate it, sovereign debt default and even acts of terrorism and war (Chen 2018).

Credit default swap: a financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. This is achieved by the issuer of the bonds insuring the buyer's potential losses as part of the agreement (dictionary).

Credit default swaps provide a mechanism for the hedging of counterparty exposures and are highly sought after by market participants during periods of considerable market distress which provide protection by producing a gain if credit spreads on their counterparties widen and the difference between a CDS and an insurance policy is those buying a CDS can trade in and out of their contracts in a way that is not possible in the insurance market (Terzia and Uluçayb 2011)

Scenario planning: According to the Economist (01 September 2008, p.1), 'Scenario planning is sometimes called "**scenario** and contingency **planning**") is a structured way for organizations to think about the future. A group of executives sets out to develop a small number of **scenarios**—stories about how the future might unfold and how this might affect an issue that confronts them'.

According to (Berg 2014,p.19), 'Although scenario analysis is a technique, which can be used to improve country risk assessment by small and medium sized enterprises when they engage in international business, a number of issues still need to be studied. But, even though the execution of scenario assessment in country risk assessment has some limitations that need to be resolved, it does not mean this approach will not improve judgment'.

Hedging : refers to any action taken to mitigate a particular risk exposure; operational hedging uses operational instruments (Mieghem 2009).

Operational Hedging: (setting up multiple) is the course of action that **hedges** the firm's risk exposure by means of non-**financial** instruments, particularly through **operational activities**. *Operational hedging* implies the change in production from one geographical location to another after a change in demand or it could be in response to exchange rate uncertainties (Aktas, N, Cousin, J & Zhang 2013).

Engagement with host governments:-the network of relationships in a society greatly influences policy outcomes, especially in countries with weak legal systems. To turn these networks to their advantage, international investors must identify and engage local politicians' power bases (Witold .J & Bennet 2010).

Joint/venture/alliance with local company:-In many emerging markets the benefit of bringing local partners into a project comes from the local knowledge and networks of those people in the host state. Often, this requirement comes with some kind of "carry" or subsidy of the local partners' interest in the underlying investment or project. While these mechanisms can be very useful in aligning the foreign investors' and local partners' interests, they are usually limited in scope and then only to larger investments as the practical enforceability of the put option against the local partners (or their interests in other jurisdictions) will be key to ensuring it achieves the desired effect Gilbert-Tobin (2012).

Engagement with local Communities: - Engage with local entities: Dealing with international contracts can be a complicated and nuanced. Generally, it's essential to engage local counsel if you want to avoid tripping over local rules.

Use of Third –party Consultants: - This are outside consultants who give advice and Due Diligence for the management of different operation endeavors including Risk management.

International Arbitration:-Seeking to remove disputes from the jurisdiction of the host government’s own courts is one of the most important, and commonly used, ways to help to stabilize an investment in an emerging market Gilbert-Tobin (2012).

Bilateral investment treaties:-The use of bilateral investment treaties has proliferated over the last three decades. Bilateral investment treaties reduce political risk to foreign investors. They establish clear, simple, and enforceable rules for foreign investment protection from expropriation, specify the circumstances under which expropriation takes place and the compensation standards, and design the necessary investment dispute settlement mechanisms between states and investors (Mina 2009).

Bilateral investment treaties therefore reduce policy uncertainty and guarantee the presence and adoption of rules for foreign investment protection, which may boost foreign investor's confidence and promote foreign investment flows. Bilateral investment treaties provide political risk guarantees to portfolio equity, private non-guaranteed debt in addition to FDI. They may even provide guarantees to public and publicly guaranteed debt as far as multinational corporations seek guarantees on their loans from host country governments (Ibid).

2.7 FOREIGN DIRECT INVESTMENT

Foreign direct investment has different definitions according to different authors.FDI is an investment in the form of having ownership in a business in one country by an entity based in another country. It is thus different from a foreign portfolio investment by a notion of direct control (Financial Time).

'The World Bank defines FDI as when one individual or business owns 10% or more of a foreign company's capital. If an investor owns less than 10%, it is considered as nothing more than an addition to his/her stock portfolio. Even with just 10%, the investor usually has significant influence on the company's management, operations and policies' (Menemo 2014, P. 23).

Kindleberger cited in (Azzimonti & Daniel, G 2007) stated that Foreign direct investment (FDI), arises when the host country has an investment opportunity that it can-not exploit by itself because it lacks the means or technical know-how, or because of market incompleteness (that is, access to capital markets is restricted).A multinational corporation (MNC) may be able to exploit such an opportunity because it has the necessary capital, technology, and managerial skills to do so. Asiedu, Musila& Sigue and Lokesha & Leelavathy Cited in Koboekae (2012) State that Natural resources alone are not enough to attract FDI; view good infrastructure, sound judicial system, robust property rights, educated workforce, macroeconomic stability, openness to FDI, and political stability as key factors in attracting FDI.

OECD (2002), state that the economic benefits of FDI are real, but they do not accrue automatically. To reap the maximum benefits from foreign corporate presence a healthy enabling environment for business is paramount, which encourages domes-tic as well as foreign investment, provides incentives for innovation and improvements of skills and contributes to a competitive corporate climate.

2.7.1 WORLD FDI TRENDS

Since the late 1980s FDI worldwide has become a more significant source of capital. With the forces of globalization since the second half of the 1990s becoming more widespread, world FDI flows have become even more pronounced. After a steady increase in total world FDI flows to the mid 1980s,exponential increase peaked in 2000 at levels of US$1 398 billion in inflows and US$1 231billion in outflows. After the September 11 attacks on the World Trade Centre in 2001,world FDI flows contracted significantly for the next three years, before increasing again in2004, and by 2007 record highs of inflows and outflows were recorded (Loots & kabundi,2012). In 2016, global FDI flows decreased by 2 per cent to $1,746 billion down from $1,774 billion in 2015, but with variance among country groups and regions a moderate rise of FDI flows is expected to continue in 2018 to $1.85 trillion – still below the 2007 peak. (UNCTAD 2017)

2.7.2 AFRICAN FDI TRENDS

FDI flows to Africa continued to slide, reaching $59 billion, down 3 per cent from 2015, mostly reflecting low commodity prices. China and developed countries remain the top prospective investors. Robust foreign investment into Egypt boosted inflows to North Africa.

