



**ADDIS ABAB UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**INDUSTRIAL ZONE DEVELOPMENT IN
ETHIOPIA**

**Challenges and Prospects: The Case of Eastern
Industrial Zone.**

Dukem District

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October, 2015

Addis Ababa

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INDUSTRIAL ZONE DEVELOPMENT IN ETHIOPIA:
Challenges and Prospects:
The Case of Eastern Industrial Zone Dukem District,
Oromia Regional State

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Abbreviation

AGOA	African Growth and Opportunity Act
CADF	China-Africa Development Fund
CIF	Cost Insurance Fright
COMESA	Common Market for Eastern and Southern Africa
EIA	Environmental Impact Assessment
EIP	Eastern Industrial Park
EPA	Environmental Protection Authority
CIS	Common wealth of Independent States
EIZ	Eastern Industrial Zone
EMSF	Environmental Management & Social Framework
ETB	Ethiopian Birr
FOCAC	Forum on China-Africa Cooperation
FDI	Foreign Direct Investment
FDRE	Federal Democratic Republic of Ethiopia
FE	Free Enterprise
FIAS	Foreign Investment Advisory Services
FP	Free Ports
EPZ	Export processing Zone
FTZ	Free Trade Zone
FZ	Free Zone
GTP	Growth and Transformation Plan
HRD	Human Resource Development
ILO	International Labor Organization
MI	Management Information

MIS	Management Information System
MKE	Ministry of Knowledge and Economy of Korea
MoFA	Ministry of Foreign Affairs
MOFCOM	Ministry Of Commerce (China
MoFED	Ministry of Finance and Economic Development
MoI	Ministry of Industry
MOLSA	Ministry of Labor & Social Affairs
MOU	Memorandum of Understanding
PIAM	Participatory Institutional Assessment Manuals
PPP	Public Private Partnership
RAP	Resettlement Action Plan
ROW	Right of Way
SEZ	Special Economic Zone
WTO	World Trade Organization

Abstract

This study is attempting to explain the case of “**Eastern Industrial Zone**”, which found in Eastern part of Addis Ababa in the Dukem Administration. The overall objective of this study is to investigate achievements, challenges and potential impacts of Chinese Eastern Industrial Zone and its contribution to the economic development of Ethiopia at large and surrounding community in particular, and thereby to forward suggestion for identified problems and gaps.

This study trying to identify the achievements and challenges of EIZ based on different relevant literature review of concepts and experiences of different countries, especially focusing on the area of policy, laws regulations and directions that govern SEZs; especial arrangements of institutions and existence key actors for its proper management and operations; identification of positive and adverse effect of the project on local community and environment; and infrastructures and over all benefit realized by the establishment of the project.

The study has been based on primary, and secondary data collection techniques, group discussions, interview, and questionnaires (semi-structured and unstructured) as well as observation research methods in general. Qualitative and quantitative survey instruments applied aimed at examining and describing the current status of the eastern special industrial economic zone.

This study identified that, the Chinese based eastern industrial zone found to be a incredible potential source in absorbing labor force,

attracting potential investor from china and other regions, appears to be as a good benchmark for other zone development of the country. On the other hand it has been working without prior institutional legal policy framework, well-organized institutional arrangement, planned environmental and social impact assessment, lack of linkage with national and local economy among others. This study recommends the need for well-structured institutional legal framework and government close support, collaboration with its strategic business partners, strong linkage and integration with the national and local economy, viable social and environmental plan among others.

Chapter One: Introduction

1.1. Background

The first and ancient zones were established in 1704 in Gibraltar, and in 1819 in Singapore. Modern SEZs Model first set up in Shannon, Ireland in 1959. Since 1959 the zone has spread internationally, notably in the developing of the world (FIAS, 2008).

Special Economic Zone established to achieve various objectives. Farole (2010), define three types of outcomes: 1.static economic outcomes as being those derived in the short-term through the use of economic zones as instruments of trade and investment policy, and include primarily investment, employment, and exports, 2.dynamic economic outcomes: including technology transfers, integration with the domestic economy, and 3.socio-economic outcomes: including the quality of employment created and the gender-differentiated impacts of zones.

Before 1970s, most zones were clustered in industrial countries (Farole & Akinci, 2011). But since 1970s, starting with East Asia and Latin America, Zones has been designed to attract investment in labour intensive manufacturing. Since then the zones become a corner stone of trade and investment policy in countries shifting away from imports –substitution policies and aiming to integrate into global marketing through export- led growth policies.

In some cases, SEZs have played a critical role in catalyzing diversification, and economic growth. They have the potential to be one useful instrument, if addressed in a comprehensive way. Experiences tell us that, the environment in which zone programs are developed are complex and heterogeneous. In sub-Saharan Africa except few countries like Mauritius and Ghana, problems are observed including low level of investment and export, limited job creation impact, low competitiveness, problem of linkage with wider economy. Furthermore, in many countries land acquisition, compensation, and resettlement practices are inadequate (Farole, 2010).

In the sub-Saharan African region, several countries launched zone programs in 1970s (Liberia in 1970, Mauritius in 1971, Senegal in 1974, (Farole, 2011), but they did not operationalize programs until the 1990s or 2000s. These zones are largely different from the modern large scale multi-use zones that are currently being proposed (ibid).

In Ethiopia the Eastern Industrial Zone is assumed to be a special industrial area for its specialty of its business operational modality when compared with other business centers. It is located 35 km from Addis Ababa to the direction of east close to the town of Dukem in the regional state of Oromia. It is situated along the main highway to Djibouti approximately 900km from Djibouti port which handles more than 90 percent of Ethiopia's overseas trades. The EIZ is developed entirely by a Chinese consortium, the

Jiangsu yon guan investment corporation (World Bank, 2011) and (Rohn, 2013). The original planned area for EIP in 2007 was 500hectars and 233hectars of land was developed in the first phase. At the request of the developer, the government reserved the remaining 267 ha for future expansion of the SEZ. This scheme of business project is established in 2007based on the memorandum of understanding (MOU) signed between the Ethiopian government and the Chinese consortium.

Since its establishment, its operational modality is based on the MOU which is now expected to be incorporated and treated under the legal provision (proclamation no 886/2015), which recently enacted by the government concerning establishment of Industrial park. Until today the prevailing operational activities and challenges pertinent to the zone have been treated as per the MOU previously signed by the two parties. The enforcement of the agreement has been challenged by different government sectors and local level administration.

This research incorporates different aspects of the investment climate in the EIZ located in Dukem ,and includes categories pertaining to institutional capacity components such as governance ;operation and management systems; human resources; financial resources ;communication; institutional legal framework; infrastructure facilities; social and environmental impacts and land acquisition

The research questions prepared for this intended to study are area specific which addresses the aforementioned issues of EIZ with a special reference to its positive and negative impacts; economic contribution, knowledge and technology transfer; job employment creation; etc. Different data collection instruments pertinent to institutional capacity: environmental and social impact assessment; knowledge and technology transfer; institutional regulatory framework; investment arrangement; establishment and selection criteria; government support for implementation; communication etc. were designed and distributed among the targets of this study. Interview, focus group discussion questions, observation and document review checklists were prepared in hard copy and administered during the study. Face to face interview and focus group discussions with key informants of the target population were managed to have insight and better knowledge about the current situation of the EIZ.

1.2 Statement of the Problem

The prevalence of workable and above all sound legal, regulatory framework and effective institutions with strong and long-term government commitment are mandatory for effectiveness and efficiency of special economic zones, operational activities thereby bringing about the required change and development in the industrial sector. As identified by the study conducted by Zeng (2010) and Farole (2011), in most African countries, the SEZ laws or regulations are either missing or out-of-date, and as a result

many investment arrangements are done on a MOU basis, in the case of which Such a practice lacks transparency and clarity of roles and responsibilities of various parties and often puts investments at great risk.

The above stated very facts are evidenced by a study conducted by Farole, (2011) and Zeng (2011), FIAS (2008). According to these scholars, what has been justified is that from the Global perspectives, the African SEZs experienced generally failure and serious challenges. Among the challenges; limited capacity of the government, especially in infrastructures arrangement, one step shop services and administrations of zones; lack of integration with the local economy as well as local master plan were the major ones. On the other hand, problems related with stakeholder identification, non-existence of clear policy and legal framework; social and environmental impact assessment; availability and administrations of labor force have also contributed to failure of special economic zones,

In Ethiopia micro and small enterprises development have been the strategic focuses of the industrial development in the first GTP. Particular emphasis has been given for medium and large industry development of which Textile and Garment, Leather and Leather Products, Sugar, Cement, Metal and Engineering, Chemical, Pharmaceutical, and Agro Processing Industries are to be mentioned. According to the first GTP, industrial development has

been based on the development and feasibility of industrial zones that are suitable for establishing the above listed medium and large scale manufacturing industries.

The overall objectives of the GTP one have been creating competitive environment for industrialists, create employment opportunities, support sustainable development of agriculture, increase productivity and production, create linkage between small, medium and large industries, ensure technological transformation and capacity building, create a strong foundation for the sectors to start playing a leading position in the national economy, foreign exchange earnings and savings.

The role and importance of Special economic zones has of paramount importance in boosting industrial development in particular and the national economy of the country in general. To realize this very fact, establishment of legal frameworks; institutional arrangements; business and logistic environment; and infrastructure facilities are the major ones to be considered. The fulfillments and realization of these prior conditions are of paramount importance for the successful and healthy operational activities of the eastern special economic zone thereby to meeting its set objectives. In addition to this, linkage and communication of this special economic zone to the local economy, administration of social and environmental impacts and financing of the infrastructure facilities are some among the very issues to be given emphasis and be addressed wisely.

1.3 Research Questions

The research questions for this intended research is therefore originated from the practical problems that initiated this study. In this case study, while the broad issue is about the industrial development in Ethiopia, in order to make the research more focused, it is narrowed down to area specific which is the Chinese Eastern Industry zone. The following research questions are developed for this intended research based on the statement of the problem as per the following:

1. What are the prevailing practical achievements and challenges with regard to its institutional arrangements; infrastructure facilities; business prospects and institutional legal frameworks for the establishment and proper operation of the Chinese based eastern special industrial zone?;
2. What is the level of job opportunity created by the special industrial zone for the surrounding local and nearby community?
3. What is the positive and adverse effect of the special economic zone on the surrounding local community?
4. What effects would be created in strengthening technology and knowledge transfer for the ongoing investment in industrial sectors of the country at large and the locality in particular?

1.4 Objectives of the study

1.4.1 General objective

The overall objective of the study is to investigate achievements, problems and potential impacts of Chinese Eastern Industrial Zone and its contribution to the economic development of Ethiopia at large and surrounding community in particular.

1.4.2. Specific objectives

- i. To investigate current status, operational activities, achievements and challenges with regard to its institutional arrangements, infrastructure facilities, administrative and legal frameworks;
- ii. To examine the environmental and social impacts of eastern industrial zone on the surrounding local community;
- iii. To assess potential positive effects of the scheme in strengthening technology and knowledge transfer for the industrial sectors of the country at large and the locality in particular; and
- iv. To provide relevant and practical recommendations that may help policy makers, researchers, experts and implementers at various levels to solve the problems revealed during the investigation of the study and explain their implication in relation to theories and concepts.

1.5. Significance of the study

The significance of this study is based on the following articulated intertwined facts and issues:

1. The Government of Ethiopia has given due emphasis to ensuring faster and sustained development of the industrial sectors as pillar in the policy framework of GTP. Therefore it helps as a baseline for continuous research and assessment to identify achievements and challenges.
2. It helps to know the experiences of different countries that used Special Economic Zone development as an important policy instrument to stimulating economic development by attracting foreign direct investment (FDI), enhancing competitiveness and facilitating export-led growth among others.
3. Special industrial zone development in Ethiopia is a new program that needs deep understanding and identifying its nature through continuous research and adapting best practices from the success history of other countries.
4. In addition it lays the foundation for continuing research activities in areas of special industrial zone.
5. To investigate and analyze the overall operational activities of the special industrial zone implementation to identify both the positive results and major stumbling blocks and then to come up with relevant and practical recommendations for future development activities in Ethiopia

1.6. Scope and Limitation of the study

1.6.1 Scope of the Study

The geographical and dimensional of this study is specific. Geographically the assessment conducted in the Eastern Industrial Zone located at Dukem District (oromia Regional States), while the dimension selected for this study are mainly the components that can help to evaluate the overall current status of the Zone. This mainly includes; policy, laws, regulations, institutional arrangement that facilitate Over all governance of the zone; leadership and management system of the zone; its positive and adverse effect on the displaced people; its impact on technology and knowledge transfer; its contribution on import-export; employment created and its administration situation; and overall prospects of EIZ.

1.6.2 Limitation of the study

The specific limitations and challenges faced the researcher in the course of researching were the following:

Problems related with EIZ and respective companies were; First, working offices of the coordinators are found in different places (Addis and Dukem) and was difficult to get coordinators in the specified places, Second, there has been language difficulty from some Chinese people to communicate and to manage the questionnaires; Third, Chinese high personnel and leaders are always very tied with activities, and appointment was cancelled several times, as a result schedule of the research was very much affected; Fourth, the characteristics of Chinese investors are very

much closed for third parties to disclose information; Fifth, Federal and local government officials who have selected for this study purpose were not available due to tied working situation including 2015 general election; Finally, it was very hard to get secondary data both from Chinese companies and Federal and Local government offices.

Though, the limitation was very challenging, the researcher has made efforts to minimize the obstacles through efforts made to get involved company's representatives in Addis Ababa as well as in Dukem, using translators from companies itself, trying to get some reports from Dukem administration as well as FDRE industrial park corporation, visiting website of the companies and internet. To solve the obstacle encountered, the chief representative of EIZ was very cooperative in facilitating appropriate time to get representatives of the companies. As a result good communication has created and the problems were resolved.

1.7 Research Methodology and Methods of Analysis

According to available data obtained from Dukum city administration, currently the Eastern Industrial Zone comprises more than 12 different manufacturing companies established and start operations in the zone. The nature of the companies and the challenges encounters the companies are not similar. There are also concerns from government at different levels and local communities concerning different issues related EIZ. There are

also complaints and questions from developer side concerning factors affecting the effectiveness of the zone. Hence, given the nature of the study, purposive sampling technique has been deployed. The target populations for this study include: purposefully selected personnel (top leaders, and high experts) from Eastern Industrial Zone companies; purposefully selected farmers from affected /displaced people; Selected community leaders; from surrounding area; Key relevant government sectors Authorities both from Federal, Regional and the locality.

The study has been based on primary, and secondary data, and data collection techniques of focus group discussions, interview, and questionnaires (semi-structured and unstructured) and observation research methods in general. And the assessment has been carried out using these methodologies that mainly comprise qualitative and quantitative survey applying instruments aimed at examining and describing the current status of the eastern special industrial economic zone.

In this study descriptive and analytical research methods used. This approach is used because the study aims to describe analysis and explain the situations and circumstances based on collected data. Because of the limitation of data availability (as needed) in relation to EIZ, the analysis was not fundamentally depending on numerical measurements. Qualitative data collection methods is used and summarized in a report form. It also includes respondents' perception on the issue. Finally, a discussion on basic findings has been made so as to draw conclusion and recommendations

1.7.1. The Research Process

The field assessment process began 21st of April-/2015. Its aim is to investigate achievements, problems and potential impacts of eastern Chinese special Industrial zone and its contribution to the economic development of the country and surrounding community, and thereby to forward suggestion for identified problems and gaps.

Four types of data collection instruments were deployed to gather information. Accordingly, Interview, focus group discussion, structured and unstructured questionnaires, observation and document review. Checklists were prepared in hard and soft copy and administered during the study. Face to face interview and focus group discussions with key informants of the target population were managed to have insight and better knowledge about the current situation and prospects of the EIZ.

- Interview has been held with selected 10 key personnel and management of EIZ companies, 2 Cabinet members of Dukem Town, 5 displaced farmers, and 4 management member from Federal relevant authority
- Group discussion has been held with, 12 displaced farmers, and with 7 Dukem town relevant sector administrators
- Questionnaires have been distributed to 29 EIZ companies' personnel and management, as well as to 19 displaced farmers; in total it accounts 48. Among distributed questionnaires, 24 from companies, 16 from displaced peoples in total 40 (83.33%) questionnaires have been returned.

- Furthermore, observation and secondary document review has been performed

Table1.1: Actual participants involved in primary data collection

sn	Survey participants	participants during interview interaction			Participant during questionnaires administration			participants during discussion			Case study of individuals		
		Total	M	F	Total	M	F	Total	M	F	Total	M	F
1	EIZ Company Representatives.	10	7	3	24	19	5	-	-	-	-	-	-
2	Dukem Administration	2	2	-	-	-	-	7	6	1	-		
3	Displaced people	5	4	1	16	11	5	12	7	5	2	2	
4	FDRE, Industry, minister, Investment & Corporation	4	4	-	-	-		-	-	-	-	-	
	Total	21	17	4	40	30	10	19	13	6	2	2	

Source: Field survey Apr. (2015)

1.8. Organization of the Study

The study organized into four chapters. First chapter is dealing with the general background of the study, statement of the problems, research questions and objectives of the study, significance, scope, limitations and research methodologies. Chapter two deals with review of related literatures where, concepts, historical development, classification, benefits, policies and laws, social and environmental impacts, empirical literature reviews included. Chapter three also deals with data description and analysis which explains facts, gains and challenges of the EIZ. The final chapter presents conclusions and recommendations for proper intervention and policy to solve problems identified in the research

Chapter Two: Review of Related Literature

2.1. Theoretical Literature Review

2.1.1 Concepts, definition and Historical Development of Special Industrial Zone

In this parts of the document attempts have been made to sort out relevant literatures on the subject area, historical background, related concepts and theories and methods adopted. To this effect the literature review is crafted in such a way that it moves down from the broad concepts of development, taking a thematic path towards the topic.

According to the available data obtained from different sources, the following concepts, definitions and historical development are taken as the very root for widely perceiving the meaning of special economic zone.

Concept & definitions of Special Economic Zones

A. Concepts and theories

Free zones have existed for centuries. They were originally established to encourage entre port (entry port) trade, and mostly took the form of city wide zones located on international trade routes (FISA, 2008). Examples include Gibraltar (1704) Singapore (1819), Hong Kong (China 1848), Hamburg (1888), and Copenhagen (1891), (FISA, 2008)

The modern special economic zones principles (According to FISA, 2008), incorporated the basic concept of special economic zones includes:

- Geographical delimited area, usually physically secured.
- Single management / Administration
- Eligibility for benefits based upon physical location within the zone
- Separate customs area, (duty-free benefits and streamline procedures).

This generic special Economic zone concept (according to FIAS,2008) has evolved overtime, resulting in a large variety of zones with differing objectives, markets, processing zones, free ports, Enterprise zones single factory zones.

B. Definition

A special economic zone is a designated geographical area that has more liberal economic laws than the country's typical laws i.e. especial laws which govern SEZ. It is an economic development tool to promote rapid economic growth by using fiscal and business incentives to attract investments and technology. It acts as a magnet for investment as desirable activities in specially designated areas by providing quality infrastructure, complemented by an attractive fiscal packages, business support services, cluster formation and minimal regulations. Special economic zones include other specific zones like export

processing zones, Free ports ,Free trade zones, Industrial parks, Regional headquarters, science and technology parks, ICT parks, Urban enterprise zones, Single factories, Agricultural free zones, Tourism development zones and Business incubation(United Nation ESCAP,2005)

C. Historical Development of SEZs

The first and ancient zones were established in 1704 in Gibraltar, and in 1819 in Singapore (FISA, 2008). It was focused on the attraction of shipping trade, and was successful due to strategic geographical location. They were power full as manufacturing hubs due to their location near a critical mass of shipping traffic.

Modern SEZs Model first set up in Shannon, Ireland in 1959. Since 1959 the zone has spread internationally, notably in the developing of the world (ibid).

Before 1970s, most zones were clustered in industrial countries (Farole & Gokhan, 2011). But since 1970s, starting with East Asia and Latin America, Zones has been designed to attract investment in labour intensive manufacturing. Since then the zones become a corner stone of trade and trade and investment policy in countries shifting away from imports –substitution policies and aiming to integrate into global marketing through export- led growth policies

China is the most popular Country in the World in developing special economic zone. In china SEZ started in 1978, when the government of china adopted open door policy in 1978 (Zeng,

2015). In July 1979 the government of China decided that Guangdong and Fujian provinces should take the head in opening up to the outside world and implement “special policies and flexible measures”. By August 1980, Shenzhen, Zhuhai, and Shantou in Guangdong province were designated as special economic zone, followed by Xiamen in Fujian province in October 1980.

In the sub-Saharan African region, several countries launched zone programs in 1970s (Liberia in 1970, Mauritius in 1971, Senegal in 1974, (Farole, 2011), but they did not operationalize programs until the 1990s or 2000s. These zones are largely different from the modern large scale multi-use zones that are currently being proposed (Farole 2011).

(Zeng,2015), listed African zones programs by decade of launch as follows: In 1970s (Liberia, Senegal, Mauritius), in 1980s (Djibouti, Togo), in 1990s (Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria ,Rwanda, Seychelles, Sudan, Uganda, Zimbabwe), In 2000s (Gabon, Gambia, Mali, South Africa, Botswana, Zambia, Eritrea, Mauritania, DRC Congo, Tanzania, Ethiopia).