In contrast, sluggish commodity prices have diminished economic prospects in Sub-Saharan Africa and tempered investor interest in the sub region. Flows to Angola, the largest FDI recipient in the continent were subdued. Despite some recovery from its 2015 lows, FDI to Nigeria and South Africa remained well below past averages. Some diversified producers of East Africa registered strong FDI in 2016, with Ethiopia attracting more inflows than ever before. Outward investment from Africa remained steady at $18 billion in 2016, with higher outflows from Angola offsetting declines in FDI from Nigeria and South Africa. FDI flows to Africa are likely to increase moderately in 2017 on the back of modest oil price rises and a potential increase in non-oil FDI (UNCTAD 2017).

East Africa received $7.1 billion in FDI in 2016, 13 per cent more than in 2015. However, the aggregate increase masks divergent FDI performance within the sub region. Flows to Ethiopia rose by 46 per cent to $3.2 billion, propelled by investments in infrastructure and manufacturing. FDI into Kenya continued its decline, slumping by 36 per cent to $394 million in 2016 – only slightly more than a quarter of its 2011 level – despite investment reforms and a supportive domestic policy environment (UNCTAD 2017).

2.7.3 FDI ETHIOPIA

Following the power transition from former socialist and military government since 1992, to current government, the climate for foreign investment has improved dramatically (UNCTAD 2002).

The regulatory regime undertook major reenactments of investment proclamations from the year 1992 onwards. According to Teka (2014), the first investment proclamation no 15/1992 was issued in may 1992, which established Ethiopian investment office. The investment proclamation was amended in 1996 to create additional incentives for foreign investors. Investment Proclamation no. 116/1998 was issued in 1998 which redefined domestic investors to include foreign nationals (Ethiopian by birth), allowed private-government joint investments in defense and telecommunication, and opening hydro-power electric generation to domestic and foreign investors. Finally In 2012, *Investment Proclamation no. 769/2002* was issued. Under this proclamation the following provisions were provided;

- The Investment Proclamation sets a minimum capital requirement on foreign investors as below:

• USD 200,000 for a single investment project by a foreign investor

• USD 150,000 if joint investment with a domestic investor

• USD 100,000 if the investment is on architectural or engineering works or related technical consultancy services, technical testing and analysis or in publishing

Work, and is solely owned by a foreign investor, and USD 50,000 if joint investment with a domestic investor in the specific sectors

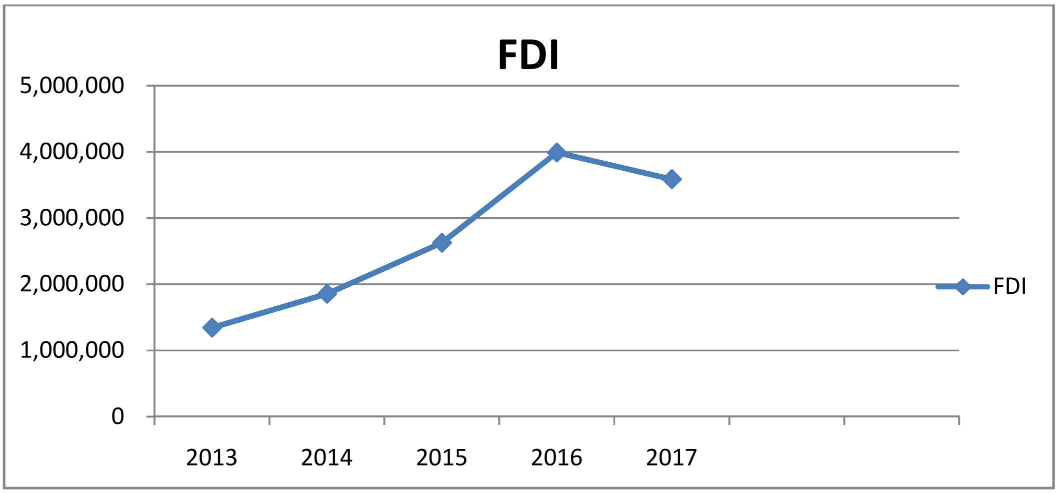
• No capital requirement for reinvestment of profit or dividend (EIA, 2017)

`According to the Investment Guide to Ethiopia (UNCTAD-ICC, 2000) the functions of the EIA, among others, include:

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

2.7.3.1. FDI ETHIOPIA PERFORMANCE

Figure 2.1 FDI Inflows in Ethiopia (000')in Millions of dollar



Source:-UNCTAD, World Investment Report 2018.

According to the 2018 world investment report Ethiopian FDI inflow has recorded a remarkable increase from 2013 to 2016 that is from 1.855 Billion to 3.989 Billion In 2016 in USD.FDI inflows has reached its peak 2016 but slightly decreased in 2017 to 3.586 Billion.

2.8 FDI AND POLITICAL RISK

Foreign investment and political situation of host country is far more related because of the fact that it impacts the development and the profitability of the investment. Nowadays many companies are becoming aware that there are additional risks associated with foreign investment that arise as a direct consequence of choosing to operate in a different environment.

According to many writers in the field, the higher the political risk, the higher the probability that the investment in the host economy will decrease. Hence, political risk can be stated to be a significant factor affecting FDI.