The first privately developed and operated zones came on line in the Caribbean and Central America in 1980s (FISA, 2008). Since then, zone development has exploded with the emergence of new programs in the countries of eastern and central Europe, the

common wealth of Independent states, and Middle East and North Africa. (FISA, 2008)

According to (Farole, 2011) report, in 1986 there was 176 zones in 47 countries; by 2006, this number rose to 3500 zones in 130 countries. Zones are Concentrated in Asia and pacific (mainly china), Latin America, and central and Eastern Europe and central Asia (FISA, 2008). Among the country listed above China accounts large share. According to the assessment made by (FISA, 2008) from the total of zones (2,301 zones in 119 countries) China alone accounts for about 19 percent of these zones. Over half of them are privately owned and operated.

2.1.2. Classification, features, and benefits of Special economic zone

A. classification of special economic zone

According to available data obtained from literature it is well known fact that special economic zones are categorized into four sections based on their functions (Farole, 2011 and FIAS, 2008). These are articulated as per the following:

1. Commercial free zones, free trade zones, and free zones (FZs):

These are the oldest form of SEZ and the most ubiquitous, notably under the bonded warehouse format found in the vast majority of sea ports and in some airports. Free zones are usually in or near major international transport nodes and are usually under the administration of ports, directly or indirectly. They are also usually

physically segregated from both the port's main area and the outside by fences, walls, and gates, because they lie outside the country's custom territory. Their activities are limited to trade-related processes (warehousing, storage, sales, exhibitions) and light processing operations (packaging, labeling, quality control, sorting).

2 *Export processing zones (EPZs)*: These made their appearance in the late 1950s/early 1960s as a way to accelerate industrialization and industry- related international trade in developing countries.

3. *Free enterprises (FEs) or single factory/single unit free zones*: This is a variation on the FZ/EPZ in which individual enterprises are provided with FZ/EPZ status and allowed to locate anywhere on the national territory or in a designated part of the territory. In some countries, FEs and FZs/EPZs coexist. The U.S. Foreign Trade Zone system provides certain enterprises with a free trade zone (FTZ) status called subzone. This status applies to existing enterprises that wish to have the benefits of the FTZ system but whose relocation costs would be too high or to new enterprises that have a compelling reason not to locate in an existing FTZ.

4. *Free ports*: The term free port in the FIAS (2008) classification can be confusing, as it is used to describe what are generally known as special economic zones. In this classification, the Aqaba Special industrial Zone and the Chinese SIZs would be free ports. These free ports are the largest type of all, as they encompass very large portions of the territory, include urban and rural areas, and incorporate large transport facilities such as ports and airports. Free

ports can include entire economic regions, the populations that live and work in these regions, and all the economic activities that take place there. They can contain or even overlap political and administrative units

B. Structural Features of special economic zone

According to available data obtained from literature of global experience, special Industrial zones have structural features (FIAS, 2008). These are the following:

1. Zones are, primarily, formally delimited portions of the national territory and, secondarily, legal spaces provided with a set of investment, trade, and operating rules that are more liberal and administratively efficient than those prevailing in the rest of the national territory. Zones are therefore defined by a specific regulatory regime. This regime may be contained in one or several dedicated laws or through a set of measures contained in a number of texts.
2. The administration of the regime usually requires a dedicated governance structure, centralized or decentralized. The attributes of this structure vary according to the nature of the zone regime, the prevalent administrative culture, the number of existing zones, the role of the private sector in developing and operating zones, and many other factors. The purpose of this structure is what matters: It is to ensure efficient management of the regime and ensure that investors benefit from its provisions.

3. Zones are usually provided with a physical infrastructure supporting the activities of the firms and economic agents operating within them. This infrastructure usually includes real estate, roads, electricity, water, and telecommunications. The infrastructure is usually composed of industrial or mixed-use activity parks and key transport infrastructure connecting the zone to its sources, markets, and economic hinterland. Even in countries where zones are legal spaces, industrial or mixed-use activity parks usually exist to host firms.

C. Benefits of Special Economic Zones

As we have learnt from the experience of countries who have registered very fast economic growth, the establishments of well-organized special industrial zones play a great role in attracting international investors. The major development outcomes from the successful operation of industrial zones are targeted to accelerating overall development in providing productive employment opportunity for the population, technology, knowledge and skill transfer. According to Farole (2011), there are two main types of benefits of special industrial zone which can be realized in the short and long term respectively and these are articulated as per the following:

1. *Static economic benefits* are derived in the relatively short term through the use of economic zones as instruments of trade and investment policy. They are the result of capturing the gains from specialization and exchange, and include employment creation, the

attraction of the generation of foreign exchange through exports, and the creation of economic value added.

2. Dynamic *economic benefits* are the longer term structural and developmental benefits that may derive from zones. These encompass the promotion of nontraditional economic activities, hard and soft technology transfers, encouragement of domestic entrepreneurialism, and the promotion of economic openness. At the national level, economic zones are formed with the goal of effecting positive changes in the competitiveness of the country or a region.

On top of these aforementioned benefits SEZs have been a powerful instrument for economic growth and structural transformation (FIAS, 2008). For many of the initial zones in East Asia zones proved played a critical role in facilitating the Industrial development and upgrading the "tiger economies. Similarly the later adoption of the model by china provided a platform for attracting FDI and not only supported the development of its export-oriented manufacturing sector, but served as a catalyst for sweeping economic reforms that were extended throughout the country.

According to Zeng, (2015), in China by 2006, economically SEZs have contributed significantly to the national GDP, employment, exports, and attraction of foreign investment and new technologies, as well as adoption of modern management practices among others. All SEZs at national level accounted for about 22% of

national GDP, about 46% of FDI, and about 60% of exports, and generated in excess of 30 million jobs.

According to MKE of Korea (2012), South Korean government established the first Korean export industrial park (Guio Industrial Park) in the early 1960s and heavy and chemical industry parks in Ulsan in 1962. There are over 900 industrial parks in South Korea as of the end 2010, and the parks account for approximately 62% and 80% of Korea's total manufacturing production and exports respectively. In addition it accounted 58,761 enterprises; approximately 1.58 million workers in combinations as well as the production reached USD 343.1 billion in the same year.

In Latin America, countries like Dominica Republic, Honduras, and EI Salvador used free zones to take advantage of preferential access to US markets, and have generated large-scale manufacturing sectors in economies that were previously reliant on agricultural commodities.

Though, there are number of benefits, there are also many examples of failures have been registered. The most common obstacles summarized in the report of FIAS,(2008), that, poor site location, entailing heavy capital expenditure, uncompetitive policies(reliance on tax holidays, rigid performance requirements, poor labor policies and practices),poor zone development practices(inappropriately designed or over designed facilities,

inadequate maintenance and promotion practices), subsidized rent and other services, cumbersome procedures and controls, inadequate administrative structures or too many bodies involved in zone administration, and weak condition between private developers and governments in infrastructure provisions could have an adverse effect for failure of the schemes proper operation

More over SEZs are viewed as highly effective tools for job generation, particularly for women entering the workforce. Evidence suggested that female workers account for 60-70 percent of the zone workforce worldwide World Bank (2009)

2.1.3. Special Zone Selection Criteria

The selection criteria for the establishment of special economic zones and parks are profitability and competitiveness. Accordingly, when multinational corporations and other capable investors intend to participate in investment or product distribution actively they always consider the following eight factors Farole (2010): Geographical location, transport and market accessibility; extent of the market and potential growth possibility to adjacent boundary areas; Availability of sea port, airport and intermodal transport facilities; Availability of labor force, required skills, experience and industrial peace; Modern logistic service and associated cost; Business friendly governments and government officials; Political stability; Availability of adequate energy and domestic market purchasing capacity.

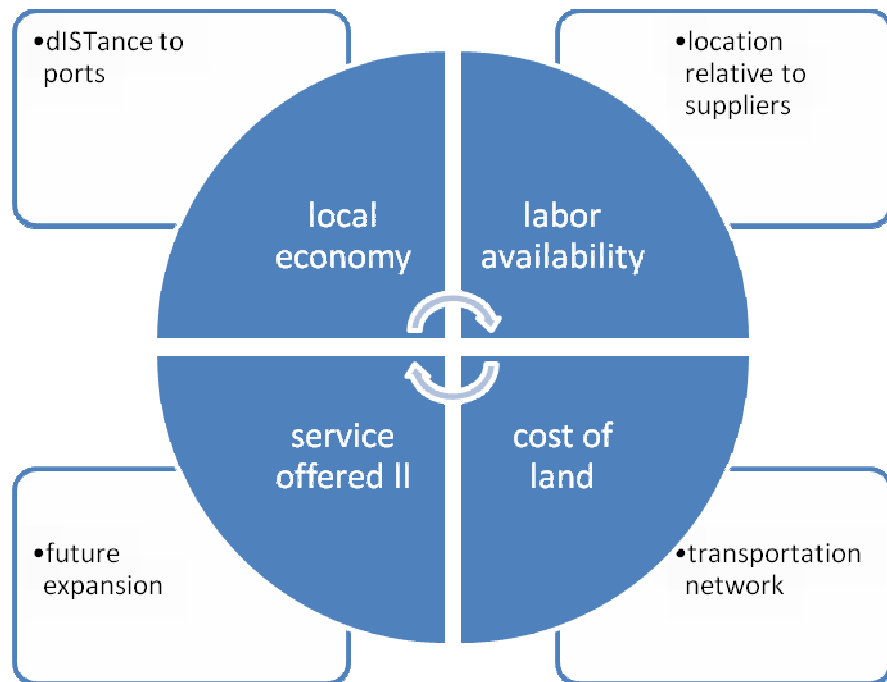
In practicing the aforementioned preconditions for investment, China, South Korea and Vietnam are best examples. They use the mentioned criteria in conformity with their own strategic plan and development policy. These countries have a well-organized system interrelating and harmonizing their various industrial zones for efficient utilization of available resources. They also actively participate in economic collaboration activities with their neighboring countries. Government support for the selected industrial zones should be very efficient and effective as compared to normal day to day activities.

The provision of good governance, attractive incentives and availability of capital are very critical for the growth, transformation and development of the industrial sector. By its operational characteristics the establishment of special industrial zones will need extensive land requirements. Accordingly the displacement of the farming community especially in the borders of towns selected for this intended purpose is inevitable and hence special care and attention should be taken in that the selection criteria of special economic zone establishment should be in compliance with the strategic and development plan of countries that are subject to the schemes formation.

The following design of the diagram is constructed to simply show the very issues that need to be considered by countries while establishing special industrial zone. As clearly seen from the diagram, distance to ports, location relative to suppliers, local

economy, cost of land, transportation network, future expansion, service offered, and availability of labor are intertwined key criterion for the establishment of the scheme. What we can deduce from this diagram is that the fulfillment of the combination of these factors and its conformity with a given country strategic plan and policy program are of paramount importance for effective and efficient operation of the zone for its intended purpose. Questions of what? where?, how?, and when? Pertaining to this mentioned criterion should be addressed for sound operation of the scheme.

Figure 2.1: Selection Criteria



Source ;(own construct 2015)

2.1. 4. Policy, laws, regulatory framework and administrative procedures of SEZs

According to available data obtained from some literatures the establishment of a special economic zone needs a special administrative, institutional and legal framework for its smooth and successful implementation. As to this end, Special economic zones need to have legal and regulatory framework (Farole, 2011) in its establishment and in the processes of its operation and management systems. Laws and accompanying rules and regulation pertaining to special economic zones must be comprehensive and transparent, with unambiguous ground rules established for all actors. While this may not be sufficient to guarantee success, the absence of good laws and regulations almost inevitably leads to failure, particularly when zone programs are not controlled top-down by national governments (when local governments and the private sector are involved in planning and implementing projects), it is critical that the legal framework establish an unambiguous set of rules and procedures guiding the entire process of site selection, investment, development, licensing, and operations.

Furthermore,(Farole ,2011) adds, Licensing regimes should ensure that private developers adhere to specific criteria in terms of the locations in which they develop the nature of physical development, and environmental practices, among other things; they should also ensure that developers are vetted in terms of their

financial capacity and record of experience. Many zone programs experience delays because developers run into difficulty accessing the necessary finance to carry out development.

A. Policy Planning and Strategy

Farole (2011) summarized in his work the following points as very crucial policy planning and strategies;

1. Consistent political leadership at the highest level is critical to the success of SEZ programs. One of the most important success factors for SEZ programs in East Asia was strong support and active commitment to the program at highest levels of political leadership is very important. In this regard senior political leaders had a very clear vision of the program.
2. Institutionally and strategically, successful zone programs have been an integrated component of a long-term national growth (Trade and Industry) policy Framework. The successful East Asian Countries situated their zones within a clear industrial policy framework, which had two important implications. First zones were understood as an instrument to achieve wider national economic development objectives. Second-zone programs benefited from interventions to promote clusters, provider supporting trade and social infrastructures, improve trade facilitation, and address the flexibility and quality of the labor market.

3. Predictable and transparency in the governments support for the SEZ program, in the strategic intent for zones, and in the broad approach to the program are critical to attracting high-quality long-term investor. But within the broadly predictable policy environment, successful zone programs ensure some flexibility and seek to experiment with alternative policies. Pragmatism and flexibility are the most commonly cited features in countries where zone programs have been successful. Long term political stability has enabled the governments to focus on addressing without the need to shift policies. Stability not rely on the government remaining in power, but rather on effectively functioning institutions, a high quality civil service and a political process that favor evolutionary change.
4. Successful zone programs focus on activities' that align well with their comparatives advantages and develop clear sources of competitive differentiation. Zone programs that focus on comparative advantage can quickly attract investment. Comparative advantages includes, low cost labor and large supply of labor, low cost manufacturing location, natural resources, market access preferences, availability on input etc.

B. Administrative Arrangement

According to (Farole, 2011 and FIAS 2008), evaluation of the type of bodies developing administering, planning, and promoting zones on the one hand, regulation zone activates on the other. A variety of institutional frameworks has been used for SEZ regulation, development, and management. This includes, Autonomous government authorities or corporations, specialized departments within a ministry, zone-specific management board, and rarely arms of investment promotion agencies. In other words bodies and its functions can be summarized as following:

- Independent regulatory bodies backed by law.
- Private sector development & management of zones
- PPPS for instrument provision/PPP financing.
- Administration of incentives
- Fully inclusive single window & one stop shop services.

C. Roles and Responsibilities of key actors

According to (Farole, 2011) the legal framework should avoid creating institutional conflict through over lapping regimes, responsibilities, and accountabilities. The legal framework also should outline clearly and discretely the roles and responsibilities of key actors. Key player are: Zone owner, Zone developer, Zone manager/operator, and zone regulator. He identifies the key roles and responsibilities of different actors as follows;

Government: Conduct strategic planning; Select site(s) and package land; establish land use guidelines; Conduct initial

feasibility studies; Select developer and enter development agreement; Develop offsite infrastructure; Training/workforce development and social services; Regulation and administration of the SEZ program.

Regulator: Designate SEZs: Designate public and private land as SEZs and public or private land owners or their agents as SEZ developers/ operators; Facilitate government services: Facilitate licensing, permitting, and regulatory services within the SEZs, particularly relating to land use, business licensing, environmental permitting, building permitting, labor regulation (including foreign work permits), and inspections; may also include business registration, utility regulation, and dispute resolution. The regulator may set fees commensurate with the cost of service delivery in these areas; Monitor compliance: Monitor compliance with the SEZ legal framework, including SEZ policies, standards, and requirements, and enforce compliance through appropriate penalties independently from other public agencies.

Developer: Land use planning: Create a final land-use master plan and prepare the land accordingly (grading, leveling, and other preconstruction activity). Provision of infrastructure: Internal road networks, drainage and sewerage, and conduits and infrastructure for utilities. Note that in most cases offsite infrastructure is the responsibility of the government.

Operator: Facility leasing: Manage lease and rental agreements with investors and assume responsibility for main services of the zone (e.g. maintenance, security); Utilities provision: Ensure provision of onsite utilities (electricity, gas, water, telecommunications) through own provision or via domestic providers; Provision of other value added services: May include a wide range of services, such as business and training centers, medical and child care services, transport, and recruiting; Marketing: Experienced private developers often have a network of multinational clients across a range of industries to which they can market new SEZ opportunities. Note that the SEZ authority/regulator and other parts of government (a national or local investment promotion agency) typically carry out some marketing activities.

2.1.5. Social and environmental Impacts of SEZs

Prior to the establishment of special economic zones, impact assessment pertaining to social and environmental issues should be carried out in order to identifying the potential positive and adverse effects that shall appear on the surrounding local community around the program area in particular and its surrounding in general Ministry of Industry, (2014). Establishment of special economic zones is associated with social and environmental issues that need intervention for the successful implementation of two aspects related to environmental challenges call for particular attention to Zeng, (2010): one is the serious water, air, and land

pollution and the huge amount of industrial waste; the other is the increasingly tough eco- standards set by industrial countries for products exported from developing countries. The policies laws and direction of Ethiopian government which has direct relation with social and environmental issues will have discussed below.

2.1.6. Policy and Laws of Ethiopia

Concerning social and environmental impacts and Industrial zone development, policy, legal as well as regulatory and institutional frameworks of Ethiopia which is more relevant to this research are reviewed as following:

1. Constitution of Ethiopia

The concept of sustainable development and environmental rights are enshrined in article 43, 44 and 92 of the Constitution of Ethiopia (FDRE,1995)

Article 43: identifies people's rights to development, right to improved living standards and to sustainable development; and participate in national development and, in particular, to be consulted with respect to policies and projects affecting their community/affairs.

Similarly, in Article 44: environmental rights, all persons: have the right to a clean and healthy environment; and who have been displaced or whose livelihoods have been adversely affected as a result of State programs has the right to commensurate monetary or alternative means of compensation, including relocation with adequate State assistance

Moreover, in Article 92: the design and implementation of programs shall not damage or destroy the environment. Moreover, people have the right to full consultation and to the expression of views in the planning and implementation of environmental policies and projects that affect them directly.

2. Industrial Zone Development Strategy of Ethiopia

Micro and small enterprises development has been the strategic focuses of the industrial development in the GTP plan. Regarding medium and large industry development particular emphasis has been given for the Textile and garment, leather and leather products, sugar, cement, Metal and engineering, Chemical, Pharmaceutical, and agro processing industries. According to the GTP industrial zones development is based on the feasibility industrial zone that are suitable for establishing the above listed medium and large scale manufacturing industries. The overall objectives stetted in the GTP are create competitive environment for industrialists, create employment opportunities, support sustainable development of agriculture, increase productivity and production, create linkage between small, medium and large industries, ensure technological transformation and capacity building, create a strong foundation for the sectors to start playing leading position in the national economy, foreign exchange earnings and savings.

The main purpose of developing industrial zones (according to GTP) is to attract more investment and investors by providing land with essential infrastructural services and creating an attracting environment for investors. The initiative contributes to the overall economic development and poverty eradication by creating employment opportunities, enabling increased exports and foreign currency earnings, and providing local goods. Accordingly the GDP target is to establish at least 4 feasible industrial zones by implementing the following strategies.

- Solve the problems developer encounter in acquiring basic infrastructure services such as land, power, telecom, road, customs, etc. in a timely manner.
- Expand and strengthen training centers and institutions so that developers have accesses to a plentiful supply of skilled and competent human resource.
- Assist developers and attract foreign investment to the industrial zones.
- Cover 30% of the cost of providing basic infrastructures services such as water, telephone, power, roads, etc.

3. Labor Proclamation 377/2003

The Labor Proclamation (377/2003) provides the basic principles which govern labor conditions taking into account the political, economic and social policies of the Government, and in conformity with the international conventions and treaties to which Ethiopia is a party. The proclamation under its Part Seven, Chapter One, and

Article 92 of this proclamation deals with Occupational Safety, Health and Working Environment, Prevention Measures and Obligations of the Employers. Accordingly the Proclamation obliges the employer to take the necessary measure for adequate safeguarding of the workers in terms of their health and safety. Moreover, the Occupation Health and Safety Directive (MOLSA, 2003) provides the limits for occupational exposure to working conditions that have adverse impacts on health and safety.

Article 174 deals with *Employment of Foreign Nationals* that, 1) any foreigner may only be employed in any type of work in Ethiopia where he possesses a work permit given to him by the Ministry.2) A work permit shall be given for an employment in a specific type of work for three years and shall be renewed every year. However, the Ministry may vary the three years limit as required.3) Where the Ministry ascertains that the foreigner is not required for the work, the work permit may be cancelled,4) the Minister in accordance with the law may charge service charge for the issuance, renewal or replacement of work permit.

4. Environment Policy of Ethiopia

The goal of the Environmental Policy of Ethiopia is to improve and enhance the health and quality of life of all Ethiopians and to promote sustainable social and economic development through the sound management and use of resources and the environment as a whole so as to meet the needs of the present generation without compromising the ability of future generations to meet their own

needs. The Environmental Policy of Ethiopia provides a number of guiding principles that require adherence to principles of sustainable development; in particular the need to ensure that Environmental Impact Assessment. These are, consider impacts on human and natural environments; provides for early consideration of environmental impacts in projects and programs design; recognizes public consultation; includes mitigation and contingency plans; provides for auditing and monitoring; and is a legally binding requirement(Environmental policy of Ethiopia, 2003)

5. Proclamation 299/2002, Environmental Impact Assessment

The primary aim of this Proclamation is to make EIA mandatory for specified categories of activities undertaken either by the public or private sectors, and possibly, the extension of EIA to policies, plans and programmer in addition to projects.