'The rise of the political risk can cause many adverse situations' Türkay (cited in Erkekoglu & Kilicarslan 2016,p.219) state that :

> Foreign investors may leave the country, Speculators may take a position that can increase the level of chaos (in foreign and domestic currency, on the stock exchange),Decrease in the investments in the country because of the uncertainty and Some local investors in the country may miss their capital abroad.

Even more than portfolio investment, FDI especially when taking the form of green field investment entails a careful consideration of the possible political scenarios in the host country: it therefore comes as no surprise if in recent years political risk analysis has come to the fore as an essential tool for executive decision-making, regardless of the dimensions of the business. Sottilotta (2013)

2.9 EMPIRICAL LITERATURE REVIEW

During the past two decades, numerous empirical studies have been undertaken to ascertain the degree to which MNCs listen to symptoms of socio-political instability in analyzing investment opportunities in foreign countries. Asiedu (cited Loots & Kabundi 2012) explores whether factors affecting FDI in developing countries have a different effect on countries in sub-Saharan Africa (SSA). In covering the period 1988-1997, she concludes that higher returns on investment and better infrastructure do not have a significant positive impact on SSA in comparison with other developing countries. Openness to trade promotes FDI, but the marginal benefits from increased trade are less than in other developing countries; and, lastly, Africa requires different FDI policies than other developing regions.

Asiedu observation in 2003 publication (cited in Loots & Kabundi (2012) used panel data for 22 countries in sub-Saharan Africa over the period 1984-2000 to examine the impact of political risk, the institutional framework and government policy on FDI flows and concluded that macroeconomic stability, efficient institutions, political stability and a good regulatory framework have a positive effect on FDI on the continent.

Erkekoglu & Kilicarslan(2016) on their investigation on the relation between political risk and foreign direct investment ;the study data covering the years between 2002 and 2012 and 91 different countries Six political risk variables (freedom of expression and transparency, political stability and absence of violence, management effectiveness, regulatory quality, rule of law, prevention of corruption) and four control variables (foreign direct investment, consumer price with inflation, GDP, exportation of goods and services, population size) have been used in the study and Results show that the increase in the political risks; “political stability and absence of violence” and “the efficacy of administration” causes the foreign investment to decrease and the increase in the “exportation of goods and services” ,“population”, “logarithms of GDP” cause the foreign direct investment to increase.

Hayakawa, Kimura and Lee(2013) Using the overall FDI inflows for 89 countries during the period from 1985 to 2007, empirically investigate the effects on inward FDI of various components of political and financial risk and concluded that among the political and financial risks, only political risk is adversely associated with FDI inflows. Specifically, not only the initially low level of political risk, but also a decrease in the level of political risk helps to bring a greater amount of FDI inflows. Among the various components of political risk, in the sample of developing countries only, it is found that internal conflict, corruption, military in politics, and bureaucracy quality are inversely related to inward FDI flows.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 RESEARCH APPROACH

The research aimed to explore the extent of political risk has on FDI by looking on to selected foreign investors and to investigate what factors are more concern, way of mitigation and future concerns of these companies. Company representatives from this foreign companies conducting business in the countries will be questioned and selected interview will be made with Investment commission experts. As this is an exploratory approach, it sought in-depth insight to factors influencing FDI in Ethiopia. These elements have been written about to great extent, in other developed countries, however not much has been explored in this particular elements of political risk factors and FDI. Although MNCs may state that general political and economic factors are vital when seeking to invest in politically risky countries, however some of these factors seek more understanding and in-depth analysis. It was therefore appropriate to use an a qualitative/exploratory approach in conducting this research.

3.2 DESCRIPTION OF THE STUDY AREA/ORGANIZATION

The Study area of the research is concentrated on Foreign Direct Investment, Political Risk Components of Foreign Investors /MNCs and the Study Area is Investments in Addis Ababa and Selected Oromia Regions around Addis Ababa.

3.3 RESEARCH DESIGN

A qualitative research design was followed; this entailed conducting questionnaires and interviews in order to investigate the extent of political risk on FDI decisions of selected companies. It has been argued that 'This research method was used to discover general information about a topic that is not clearly understood by both the academic and business world' (Saunders & Lewis, 2002, p.110). The research used a qualitative approach in order to gather the data by way of distributing questions on random selection with purposeful sampling & structured interviews with senior executive and a representative from EIA.

The research explores a few general topics to help uncover the participants view but otherwise respects how the participant frames and structures the responses. Interview will be asked to a set of pre-defined questions and an will be given the change for opportunity to elaborate on their answers.

3.4 DATA TYPE AND SOURCE

3.4.1 DATA TYPE

Both Secondary and Primary data is used for the study with a focus with data gathered from Questioner and an Interview.

3.4.2 DATA SOURCE

The Data Source are previous literatures about the study including journals, Dissertation Papers, books and Previous article about the subject matter and for the Analysis. Workers working with in these Companies in Addis Ababa and surrounding areas which have a higher position in Their Company and One selected Official from Ethiopian Investment Commission will be questioned and interviewed respectively.

3.5 TARGET POPULATION AND SAMPLE SIZE DETERMINATION

3.5.1 TARGET POPULATION

The Target Population for the study will be around 1750 according to unpublished data from EIC (i.e. FDI registered as in Addis Ababa and Surrounding cities of Oromia Region Burayu, Alemgena and Sebeta) and under operation.

3.5.2 SAMPLE SIZE DETERMINATION

The research was mainly undertaken in MNCs located in Addis Ababa and Surrounding area. Questionnaires were distributed to 50 Investors whom 35 responded so according Central Limit Theorem a sample size of $n>30$ sufficient regardless of whether the source population is normal or skewed. The Interview was performed with 1 Deputy Commissioner of Ethiopian Investment Commission.