The provisions of the proclamation include: Projects will be subject to EIA and execution is subject to an environmental clearance from the EPA or Regional Government Environmental Agency, as applies; EPA or the Regional Agency, depending on the magnitude of expected impacts, may waive the requirement of an EIA; all other licensing agencies shall, prior to issuing of a license, ensure that either EPA or the regional Environmental Agency has authorized implementation of project; a licensing agency shall either suspend or cancel a license that has already

been issued, in the case that EPA or the Regional environmental agency suspends or cancels the environmental authorization; and approval of an Environmental Impact Study Report (EISR) or the granting of authorization by the EPA.

6. Proclamation 300/2002, Environmental Pollution Control

It aims to ensure the right of citizens to a healthy environment and to impose obligations to protect the environment of the country. The law addresses the management of hazardous waste, municipal waste, the establishment of environmental quality standards for air, water and soil; and monitoring of pollution. In general, the Proclamation provides a basis from which the relevant environmental standards applicable to Ethiopia can be developed, while sanctioning violation of these standards as criminally punishable offences.

Furthermore, it empowers the Federal Environmental Protection Authority and/or the Regional Environmental Authority to assign environmental inspectors with the duties and responsibilities of controlling environmental pollution. In order to ensure implementation of environmental standards and related requirements, inspectors belonging to the EPA or the relevant regional environmental agency are empowered by the Proclamation to enter, without prior notice or court order, any land or premises at any time, at their discretion. Such wide powers

derive from Ethiopia's serious concern and commitment to protecting the environment from pollution.

7. Acquisition and Valuation of Land and Other Assets

Land valuations are often done at the *woreda* and urban administration levels. These local government units establish valuation committees to value private properties (*Proclamation No. 455/2005*). In the case of publicly owned infrastructure with a designated right-of-way (ROW), the owners of the structures within the ROW would assess the value of properties to be removed. However, the law does not take into account depreciation values. The landholder is entitled to be compensated for the property on the basis of replacement cost. Permanent improvements to the land, equal to the value of capital and labor expended (*Proclamation No. 455/2005 Article 7*), are specified as valid basis for determining replacement value. Where property is on urban land, the law specifies that compensation “may not be less than constructing a single room in low cost house as per the region in which it is located.” It is also required that the cost of removal, transportation, and erection be paid as compensation for a relocated property, continuing its service as before. Compensation will also be based on current cost, cost of demolishing, lifting, and reinstalling. Valuation formulae are to be provided by regulations (*Proclamation No. 455/2005 Article 7*).

Furthermore, assets will be classified as movable and immovable. For movable assets, compensation will be paid for inconvenience and other transition costs (*Proclamation No. 455/2005 Article 7(2)*). Urban immovable assets include residential houses, business installations, institutional structures, stores, fences and public service providing installation. In rural areas, they include seasonal crops, perennial fruit trees, timber trees and other cash crops.

For losses that cannot be easily valued or compensated in monetary terms (e.g. access to public services, grazing areas, water points, fishing ponds, etc.), an attempt will be made to establish access to equivalent and culturally acceptable resources and earning opportunities (*Proclamation No. 455/2005 Article 7(2)*).

In addition to compensation according to *Proclamation No. 455/2005 Article 7*, displacement compensation shall be paid equivalent to ten times the average annual income he/she secured during the five years preceding the expropriation of the land (*Proclamation No. 455/2005 Article 8(3)*). Compensation will be in an amount sufficient to reinstate displaced people to their economic position prior to displacement; the regionally relevant administration is required to give another piece of land to any person who lost his land in favor of a public project (*Proclamation No. 455/2005*). The assessment of compensation does not include the value of the land itself because land is a public property and not subject to sale in Ethiopia.

In general, valuation of property is to be carried out by a certified private or public institution or private consultants as per the valuation formulae (*Proclamation No. 455/2005 Article 9*). The committee must be made up of experts with relevant qualifications (*Proclamation No. 455/2005 Article 10*). This must be not more than 5 experts in rural areas and be designated by the *woreda* or urban administration. A specialized committee of experts may also be set up separately if required.

The local and federal governments have different roles in compensation. The *woreda* and urban administrations are responsible that compensation is paid and giving rehabilitation support to the extent possible, and maintain data regarding properties removed from expropriated landholdings (*Proclamation No. 455/2005 Article 13*). The **Ministry of Industry** with coordination of concerned Regional Bureau has a duty to ensure there is compliance with *Proclamation No. 455/2005* at the regional level, to provide technical and capacity building support in implementation at the regional level, and prepare the valuation formulae (*Proclamation No. 455/2005 Article 12*).

2.2 Empirical literature review

In different countries, similar researches had been conducted pertaining to special industrial zones by different interested bodies. For the purpose of this study four assessments are taken in to consideration as learning experiences for the methodologies

deployed, registered achievements, challenges observed and recommendations given.

1. Research conducted on **Honduras Free Zone** (which found in Central America) under the title of "**Special Economic Zones**": *progress, Emerging, Challenges and Future directions* by Farole and Akinci (2011) that identifies factors that contributed to its success and the key challenges the Industry faces today. The methodology employed in the research was survey, visiting (observation), discussion with key stockholders and trend analysis (mainly using secondary data).The following summarized points are taken from this research.

There are number of factors of success and challenges are identified in the study. Among the challenges identified in the research: first it faced a significant challenge to diversify, both in terms of product categories that are being exported and the geographic coverage of the zones. Next the maquila industry was hit by the global economic downturn that struck in 2008. Furthermore, Honduran textiles and clothing producers already were affected by Asian competition. From a peak of 134,000 workers in 2007, employment in Honduras' free zones had, according to estimates provided by industry experts, dropped to approximately 100,000 workers in May 2009. Finally, international competition, especially from China, is increasing the pressure on

free zone companies to make more use of technology and raise labor productivity.

Some recommendations taken from the research are: projects must be designed carefully on the basis of clear strategic plans, sustainable sources of competitiveness, (not on fiscal incentives); the concept of zone should be entwined with national economy and the national investment environment,(not enclaves); there must be effective legal and regulatory framework that confirmed to the demand of all stakeholders.

2. The research conducted in Nigeria by the World Bank (2011) under the title of "**Chinese Investment in Special Economic zone in Africa**"; *Progress, challenges and lesson learned*. The methodology employed in this research was mainly survey methods that include visiting project site, making meeting and discussion with key stockholders and conducting enterprise survey of concerned infrastructure and other utilities. This research identified a number of challenges and problems upon which the following findings are registered as an output of the research:

Partnership agreement lacked clarity in terms of definite goals, performance indicators and concrete timetables; Risk mitigation measures are not evident and in the absence of up-front robust market and demand analysis, unrealistic initial expectations have had to be scaled back; Lack of clarity on the role of PPP

arrangements and the regulation of utilities in the FTZ context also evidenced. Furthermore the infrastructure provision plans remain unclear and further delays in construction of this infrastructure severely restricted the ability of the start-up zone to attract industrial companies.

Some of the recommendations identified in the document are; strengthening the capacity of the government to facilitate effective support; revising the agreement between Government and Chinese consortium as well as ppp; facilitating offsite infrastructure provisions; strengthening institutional capacity; strengthening communication and local economy linkage; comprehensive environmental and social management etc.

3. Though it is not similar with the research aforementioned, a research titled: “**The Impacts of Urban Development on a Peasant Community in Ethiopia**” by Feleke Tadele (2006) clearly shows the very issues to be considered while evicting people from their locality especially farming community for similar programs like that of establishing special industrial zone for it has social and economic impacts

The thesis seek to examine the consequences and the risks of impoverishment caused by the Ayat Real Estate Development projects on the lives of the peoples evicted from their rural land and house in Yeka Tafo village. In order to understand the impact

of the project both empirical and theoretical debates were employed. Detailed case study was used focusing on purposive sampling techniques. Interviews and focus group discussion were undertaken, qualitative and quantitative and primary as well as secondary research methods were employed.

The research summarized that; the urban land use policy was not in conformity with the interest of rural households in general and poor peasants in particular. The implementation of the policy has marginalized the rural settled peasant communities. The land was expropriated by private investor without policy framework and resulted conflict in the area.

Some recommendations suggested in the research includes among others: policy framework and its implementation modality that incorporates international guiding principle of displacement; ensuring land tenure security; participatory planning, monitoring and evaluation mechanisms. Compensation should also be based on market value to replace the lost asset. There should be institutional arrangement for the follow-up of displaced people and compensation with effective procedures.

4. The research conducted in Ethiopia, under the title of “CHINESE FDI IN ETHIOPIA” World Bank Survey-74384(2012). The methodology employed in this survey was mainly, Questionnaires designed and distributed among 86 Chinese enterprises both on line and hard copy. The survey team conducted face to face interview, and document reviews. The team took

Eastern Industrial zone as one section (for additional information) as case study for better understanding of their study.

Though the study was not deep, the following summarized findings were registered as the research outputs.

EIZ encountered limited source of revenue; the cost is very high due to the cost of basic infrastructure and the revenue is only limited to land leasing.

Perceived lack of support; Low efficiency in resolving problems as well as lack of coordination among different government agencies across all levels has resulted in even higher transaction cost. Egg, tax holiday and VAT management, custom clearance, in sufficient power supply, low efficiency of local government among others. Absence of appropriate legal and regulatory framework, absence effective institution, and infrastructures, absence of SEZ authority, absence of management and operations, absence of customs, trade, transportation facilities absence of quality workers, etc.

Recommendations are, Adjust customs clearance procedures and trade regulations (by providing streamlining operation systems), increasing transparency of the exchange rate policy (to increase foreign investment), improve tax administration consistency and efficiency, execute impartial labor regulation, and increase the supply and quality of skilled workers.

2.3. Conceptual Framework

This part is trying to demonstrate the determinant factor for success or failures of the SEZ development. This theoretical concepts are mainly used from the study result of (Forle, 2011), and (FIAS, 2008) which has been broadly discussed in the body of this document. Hence, the practical research process is executed by taking these conceptual frameworks in to consideration.

- **An effective legal and regulatory framework;** A clear and transparent legal and regulatory framework codifies the program strategy and establishes the rules of the game for all stakeholders involved in the process. It helps in addressing difficult land issues, facilitating the provision of infrastructures, and ensuring compliances with labor and environment standards.
- **Administrative arrangement;** the recent trends has been showing the importance of the type of bodies developing, administrating, planning and promoting SEZ on the one hand, and regulating zone activities on the other. The administration of the regime usually requires a dedicated government structures to ensure efficient management of the regime and ensure that, investors benefit from its provision.
- **Qualities of infrastructures;** Zones are usually provided with a physical infrastructure supporting the activities of the firms operating within the zone. This infrastructures includes; roads, electricity, telecommunication, water, real state, key transport, etc.

- **Selection criteria;** The selection criteria for the establishment of the economic zones are mainly related with profitability and competitiveness based on geographical location, transport, market access, potential growth possibility, availability of labor force, industrial peace, political stability, government commitment, adequate energy, domestic purchasing capacity, etc.
- **Policies to promote links between zones and the domestic economy;** Countries that have been successful in driving long-term economic benefits from their SEZ programs have established the conditions for ongoing exchange between the domestic economy and activities based in the zone. This condition includes investment in the zone by domestic firms, forward and backward linkages, business support, and the seamless movement of skilled labor and entrepreneurs between the zone and domestic economy.

2.4. Conclusion

In general as portrayed in the aforementioned paragraphs of this study, the eastern industrial zone have been critically assessed ,examined and analyzed in line with key and major issues to be taken into consideration that have been described in the theoretical and conceptual frameworks pertaining to definition, benefits ,selection criterion, geographical location administrative and institutional legal frameworks ,infrastructure facilities ,roles

and responsibilities of key actors in the process of industrial zone development.

Accordingly, establishment of special industrial zone should stick to practically and empirically accepted and proved feasible conditions among which conducive and standard geographical location and selection criterion; enabling administrative and governance structure; special law and institutional regulatory frameworks and enabling infrastructure facilities are the major ones. The consideration of these very facts articulated would enable to have up to standard industrial zone establishment.

Chapter three; Data Description and Analysis of EIZ

This chapter deals with overview of the study area, data presentation, analysis and interpretation. Information for this study purpose was collected using different techniques such as interviewing, questionnaires, focus group discussion, and observation. In addition to this different secondary sources of data including published and unpublished documents were reviewed.

To meet the intended purpose of the study, the data gathered from various sources was edited, tailed and summarized. The quantitative data summary has organized in the table form, while the qualitative data was summarized in a report form, and followed by description, explanation and interpretation.

3.1. Fact Sheet

A. Profile of Respondents

This part gives the background information of respondents (who participated in questionnaires, interviews, and group discussion) which clarify the category of sex, age, education level, marital status, and occupation.

Table: 3.1: Socio-demographic and occupation characteristics of respondents (Companies' representatives, Government leaders and personnel, and displaced people)

General back ground of respondent	Specific socio-economic and occupation characteristics	Number of respondents	Present %	Remark
Sex	Male	62	74.69	Total 83
	Female	21	25.31	
Age	25-30 yrs	11	13.25	Total 83
	31-40yrs	28	33.73	
	41 – 50yrs	31	37.34	
	Above 50 yrs	11	13.25	
	Not-identified	2	2.4	
Marital status	Single	18	21.68	Total 83
	Married	65	78.32	
Education	Non-literate	1	1.29	Total 83
	Reed and Wright	11	13.25	
	Primary(1-6)	5	6.02	
	Junior(7-8)	13	15.66	
	Secondary(9-12)	6	7.22	
	College & university	47	56.62	
Occupation	Companies Leaders & mangers	15	18.07	Total 83
	Companies-high personals	19	22.89	
	Public leaders & managers	13	15.66	
	Companies leaders/representatives	2	2.4	
	Farmers	31	37.34	
	Not –identified	3	3.61	

Source: Field survey Apr. (2015)

The demographic backgrounds of the selected respondents are varying. As indicated in the table 3.1, concerning the company's representatives, public leaders, and displaced people 62(75 percent) respondents are males and the remaining 21(25 percent) respondents are females which show the respondents are more of males. On the other hand, the marital status of 65(78 percent) is married, while the remaining 18(22 percent) is single. Regarding their age distribution below 40yrs covers 39(49 percent) and above 40yrs covers 42(51 percent).

When we see their level of education,47(57 percent) of respondents are graduated of college and university, and 19(23 percent) is junior and secondary level, which shows that they are more of educated and professional peoples.

Regarding the respondents occupations, 36(43 percent) of the respondents are from company leaders and representatives as well as 13(18 percent) of the respondents are public leaders both at federal and local levels. The remaining 31(37 percent) is farmers. From the above general background we can understand that, majority of the respondents' posses the capacity to understand the general situation of the zone and ability to manage the questionnaires, interviews and discussions.

3.2. EIZ Project Description

The Eastern Industrial Park (EIP) is found at the area of prospective industrial corridor of the country, which currently all necessary infrastructures are already established. It is situated on the main highway to Djibouti approximately 900km from Djibouti port which handles the majority of Ethiopia's overseas trades. The EIP is developed entirely by a Chinese consortium, the Jiangsu yong guan investment corporation World Bank, (2011), Geiger, Michael and Goh(2012b) and Emeli Rohn, (2013). Currently all onsite infrastructures and facilities are established and it becomes very attractive for potential investors. At this time more than 12 companies are entered in the zone and fully engaged in to production. The original planned area for EIP in 2007 was 500hectars and 233hectars of land was developed in the first and second phase. At the request of the developer, the government reserved the remaining 267 ha for future expansion of the SEZ.

The EIP is developed entirely (based on MOFCOM-tender) by a Chinese consortium, the Jiangsu Yongyuan Investment Corporation. This consortium originally consisted of two steel companies, Jiangsu Yonggang Group and Jiangsu Qiyuan Group from Zhangjiagang city in Jiangsu Province. The project included plans of a 5 square kilometer zone of a \$146 million investment operated by the Yonggang Group and the Qiyuan Group, that would attract 80 investment projects in five years and create up to 20,000 jobs for Ethiopians (World Bank 2011, Geda & Meskel

2009). However, the EIZ has been shrunken to a target of 2 square kilometers and a \$101 million USD investment, and the Yonggang Group has left the project due to the global financial crises at that time (ibid)

3.3. Governance of Eastern Industrial Zone

When we mean the governance of EIZ specifically we are focusing on the issues of provision of legitimacy, structural functions of the zone, legal and institutional arrangement, legally defined roles and responsibility of concerned parties, leadership direction and operational activities of entities of the zone and its respective companies to meet its objectives.

Leadership, which articulates and maintains the direction of business project, consist of management which is responsible for the day- to-day operation of the organization and for monitoring the external environment to sense any changes that are occurring. The board or an equivalent governing body serves to provide overall policy direction to the project and independent oversight of its management.

Based on the aforementioned understanding, assessment was conducted at EIZ to thoroughly get an insight of the existing governance structure, profile and overall functional modality of the zone and its respective companies. The assessment was targeted to see the existing governance structure and entitled responsibilities

against the operational activities of the special economic zone and its respective companies.

Accordingly, different questions pertaining to governance related issues of the EIZ and its respective companies were asked to know the overall response of the respondents. The questions were: whether there are existence of clear objectives and direction; legal status; interface among stakeholders; shared vision and mission; and clearly defined roles and responsibilities. As can be seen from the table 3.3, these questions were administered through questionnaires distributed to 24 focal persons (leaders, representatives and key personnel's) of EIZ respective companies.

On top of the above questionnaires administered, focus group discussion and observation were also conducted with different relevant bodies to obtain the required information. As to this effect, data obtained are critically organized and analyzed. As to questions regarding existence of governance structure of their companies, all participants described in the table 3.3, 24(100%) of the survey confirmed that all companies in the zone have their own governance structure upon which board of directors is the highest governing body. The structural setup of the zone has both line and supportive functions.

As can be observed from the table (3.3), regarding questions about existence of shared vision and mission statements, 24(100%) of the

survey participants of EIZ respective companies have confirmed that they have their own strategic vision and mission statements. However, according to interaction made through group discussion and interview, evidences of the surrounding local community and potential stakeholders reveal that the vision and mission statement of this project and its respective companies is hardly popularized and shared by the staff, development stakeholders, business community as well as the local community of the project area at large. This very fact is also confirmed by focus group discussion made with the community and stakeholders as well as document review results.

Table 3.2: Response of respondents by governance issues

S/ n	Issue raised	Responses			
		Yes		No	
		Resp onde nts	Perce nt (%)	Respo ndents	Perc ent (%)
1	Existence of well established governance structure	24	100	-	-
2	Whether there is shared vision and mission statement	24	100	-	-
3	Existence of legal mandate/ license	24	100	-	-
4	Existence of leadership and management	24	100	-	-
5	Whether there is well articulated strategic marketing plan	24	100	-	-

Source:- Field Survey Apr. (2015)

A. Leadership and Management of EIZ

According to the information obtained from the survey participants of EIZ companies contacted, all Companies have their own leadership and management in the case of which the production, human resources, finance and logistic managers are discharging and following up of day to day operational activities of their business without close follow-up and oversight of board of directors which is based in china. As can be seen from the table (3.3), 24(100%) of the survey participants confirmed that leadership and management is in place, its base is not her in Ethiopia, that has created many challenges. With regard to legal mandate, it is also reported by all survey participants as all companies have business license during establishment from the investment commission of Ethiopia according to the law of the land.

C. Governance structure of EIZ

On the other hand, question regarding the existence of effective governance structure was addressed to the survey participants. Accordingly, as can be seen from the table 3.3, out of the total (24) survey participants all (100%) responded their answer to the question as rated **yes** indicating that all companies of the zone have their own governance structure.

What we can infer from this information about governance structure and related issues of the EIZ respective companies is that, though the governance structure of EIZ companies is in place, the

existing management of the EIZ respective companies who are running this business is not properly positioned to give management decisions for problems encountered in the operational activities of their business. For the majority of policy and administrative issues, they ought to contact their governing body based in China by going through long process and this has an adverse effect on the overall management , productivity and efficiency of the companies to meet their set objectives.

Therefore what we can deduct from the above stated finding is that, the interface between the board, the top management which reside in China and the staff (in the zone) is not strong for the common concern and business agenda they are in charge of and this would result in poor performance and sustainable follow-up of the schemes operational functions ,and hence the governing body which is the board should be based in Ethiopia for close follow-up and implementation of policy and overall operational activities of the respective companies.

C. Strategic Market/business plan of EIZ

Strategic market plan is one of the key components of operation and management systems for any development and/or business oriented projects. It refers to the process of refining a vision and mission of the business firms and determining the long –terms strategies it will follow to achieve that mission. In alignment with or part of the cause and effect hierarchy of the strategic plan,

operational planning should be in place in line with the review of previous planning, an assessment of resource availability, and scan of environmental factors that impact the investment projects.