3.5.3 SAMPLING SELECTION PROCEDURE

Stratified Purposive Sampling was used for this research to make regional classification of Multinational corporations under study and for reliability of the study the selection was done purposefully.

3.6 DATA ANALYSIS AND PRESENTATION

Data analysis in qualitative research is a process that is less discrete than found in quantitative research (Struwig & Stead, 2001). Data analysis methods enabled the research to organized and bring meaning to large amounts of data. Before performing the data analysis it is essential that all the raw data (transcripts, field notes and documents) are available and complete. The approach that was used for data analysis of qualitative data was frequency analysis, content analysis and ranking.

3.7 ETHICAL CONSIDERATION

As part of doing the research the researcher have tried to make the necessary ethical considerations that this research needs in pre-planning the research, in protecting and ensuring the dignity welfare of participants starting from consent of the informed, keeping the identity of the informant as promised and free from deceptions. In Addition the researcher have tried to make the research to be free from data fabrication and false publications but consideration on the subject matter and fear has to be taken under consideration.

3.8 VALIDITY & RELIABILITY

This paper has used qualitative research method and in order to ensure the reliability and validity of the research with the questionnaires and an interview used for assessment are made easier to understand, avoid bias or leading questions and/or avoid any potential ambiguity.

CHAPTER FOUR

RESULT AND DISCUSSION

4.1 INTRODUCTION

The study aims at identifying the opinions of the study sample about—the levels of different political risks, Risk management capabilities, future investment plans against recent political unrest and an interview to see the roles of the Ethiopian Investment Commission in regards to recent, past incident and future mitigation strategies .To achieve this end I have developed a questionnaire to review the opinions of the study sample. After questionnaires were distributed and collected Answers were recorded into, by adopting Simple statistical analysis.

Descriptive Statistics

This section provides analysis of the sample data. Tables and graphs illustrate the results and trends, together with discussion.

4.1.1 GENERAL INFORMATION OF RESPONDENTS

The results and discussion below is devised in several parts in line with the objectives of this research and also the sections of the questionnaire and Interview questions. These divisions can help to tackle one objective at a time.

1) Survey participants Job Title

Table 4.1 Description of Survey participants

Job Title	participants during Questioners	Frequency (in percent)	participants during Interview
CEO/President/Managing Directors	4	11.42	
Manager	20	57.14	
CFO/Treasure/Comptroller	2	5.7	
Head of Business Unit	2	5.7	
Senior Member	7	20	
Deputy Commissioner (Ethiopian Investment Commission)			1
Total	**35**	**100**	**1**

Source:-Own Survey (2018)

From the respondents 4 (11.42 %) were CEOs /president /managing director,20 (57.14%) managers ,2 (5.7%) Chief finance officer (CFO) /treasure comptrollers, 2 (5.7%) other C-level Executives & 7 (20%) were senior members of their respective corporations. Interview was conducted with 1 deputy Commissioner of Ethiopian investment Commission. The Questionnaires were distributed only for senior & management Staffs of the companies considering the unique nature of the subject matter; similar risk related researches and most risk related matters were conducted in management and upper positions.

2) Survey participants Establishment and Investment type

Table 4.2 Survey participants year of Establishment and Types of Investment

Year of Establishment	frequency	percent	Types of Investment	frequency	percent
Pre 1992	2.86	2.86	Green field	31.43	31.43
From 1991-1995	14.29	14.29	merger	5.71	5.71
From 1996-2000	17.14	17.14	Acquisition	17.14	17.14
From 2001-2005	17.14	17.14	Joint Ventures	45.71	45.71
From 2005 onwards	48.57	48.57			

Source:-Own Survey (2018)

From the participants of 35 only 1(2.86%) investors was established pre 1992 G.C and the majority (65.71%) are from 2001 onwards .From the sample participants ,11 (31.43%) invested in Green field while 2 were in merger (5.71%) and 6 (17.14%) were in acquisition and the remaining 16 (45.71%) were in Joint ventures .

3) Survey participants Investment Sector & Annual Revenue

Table 4.3 Survey participants Sector & Annual Revenues in USD

Sector	Frequency	percent	Annual Revenues in USD	frequency	percent
Manufacturing	80	80	$100m or Less	57.14	57.14
Primary	5.71	5.71	$100m to 500million	37.14	37.14
Utilities, Transport	8.57	8.57	$500 to 1Billion	5.71	5.71

Storage ,and communication	5.71	5.71			

Source:-Own Survey (2018)

From the sample participants of 35 companies the majority 28(80%) Invested in manufacturing, 2 (5.71%) in primary sector, 3 (8.57%) in Utilities, Transport and the rest 2 (5.71%) invested their money in Storage and communication sector.

According to the survey, 20 (57.14%) participants have an annual revenue of $100 Million or less and 13 (37.14%) have an annual revenue of greater that $100 million but not more than $500 million while only 2(5.71%) have an annual revenue of greater than $500 Million in annual revenues but less than $1 billion dollars.

4.2 RESPONSE ON THE LEVEL OF POLITICAL RISKS OF MOST CONCERN TO THE INVESTORS CURRENTLY AND IN THE FUTURE.

Table 4.4 Political Risks In order of Concern to the Investors currently, in the next twelve month and in the next three years.

Type of Political Risk concerns	Currently	In the Next Twelve month	In The next 3 Years
Adverse Regulatory Change	3	2	2
Breach of contract	4	4	4
Transfer & convertibility restrictions	2	3	3
Civil Disturbance	1	1	1
Non-Honoring of Financial obligation	5	5	5
Expropriation	6	6	6
Terrorism	7	7	7
war	8	8	8

Source:-Own Survey (2018)

As per the data collected from the investors based on ranking system as per their order of various political risk concerns for their investment currently and in the next Twelve month , Civil Disturbance was ranked their no 1 concern preceding Transfer & convertibility Concern and Adverse Regulatory change respectively as risks most concern to the investors at the moment. While Civil Disturbance remains their number 1 concern as per the data gathered, Adverse regulatory change is their 2nd concern and Transfer & convertibility restrictions is their 3rd highest concern for the investors in the next Twelve month of Investment. Terrorism &War remains in last raw as their risk of concern to the investors remains low in both Time moments.

Based On the data collected from the investors basing ranking of their political risk concerns in the next three years to come; the level of concern remains the same as it was for the next twelve month. Civil disturbance was their no 1 concern preceding Transfer & convertibility Concern and Adverse Regulatory change respectively as risks most concern to the investors. Other concerns also remain in similar momentum.

4.3 RESPONSE ON THE OVERALL POLITICAL RISK MANAGEMENT CAPABILITY OF MNCS

Table 4.5 Response on Overall Political Risk Management Capability

	Frequency In present					
	Excellent	**Very good**	**Good**	**poor**	**Non existent**	**Don't know**
Overall political risk assessment	11.42	25.71	40	20	-	2.86
Anticipating new political risks	22.86	22.86	37.14	17.14	-	-
Implementing existing political risk mitigation strategies	11.42	17.41	28.57	40	2.86	-
Evaluating new political risk mitigation strategies	5.71	5.71	11.42	74.28	-	2.86
Assigning roles and responsibilities for political risk management	8.57	2.86	5.71	65.71	8.57	8.57

Source:-Own Survey (2018)

On the overall political risk assessment 11.42 % responded they are Excellent and 65.71% of them responded that they have a very good and good capability while only 20% of the respondents responded that they have poor Capabilities.

In regard anticipating new political risks 82.85 % of the respondents agree that they have good, very good and excellent capabilities regarding while only 17.14% responded that they have poor capabilities on this regard. Regarding the Implementation of existing political risk mitigation strategies 57.14 % the respondents agree that they have good capabilities and 40% said that they are poor in these areas. 74.28% responded that when it comes to evaluating new political risk mitigation strategies they are poor and only 22.86 % responded that they were good and above. When it comes to Assigning roles and responsibility the majority 65.71% responded that they have poor capabilities

The overall political risk management capability of the firms shows that even if they are good on overall political risk assessment ,in anticipating new political risk and in implementation of existing risk mitigation strategies ; they are poor in evaluating new political risk mitigation strategies and assigning roles for the duties lacks strength

Table 4.6 If there is a Department that is purely dedicated to Monitoring Risk on an ongoing basis?

	Frequency	Percent
Yes	68.75	68.75
No	31.25	31.25

Source:-Own Survey (2018)

One part Risk monitoring that Shows that Investors has given priority for the risk management is ongoing follow up through separate department dedicated for it and in order to check the level of monitoring a question was raised for the firms.

Regarding departments that are purely dedicated for monitoring risk on an ongoing basis, 68.75% responded that they have a department that is dedicated for this matter while 31.25% responded that they don't have a department dedicated for this matter. It shows that majority of investors have a risk management department dedicated for ongoing risk monitoring purpose

4.4 RESPONSE ON THE FUTURE INVESTMENT PLANS OF INVESTORS

Table 4.7 Expected Companies planned investments Compared with last Year and Expected Companies planned investments to change in the next Three years ?

	Compared with Last Year	**To Change in The Next Three Years**
Investment Plan	**Frequency In Percent**	**Frequency In percent**
Stay Unchanged	11.4	43.75
Increase Moderately (e.g. Increase by more than 1% but less than 20%)	22.85	18.75

Increase Substantially (e.g. Increase by 20% or More)	11.4	6.25
Decrease moderately (e.g. Decrease more than 1 % but less than 20%)	25.71	18.75
Decrease Substantially (e.g. Decrease 20% or more)	28.51	5.71
Don’t Know	0	0

Source:-Own Survey (2018)

A questionnaire regarding their investment plan was raised to see their future investment plan compared to the one they had last year.

Recent Investment plans of the foreign investors shows that 22.85% of the respondents plan to increase their investment moderately (between 1-20%) while 11.4 % plan to increase their investment substantially (by 20% or more) .Comparatively 25.71 % of the investors plan to decrease their investment moderately this year while 28.51 % of investors want to minimize their investment substantially while only 11.4% of the investors current investment plan remains unchanged.

Future Investment plans of the multi National Companies in the next 3 years shows that, out of the respondents 43.75% plan to stay the same/Unchanged in their investment while 18.75% wants to increase their investment moderately .Only 6.25 % plan to increase their next three years investment substantially (by 20% or more) While 18.75 % of the investors plan to decrease their investment moderately in the future and 5.71 % of investors want to minimize their investment substantially.

Overall Regarding current and future investment plans, The Investment plan of the investors majorly remains in decrease compared to last year while 48% of the respondents suggest that their next three year investment remain unchanged.

Table 4.8 Impact of recent political unrest ?

Impact Level	**No of Respondents in %**
High	62.5
Moderate	37.5
Low	NONE
It didn’t affect the investment	NONE
I don’t Know	NONE

Source:-Own Survey (2018)

To measure up the impact level on the current unrest in the country and those foreign investors located mainly in Addis Ababa and surrounding area; it is important to see what impact the recent unrest brought in general on the investors.

Assessment on the Level of Impact by the recent political unrest on the Foreign investors under study show that 62.5 % responded that they were affected highly while 37.5 % responded that they were affected moderately .

In all the respondents answered that recent political unrest has affected their investment in some way.

4.5 RESPONSE ON POLITICAL RISK MITIGATION TOOLS INVESTORS ARE USING & ETHIOPIAN INVESTMENT COMMISSION ROLES, POST RISK ACTION TAKEN AND FUTURE MITIGATION PLANS

Table 4.9 Tools used by the companies for political Risk Mitigation?