With regard to question pertaining to the existence and application of strategic market planning for their companies, respondents of the survey contacted reported that standard planning activities, comparison of actual performance with planned projections have been regularly practiced. As can be observed from the table (3.3), out of the total (24) respondents of the survey all (100%) of them confirmed that they have Chinese version strategic marketing business plan emanated from their respective set mission and short term operational planning. The business plan is designed in China and made operational in the EIZ; however, they couldn't avail the documents for review of this fact to the researcher during the survey. What we can deduce from this finding is that, a business firm of high standard like EIZ needs to have a strategic plan and management document as a management tool for the overall operational activities and decision making.

3.4 Policy, legal framework and institutional arrangement of Eastern Industrial Zone

A. Establishment

According to Farole, (2011), Laws and *accompanying rules and regulation* for the establishment of special economic zones *must be comprehensive and transparent, with unambiguous ground rules established for all actors*. What we can deduce from this very

perception is that special economic zones need to have legal and regulatory framework in its establishment and in the processes of its operation and management systems. This is so because special economic zones are special in their nature that need clear and transparent special policy frameworks and transparent rules and regulations emanated from same policy to effectively and efficiently undertake its business operational activities.

Table 3.3. Response of survey participants by issues of Policy, legal framework and institutional arrangement of EIZ

s / n	Issue Raised	Responses			
		Yes		No	
		Respo ndent s	Perce nt (%)	Respo ndent s	Perce nt (%)
1	Existence of Policy and Legal Framework During Establishment of EIZ	-	-	24	100
2	Availability & adequacy of government support	-	-	24	100
3	Existence of adequate infrastructure	-	-	24	100

Source: - Field survey Apr. (2015)

As can be seen from the table (3.4), regarding question pertaining to the existence of legal policy framework during the establishment of the EIZ, all 24 (100%) of the respondents confirmed that there was no formal legal framework during the establishment of zone,

and no legislation governing the zone was on board. Regarding infrastructures, all respondents 24 (100%), complaining favorability of road from center to port, interruptions of power, and quality of internet network. However, as observed by the researcher onsite infrastructures like electricity, road, and water supply are fully arranged by developer.

According to availed information obtained from document review World Bank,(2010) as well as interview conducted with federal sector officials, the establishment was based on the MOU signed between the Chinese consortium and Ethiopian government. Even though there has been MOU signed, it was reported by Mr. Yongshun, the representative of the special economic zone during the interview that, the then existing operational activities of the zone governed has been facing different challenges due to non-application of full-fledged modalities as per agreed upon MOU by the two parties. Among the challenges reported, scheme financing (Bank loan), construction of infrastructure facilities, delay of custom and tax clearance on boarder for imported industrial products, equipment's and machineries; absence of one step shopping service delivery have been the major ones.

On the other hand, according to availed data obtained from document review, interview and group discussion during this assessment, there was no Policy framework for the establishment of the EIZ. What was done was to engage in to the operational

activities of the scheme by designing a sort of modality referred as MOU which has enables the Ethiopian government and the Chinese consortium to engage into agreement. The roles and responsibilities required from both the parties were articulated in the MOU. According to the survey conducted by the World Bank (2010) regarding to the institutional arrangement of both the parties (the Chinese and the Ethiopian government) had roles and responsibilities to discharge as depicted in the MOU. According to the MOU, The role of the government was depicted as follows:

The Government of Ethiopia commits to: (I) cover 30 percent of infrastructure costs and offers land on a concessional basis, (ii) administer the investment incentives for qualifying export oriented investments, (iii) provide 20 percent foreign currency retention on all export earnings compared to 10 percent for other enterprises in Ethiopia), (iv) create one-stop shop arrangements to facilitate the business operations of companies located in the EIP (including customs clearances); and (v) ensure coordination and support in the delivery of services through placement of Ministry of Trade and Industry officials in the offices of the developer. In a similar way the developer consortium is responsible for planning and development of the EIP facilities, management and operation, promotion and marketing and securing adequate financing. In addition the developer is responsible for all compensation related to involuntary resettlement.

According to the aforementioned background information contacts was made by the researcher to get what is exactly on the ground. The contacted person was Mr.Jiao Yongshun (vice Director of EIZ), the coordinator of the EIZ.

The availed information from the contacted person, Mr. Yuang reveals that except the provision of land by the government on concessional base, the rest issues articulated in the MOU have not been fully realized as per the engaged agreement. This was also confirmed by Mr. Lee president of EIZ that there was incompliance of the entitled roles by the government that made discomfort on the part of the developer. As mentioned by the developer, some of the situations that have created inconveniences are: the developer is forced to incur unplanned high cost for infrastructure arrangement facilities (on site and off site)which is of course the role of the government ,absence of one step shopping service delivery in the EIZ which has resulted in delay of service delivery in the areas of their business transaction, absence of government capacity support in the form of facilitation and absence of communication and monitoring. The above stated argument of Mr Yuang is evidenced by other contact persons of the companies of the zone during the survey.

3.5. Operation and Management Systems

Regarding the existence of management information system, monitoring and evaluation system and administrative procedures

and policy manuals, different questions were addressed to the respondents of this survey. Accordingly, data obtained during the assessment of the EIZ and its respective companies reveals the following results:

A. Management Information system

As can be observed from the table 3.5 regarding question pertaining to the existence of management information system, all 24 respondents or 100% of them saying yes. In addition respondent justifying that the provision of centralized data compilation and management system is supported by IT for information and or data sharing purpose has been on board and practical. As confirmed by the respondents and observed by the researcher, the MIS is computerized, only relevant key staffs of the respective EIZ companies have access and skills to use the MI data into operational planning & decision making. MIS is supported by computers with local Lane Networking. Relevant staff of programs/departments units, etc. is accessed to individual laptop computers. The management information system is computerized and operational data are made to be integrated into operational planning and decision making. All relevant staff of the programs and departments have access and skills to collect, organize, analyze and effectively use management information's/ data as appropriate in their operational planning.

Formal communications mechanisms of the respective companies in place are linked with the organ-gram though it was not seen

during the review of documents. Vertical and horizontal communication that link companies working units seem structured as per the feature of the companies.

Table 3.4. Response of survey participants on issues of management and operation system of EIZ respective companies

s/n	Issues Raised	Responses			
		Yes		No	
		respon dents	Percent (%)	Respo ndents	Percen t (%)
1	Existence of proper application of MIS	24	100	-	-
2	Existence of monitoring & evaluation of performance	21	87.5	3	12.5
3	Whether there is administrative procedure & policy manual in place	22	91.7	2	8.3

Source:-Field survey Apr.(2015)

Question regarding periodic monitoring and evaluation of the company's work performance is also requested and accordingly, as can be seen from the table3.5 out of the total (24) respondents

21(88%) and 3(13%) of the respondents confirmed to the existence and non-existence of monitoring and evaluation system respectively. On the other hand, regarding question about the existence of administrative procedure policy manual, out of the total 24 respondents 22(92%) and 2(8%) reported respectively the in placement and non in placement of administrative procedure policy manual for the EIZ respective companies administrative and policy decision as tools.

In general, what we can deduct from the aforementioned data result is that almost all companies of the EIZ have their own operation and management system in place for their overall policy and administrative operational activities. However, the required communication with key stake holder is missing.

3.6. Human Resources of Eastern Industrial Zone

For an institution, in particular its **Human Resources** are likely to consist of any person who is in any way connected with it such as its management and staff members, constituent's , and board members. These human resources must have the skills, and motivation, and the opportunity to make the best contribution to the development projects in as much as possible they can

Investment projects should agree upon and offer a variety of incentives to reward desired performance. These rewards are more effective if they are linked to the motivational factors and if they are viewed by members of the organization to be fairly administered. The development projects also must reward the

behaviors that are necessary to achieve its mission. To be effective and efficient, EIZ companies need to ensure that its employee's possess all of the skills and experience of and to be creative and take upon on them the responsibility for improving the ways in which they work.

Questions are raised to see what is on board mainly based on the policy, procedure and manual in place, salary and benefit package administration, availability of labor force, and existence of grievance handling mechanisms among others.

Table 3.5: Response of respondents on issues of human resource

s/ n	Issues raised	Responses			
		Yes		No	
		Resp onde nts	Perce nt (%)	Resp onden ts	Percent (%)
1	Existence of HRD policy manual in line with the law of the land	23	95.8	1	4.7
2	Availability of local labor force with required skill	3	12.5	21	87.5
3	Existence of well established benefit packages	24	100	-	-
4	Whether there is labor & labor related challenges	22	91.7	2	9.3
5	Whether there is grievance handling mechanisms	2	8.3	17	70.8

Source: Field work Apr. (2015)

Different questions pertaining to in placement of HRD policy and procedure manual for human resources management and administration; salary and benefit package administration; availability of local labor force and existence of grievance handling mechanism were addressed to the survey participants of the companies of the zone .Accordingly, answers of the respondents were rated by saying yes or no. As can be seen from the table 3, 6 regarding the existence of HRD policy and procedures manual, out of the total (24) respondents, all(100%)of the respondents confirmed their answer by rating as yes. With regard to question pertaining to existence of salary and benefit package administration, out of the total (24) respondents all confirmed their answer by rate of yes. As to question presented to the survey participants regarding the in placement of grievance handling mechanism for the respective companies of the zone, out(24) of the total respondents 2(8%)and 17(71%)responded their answer by rate of yes and no respectively .On the other hand question regarding the prevalence of labor related challenges was addressed to the survey participants ,and accordingly out of the total(24) respondents22(92%) and 2 (9%) of the respondents respectively gave their answer by rate of yes and no respectively .

In general what we can deduct from the aforementioned data is that all EIZ companies contacted reported that human resources development policy and procedures manual are at their disposal and it is on the basis of this manual that they are undertaking

placement of employees. The EIZ respective companies have policies and systems to develop skill and manage relationship as well as performance. However, as can be identified through interview conducted with labor affairs representative of Dukem, human resources management and development is made operational based on HRD policy and procedures manuals developed in Chinese version which create difficulty for the labor and social affairs of the Dukem administration to understand and make evaluation. However, this policy and procedures needs to be reviewed and amended in line with the labor law of the country origin.

A. Manpower of the EIZ Companies

According to the available data obtained during the survey, companies operating in the EIZ have relatively adequate and qualified staff as per the demand of the business project type. As can be seen from the table 3.7, a total of above 16,876 (male 8750 and female 8126) workers are employed since the establishment of the eastern industrial zone. According to document review made during this assessment, it was justified that the majority of the work forces in all the respective companies of the zone are contractual base employees except few permanent technical experts and line managers. According to Dukem town administration labour and social affairs the majority of the workers are laborers employed from the local community in which the project is a part. Out of the total employees, the majority are

Ethiopian nationals, except few technical experts and focal persons who are Chinese national. It was also reported by the representatives of the companies under study except the existing limitation of technical knowledge and low educational level, relatively there exists adequate and qualified staff and workers as per the demand of the companies work type.