Political Risk Mitigation Tools	**Frequency**	**percent**
Political risk Insurance	6.25	6.25
Credit default Swaps	4.17	4.17
Use of Third –party Consultants	16.67	16.67

Engagement with host governments	16.67	16.67
Engagement with local Communities	20.83	20.83
Joint/venture/alliance with local company	12.5	12.5
Political/economic risk analysis	10.42	10.42
Scenario planning	10.42	10.42
Operational Hedging(setting up multiple)	2.08	2.08

Source:-Own Survey (2018)

Even if we have said Political risk is sometimes unpredictable there are pre risk and post risk mitigation tools for firms to combat those risk .Accordingly the firms understudy have selected their tools in frequency of use for political risk (i.e. from high frequently used to low frequently used).

In respect of the response for tools used for political risk mitigation 20.83 % of the respondents responded that they use Engagement with local Communities as tool for political risk mitigation and using third –party consultant & Engagement with host governments follows with 16.67% response. 12.5% of the respondents agree using Joint/venture/alliance with local company and only 6.25% use political Risk Insurance as a tool while Credit default Swaps and Operational Hedging (setting up multiple) are the least used tools for mitigating political risk.

Overall Different types of tools were used for mitigating of political risk; But Engagement with local Communities" were the highly used tool for political risk mitigation, while using third –party consultant and Engagement with host government as their second and Third options respectively.

In Respect Ethiopian Investment Commissions Role in risk mitigation, past action taken and future mitigation plans when risk like the current political unrest unfolds in the country interview questions were designed and 4 points were analyzed based on their response.

1) The main role of the investment commission is written in the proclamation and different broachers however, The role of the commission is to promote the registration of new Investment. In doing so provide and promote incentives for those investing and planning to invest in our country and promise the prompt service delivery when they do come with the necessary capital for investment. The Commission also gives post investment care facilitation.

The other part is; the Commission initiate policy plan and make the necessary implementations for conductive investment climate by working with other stake holders and also with government involvement signs bilateral investment promotion and protection treaties with other countries.

2) In Regards to the Investment Commission support to help out those investors affected by the recent unrest in the country. The Government has organized a committee to investigate the level of crises which include the Development Bank of Ethiopia, Commercial bank of Ethiopia and Ethiopian Insurance Corporation. So Survey was conducted for various companies that lodged the claim and after the survey was completed the report was sent to the Commission and based on their level of loss which is report based with government approval we have paid more than 1 Billion Birr in support which is not a 100% compensation but reaching up to 75%. Also with support of other stakeholders like Ethiopian Revenue Authority additional brief tax exemption was extended as a privilege till the investors/projects get back on their feet but as we understand this will not cover the profit loss they incur and any consequential losses due to this unrest.

3) In regards to the investment Commission future plan to tackle Such Risks, According to the deputy commissioner the main plan is to concentrate on Industrial park investment ,it is a good way to protect group of investors from such kinds of incidents and also the commission is trying its best to making a suitable environment for the investors ,and also as per the investment proclamation and bilateral agreements signed between countries they are making their mandate to protect the investors .

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The general objective of the study is to assess the level of different political risks in Foreign Direct Investors located in Addis Ababa and Surrounding Areas. Accordingly, the Study/assessment came up with the Following Findings in summary.

The Finding of this study Indicated that majority of foreign investors under study were attracted to the country by Cheap labor and by local and regional market opportunities . Recently political risk is their main concern .However the firms on the study have underestimated the extent of damage that political risk can cause to their Investment .we have seen that all of the questioned firms have affirmed that they have been affected by the recent unrest in the country but yet the majority of the investors said that they don't have a risk management department dedicated for risk monitoring .They are low in implementing existing political risk mitigation and weak in evaluating new political risk mitigation strategies and in assigning roles and responsibilities for political risk management .The investors are worried that political risk and specially risks like civil disturbance ,Transfer and convertibility restriction and adverse regulatory change might affect their future investment .

Ethiopian investment Commission (EIC) has various mandates including promotion, registration of new investment and protection of host nation investors .The Commission with other stake holders has compensated as can be said in part for those affected by the unrest these couple of years and still lots of investors are waiting for compensation. The investment commission acknowledges that political risk is a high concern and is implementing mitigation plans for investors by expanding the Industrial Park as one stop support and protection mechanism which was set under the proclamation and by Bilateral treaties signed between countries .

5.2 CONCLUSION

It is obvious that political risk need to be given a prior attention for firms investing if investors say that they were affected even having a risk management department dedicated for risk monitoring. Because as (Rubins & Kinsella 2005) put it foreign direct investment is subject to a far wider range of political risks because most profit -making activities take place within the territorial jurisdiction of the host state. Although further studies need to be made, the future investment plan of the investors is unfavorable considering that most are considering going on without additional /increased future investment.

So political risk should be managed with proper risk management strategy, and if not managed by different mitigation mechanism could affect the entire investment as can be seen from the recent Political Crises that has affected various foreign Investors. Major concern are raising through the investors over Civil Disturbance and other political risk concerns .Political Risk Mitigation tools that are available for the investors and those that the investors think are effective for their firm are different at times .

The assessment shows that Political Risk management of the firms is poor and proper mitigation has not been done till know .Managing Political Risk is hard without proper risk management department because it needs through Planning, Monitoring, evaluation and Mitigation Strategies.

Political Risk is not just any business risk that would be left for the management of the investors only , but big support have to come from the host nation /Ethiopian Government and from the investment commission to follow through concern that might be raised by the investors .Majority of political risk concerns that we raised in our study are beyond the control of the firms and it is obvious that without proper support from the government and concerned bodies the Risk management options would be so limited and hence create big concern for future investments .Ethiopian Investment need to work greatly beyond what is written in the proclamation and post risk damage compensation .

5.3 RECOMMENDATION

Based on the Findings of the study the following recommendations are forwarded .

Political risk is hard to avoid, so leaders need to come to terms with the fact that they won't be able to identify every political risk. Consequently, leaders need to have exit strategies and evaluate alternative investment options on an ongoing basis, especially as firms invest more and more money into those areas.

Investments can be shifted to different industries; firms can find a new local partner. and, worst case scenario firms can file an insurance claim for Macro-level risk, however, variety that you need to see before it comes is; if the nation in which you are investing closes its borders, devalues its currency or even enters a civil war, you and your money are left with very few options.

Hiring professional companies that Deploy resources for Business risk analysis may be a good Option also to consider before and after making an investment decision. This will increase the Risk Identification and monitoring job of a company.

In a country level, Ethiopian government should have a directorate or affairs whose sole responsibility is to stay on top of potential political risks, such as insecure political climates, new legislation and elections among other. Also an advance protection mechanism should be build when such incidents happen.

The other recommendation as a firm level is that leaders need to diversify their political risks: firms that have strategic business units in various geographies need to acknowledge their cost base, and that some regions that look very attractive might also carry high political risk.

Appropriate use of financial instruments, it may be Risk Guarantees and political -Risk insurance or Tradable Instruments and Ownership Structure.

Effective interaction with public sector ;That is there should be Constructive communication with public agencies for Monitoring of political developments and for advocacy strategy Inclusive community engagement which is Participatory in planning and low-burden construction and Ongoing community involvement during operation.

Reasonable business conduct; that enables and prevent unethical behavior and persecute the illegal or Professional and sustainable operations.

MNCs must fully understand insurance as a powerful way to mitigate political risk. However the case in our country is that political insurance is just beginning for e.g. Ethiopian Insurance Corporation where I work for just started to give political risk insurance after July, 2018 in limited risk perils like Civil Disturbance and riot and strike with limited risk amount but there is no insurance cover for other political risk concern. But Still Considering civil disturbance is a high concern for the investors under study; it may be one option for the company to consider defending political risk against for a premium.

Reliable dispute –resolution mechanisms; that is we need to have a Range of dispute resolution options and need to build an efficient judicial capacity.

Adverse regulatory Change can be mitigated through general Stability of laws and regulation ; that is for comfortable investment ,we need to have a legal architecture conductive to preserving established principles and Non-partisan alignment on infrastructure vision and strategic decisions.

Robust infrastructure regulation and contracts ;that is Rules that are adaptive in a predictable way and "Stress-tested "regulation that will function under unfavorable conditions.

To combat Corruption ,Reliable and efficient administration ;that is Clear agency set-up ,and efficient procurement and permit process and Strict Implementation of anti-corruption and transparency standard which in our case The Federal Ethics and Anti Corruption Commission of Ethiopia.

International Commitments; International Investment agreements that are agreed between countries and agencies and that are included in the Ethiopian Investment Commission latest proclamations should be abided strictly.

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APPENDEX 1

Questionnaire

Addis Ababa University

School of Commerce Graduate Studies Program

Department of Project Management

Assessment on the level of political risk in foreign direct investment a case of "foreign direct investors located in Addis Ababa and its surrounding areas

The questionnaire is prepared by Endrias Tadesse .I am currently a postgraduate student at the Addis Ababa University Department of Project Management. The objective of the questionnaire is to Access some of the political Risk Factors your investment is facing which will be used to prepare a Thesis required for my MA degree. The aim of this research is to contribute for the enhancement of foreign direct investment in Ethiopia by identifying the Challenges faced within the Investment and to put some insight for future investment by identifying mitigation strategies for future endeavors.

Thank you in advance for your cooperation!

General Directions

1. You do not have to write your name?
2. Indicate your opinion/answer by making a tick "√" mark for questions with choices and Ranking types on the right side scale (choices), or write your response in brief wherever necessary in the space provided.

Question No 1. Which of the following best describes your job title? With tick "√" mark

- ○ CEO/President/Managing Director
- ○ SVP/VP/Director
- ○ Manager
- ○ CFO/Treasurer/Comptroller
- ○ Other C-level executive
- ○ Head of business unit
- ○ Board member
- ○ senior member

Question 2. In which region/s you're Investment Located?

- Addis Ababa
- Afar
- Amhara
- B.Gumze
- Dire Dawa
- Gambella
- Multi Regional
- Oromia
- SNNPR
- Somalia
- Tigray

Question No 3. Years of Establishment?

- Pre1992
- 1991-1995
- 1996-2000
- 2001-2005
- 2005 onward

Question No 4. What is your primary (sector) industry?

- Finance sector
- Manufacturing
- Primary
- Utilities, transport,
- storage, and communications

Question No 5. Types of investment you are involved?

- Greenfield
- Merger
- Acquisitions
- Joint Ventures

Question No 6. What are your organization's global annual revenues in US dollars?

- $100m or less
- $100m to 500m
- $500m to $1bn
- $1bn to $5bn
- $5bn to $10bn
- $10bn or more

Question No 7. Please rank the following political risks in order of concern to your investment **at the moment**? Rank 1 to 8 .Where 1 is very much concern to you and 8 is your least concern?

	1	2	3	4	5	6	7	8
Adverse regulatory changes								
Breach of contract								
Transfer and convertibility restrictions								
Civil disturbance								
Non-honoring of financial obligations								
Expropriation								
Terrorism								
War								

Question No 8. Please rank the following political risks in order of concern to your investment in the **next twelve month**? Where 1 is very much concern you and 8 is your least concern?

	1	2	3	4	5	6	7	8
Adverse regulatory changes								
Breach of contract								
Transfer and convertibility restrictions								
Civil disturbance								
Non-honoring of financial obligations								
Expropriation								
Terrorism								
War								

Question No 9. Please rank the following political risks in order of concern to your investment in the **next three year**? Where 1 is very much concern you and 8 is your least concern?

	1	2	3	4	5	6	7	8
Adverse regulatory changes								
Breach of contract								
Transfer and convertibility restrictions								
Civil disturbance								
Non-honoring of financial obligations								
Expropriation								
Terrorism								
War								

Question No 10. Please rank among the following methods when addressing breach of contract you consider to be the most effective? Where 1 is very much effective to you and 4 is your least important?

	1	2	3	4
Contract renegotiation				
International arbitration				
Local arbitration				
Political risk insurance				

Question No 11 what are the most effective tools/ mechanisms available to your firm for alleviating each of the following risks?

- ○ Engage with local public entities
- ○ Joint venture with local enterprises
- ○ Risk analysis/monitor
- ○ Relationship with key political leaders
- ○ Political risk insurance
- ○ Risk is not significant for my projects
- ○ No existing tool can alleviate this risk

Question No 12. Which of the following factors in the next twelve months will pose the greatest constraint on investments by your company in Ethiopia?

- ○ Macroeconomic instability
- ○ Access to qualified staff
- ○ Political risk
- ○ Access to financing
- ○ Infrastructure capacity
- ○ Corruption
- ○ Limited market opportunities

Question No 13. Which of the following factors in the **next three years** will pose the greatest constraint on investments by your company in Ethiopia?

- ○ Macroeconomic instability
- ○ Access to qualified staff
- ○ Political risk
- ○ Access to financing

- ○ Infrastructure capacity
- ○ Corruption
- ○ Limited market opportunities

Question No 14.How do you expect your company's planned investments to change this year compared with last year?

- ○ Stay unchanged
- ○ Increase moderately (e.g., increase more than 1% but less than 20%)
- ○ Increase substantially (e.g., increase 20% or more)
- ○ Decrease moderately (e.g., decrease more than 1% but less than 20%)
- ○ Decrease substantially (e.g., decrease 20% or more)
- ○ Don't know

Question No 15. How do you expect your company's planned investments in to change over the **next three years** compared with the previous three years?

- ○ Stay unchanged
- ○ Increase moderately (e.g., increase more than 1% but less than 20%)
- ○ Increase substantially (e.g., increase 20% or more)
- ○ Decrease moderately (e.g., decrease more than 1% but less than 20%)
- ○ Decrease substantially (e.g., decrease 20% or more)
- ○ Don't know

Question No 16 How would you rate your company's capabilities in the following areas?

	Excellent	Very good	Good	Weak	Non existent	Don't know
Overall political risk assessment						
Anticipating new political risks						
Implementing existing political risk mitigation strategies						
Evaluating new political risk mitigation strategies						
Assigning roles and responsibilities for political risk management						

Question No 17 which of the following does your company <u>use as a tool</u> for political risk mitigation? Select all that apply.

Political risk insurance	
Credit default swaps	

Use of third-party consultants	
Engagement with host government	
Engagement with local communities	
Joint venture/alliance with local company	
Political/economic risk analysis	
Scenario planning	
Engagement with non-governmental	
Operational hedging (setting up multiple	
Other, please specify	
We don’t use any tools or products to mitigate	

Question No 18 how has the recent political unrest in Ethiopia affected your company’s investment?

- ○ High
- ○ Moderate
- ○ Low
- ○ It didn't affect the investment
- ○ I Don't Know

Question No 19 what are the primary reasons your company does not use tools or products to mitigate political risks? Select all that apply?

Low level of political risk	
Lack of appropriate tools and products	
Cost of tools and products	
Cumbersome contracting process	
Unaware of tools and products	
Other	
Don’t know	

Question No 20. **Which of the following does your company use as a tool for political risk mitigation? Select all that apply.**

- ○ Political risk insurance
- ○ swaps
- ○ Use ofthird-partyconsultants
- ○ Engagement with government in host country
- ○ Engagement with local communities
- ○ Use of joint venture or alliance with local company
- ○ Political/economic risk analysis

Question No 21. **Moving forward, do you expect your company to consider political risk insurance for its investments here?**

- ○ yes
- ○ No
- ○ Don't know

Question No 22.What are the key FDI drivers that attract MNCs into a country? Select all that apply.

Availability of cheap labor	
bilateral trade agreements	
Domestic and regional Market opportunity	
Investment incentives in Ethiopia	
Political and social Stability	
Reliability and quality of infrastructure and utilities	
geographic proximity	
Macro-economic stability and growing economy	
Favorable Climate	
Availability of natural resource	
Easy of business doing	
others	

Question No 23 Do you have a Department that is purely dedicated to monitoring isk on an ongoing basis?

- ○ yes
- ○ No

Question No 24. How was your overall assessment made prior to investing ?

- ○ Media
- ○ Rating agencies (e.g. Moody's, Fitch, Standard and Poor's)
- ○ Local representatives, Economist, Industry Experts
- ○ International Sources (e.g. World Bank, International Monetary Fund)
- ○ Risk Journals
- ○ Other

Any Other Comment you have:____

THANK YOU

APPENDEX 2: Interview Guide

Assessment on the level of political risk in foreign direct investment a case of "foreign direct investors located in Addis Ababa and its surrounding areas

Interview Questions for EIC Commissioner

1. What is the main role of Ethiopian Investment Commission(EIC) ?

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2.Do the Investment Commission believe that political risk affected the Foreign investment flow to the country in the recent day?

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3.What support did The Investment Commission Did to help out those investors affected by the recent unrest in the country .

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4.what is The commission plan in the future to tackle Such Risks ?