Table 3.6: Employment profile in terms of age and skill of EIZ year 2014

Co mp ani es	Employment generated			Range of Age		Level of skill	
	Male	Femal e	Total	20-29	30-39	Skilled	Unskil led
12	8,750 52%	8,126 48%	16,876	15,189	1,687	10,864	4262

Source:- Dukem town administration Labour and social affairs(2014)

Salary administration, salary scale and benefit package are established with clear criteria for entry and advancement, however the system is not formally documented in policy and procedures manuals adapted as per the labour law of the country origin. It was also reported by focal personnel of the companies as well as administrator of Dukem town that, different incentives packages are deployed for the employees. Work place feeding (lunch and breakfast), transportation service, in-house insurance in case of emergency and bonus fee upon regular attendance are some of the

major incentives provided for the employees. Starting salary rate for entry and advance career is very low. For the majority of EIZ companies workers, except for few companies requiring high level technical knowledge, the salary rate of workers for all the companies ranges from 600 ETB (below one USD/day) for entry and 1,800 ETB for advance career. What we can deduct from this report is that the rate of salary for entry is so minimal compared to other labor payment rate in Ethiopia.

According to the information obtained from company's representatives, all EIZ companies contacted confirmed that the relationship of staffing structure and employee is fit to their strategic business objectives. Description of job positions are developed and reviewed to fit with tasks needed to accomplish the intended purpose of the companies. There is a clear relationship between their current objectives and the functions to be performed by the employee/staff. Jobs are well defined and documented in regularly updated job descriptions or team assignments. Due to the nature of EIZ companies, team work is highly encouraged; and staffs skilled in team building and is using team's spirit effectively. Staff development plan particularly for technical skill is in place, to effect this into action, training plans are regularly updated according to performance improvement and career development needs of individual and human resources plan of the companies. There are also reports from Dukem town administration during group discussion that, occasionally there has been grievance and

turnover from laborer side. This problem is mainly due to absence conducive working environment related to benefit packages and issue related to right according to the labour law of the land.

In general what we can deduct from the availed data and information obtained during this assessment, about the human resources management and administration of the companies is that all the management aspects of human resources and labor force related issues and /or problems should be treated in line with the law of the land (labor law of Ethiopia) so that effectiveness and efficiency of companies could be secured in their operational activities .To be effective, all companies of the zone should adhere to the rights and obligation of employees of Ethiopian and foreign nationals' as depicted clearly in different articles of labor proclamation **377/2003** as follows:

3.7. Financial Resources and Management of Eastern Industrial Zone

The business firms should have appropriate systems and procedures in place to regularly plan or budget to meet financial needs, ensures that it has on hand the necessary funds to purchase goods and services it needs for its activities, record and account for financial transactions, and monitor and report on its financial status.

Accounting; budgeting; financial controls; Audit/External Financial review; and Recourses base are key areas of attention

with regard to any business development projects for establishing healthy financial management system for effective implementation of development programs/projects in a successful and efficient manner. With regard to this area of work competence; Existence of accounting procedures; contribution of financial reports to planning process; Physical assets; cash ,and fund management are areas that were given due attention during this assessment.

Managing huge development projects demand much money, most importantly based on bank loan. By the same token it is undeniable fact that EIZ investments require huge amount of money. Question regarding financial resource base was requested, and accordingly the majority of the companies representatives reported that the financial source for the business projects of the EIZ is not loan from local banks of Ethiopia rather it is loan from Banks of China.

Table 3.7: Responses of survey respondents by financial issues

s/n	Issue Raised	Responses			
		Yes		No	
		Respo ndents	Percent (%)	Respo ndent s	Perc ent (%)
1	Existence of Financial policy,& procedures, in line of the law of the land	24	100	-	-

2	Whether there is periodic financial report	18	75	6	25
3	Availability & efficiency of local finance Sources	7	29.2	17	79.8
4	Existence of efficient incentive package provided by government	6	25	18	75
5	Existence of efficient government service(custom & tax)	3	12.5	21	79
6	Existence of efficient trade regulation	3	12.5	21	79

Source:-Field survey Apr. (2015)

With regard to question concerning the in placement of financial policy manual and procedure, for the overall financial management of companies in the table 3.8, out of the total participants of the survey all (100%) of the respondents confirmed their answer by rating yes answer. It is also understood that though the establishment of the EIZ companies vary in time interval the availability and application of accounting and financial management systems and the application of financial manuals by the existing respective companies of same have been identified as strength, however the version of the manuals are in Chinese which

of course has its own drawbacks for the third party especially for the Ethiopian nationals to understand easily and make use of the inputs.

With regard to questions pertaining to the provision of periodic financial reports of the companies to concerned bodies, from table 3.8, out of the total respondents ,18(75%)and 6(25%)gave their answer by rate of yes and no respectively. On the other hand as can be seen from table 3.8, regarding question pertaining to availability of finance source locally for investment of companies' operational activities, out of the total respondents 7(29%) and 17(80%) respondents confirmed their answer by rate of yes and no respectively.

What we can deduct from the respondents answer is that the majority of finance source for the EIZ companies is from foreign source. In addition also, question pertaining to the adequacy of the provision of different incentive packages for companies of EIZ by the government was presented to the survey participants. As to this end, as can be seen from the table 3.8, out of the total respondents6 (25%) and 18(75%) of the respondents gave their response by rate of yes and no respectively. It is reported by the majority of the companies that the required incentives to be provided by the government has not been as promised. May be this could be ascribed to absence of full application of law in charge of the zone development .As reported ,for example the service delivery

components which need to be nearby companies such as one step shopping, custom and tax issues, and trade regulation have been missing.

According to the available data obtained during the assessment (interview) of company's representatives, recognized external auditors have been properly auditing EIZ Company's financial transaction yearly targeting to the facilitation and implementation of companies business operational activities. However, the financial documents particularly referring to revenue generated and expenses incurred for the business transaction are missing. Though annual auditing is reported as it has been regularly conducted on yearly basis the document is not availed to the researcher during the assessment. Though the overall financial transaction and it's over all management is supported by IT (peach tree software) their financial reports are not clear and timely. All the respective companies assessed have no well documented and clear financial reports (neither their own or external auditor) and data system that provide sense of their financial health.

With reference to availability and use of assets, all the respective companies assessed have reported as they have enough and required physical assets for the facilitation role of their business operations. The physical assets are properly managed for future plan requirements. Annual inventory, maintenance, disposal of

used materials, new purchase and other related physical assets are properly handled.

3.8. Communication/External relation of Eastern Industrial Zone

In order to be effective, a development project must manage relationship across its boundaries, and cultivate good external relations. This is one aspects of the necessary interaction between the organization and its environment to ensure that it responds appropriately to the social, political, ecological, economic and other forces and events around it. An effective development scheme will make contacts with and enhance its reputation with government agencies and officials. Not only should the company integrate its activities with the regional or national plan for the sector, but it also should establish working relationships with those government officials who will be making the decisions about the companies' future.

In line with the aforementioned discussion points, different questions pertaining to communication and external relation of EIZ were addressed for the participants of the survey. Accordingly, data obtained during the assessment reveals the following major results:

Table 3.8: Response of the respondents by issues of Communication/external

s/ n	Issues Raised	Responses			
		Yes		No	
		Respon dents	Percen t%	Respo ndents	Perce nt%
1	Existence of positive perception of local community & businessmen about the project	11	45.8	13	54.2
2	Existence of regular information exchange with local community	11	45.8	13	54.2
3	Whether there is formal collaboration mechanisms in place	10	41.7	14	58.3
4	Integration of zone with local master plan	-	-	24	100
5	Strong local economic linkage	-	-	24	100

Source: Filed survey Apr. (2015)

Different questions pertaining to perception of the local community about the EIZ; information sharing, existence of formal collaboration mechanism for EIZ, integration of the EIZ with the

local master plan; and prevalence of linkage with the local economy were the major questions forwarded to the survey participants. As can be observed from the table 3.9, responses were registered for each question .Accordingly ,with regard to question to know the existing perception of the local community and the surrounding public about the EIZ, as can be seen from the table 3.9, out of the total respondents of the survey participants ,24, 11(46) percent and 13(54) percent gave their answer in rate by saying yes and no respectively .Pertaining to question whether there is exchange of information with the local community and potential stakeholders about the operational activities and transactions of the companies, as can be observed from the table 3.9 ,out of the total 24 respondents 11(46 percent) 13(54 percent) responded their answer by saying Yes and No respectively .On the other hand, with regard to question pertaining to in placement of collaboration mechanism with stakeholders, out of the total respondents, 10(42 percent) and 14(58 percent) respondents gave their answer by saying yes and no respectively. For further detail see the table 3.8.

Furthermore, the focus group discussions and interviews conducted with the government sector offices, affected people and with the local communities have confirmed to the above stated results.

In general what we can deduct from the aforementioned data is that all EIZ companies have no strategy to gain recognition for the organization's mission, or track record which has of paramount

importance for image building and popularization of the Companies. As to the company's perception, the EIZ does not receive requests for information from its stakeholders, strategic development partners and general public as a whole. The zone has been now perceived as closed door, and has no recognition among concerned stakeholders and even to the local community around the project area. There have been no formal collaboration mechanisms (e.g. designation of officers for government relations and lobbying procedures). Best practices of the EIZ companies have not been popularized within their local setting and at national levels through their websites and through their respective liaison offices in the country and abroad. A case in point is that the EIZ is closed, meaning not accessed even to be visited by the local community and stakeholders of the project area.

3.9. Social and Environmental issues EIZ

A. Community consultation and participation

The prevalence of community consultations and participations before and after the commencement of any development project should be in place as per the EMSF & RAP policy frameworks (World Bank). Community consultation about any development projects has of paramount importance for creating sustainability and efficiency of the scheme by creating sense of ownership. Consultation and participation on development project is right and mandatory to ensure sustainability of development and betterment of livelihood of citizens. This very fact is clearly depicted and

confirmed in Article 43 of Ethiopian constitution as per the following statement:

“People’s rights to development right to improved living standards and to sustainable development; and participate in national development and, in particular, to be consulted with respect to policies and projects affecting their community/affairs”.

The consultation should involve mainly the affected and those found within the close vicinity of the projects site. The religious and Keble leaders, elders and youth group should also be part of the consultation process. Further more concerned stakeholders such as Tele, City water supply, ELPA and other public offices are also required to be consulted about supports required, socio economic benefits of the project for the country, the local people and the general public in general.

When this research was conducted it was found out that during the establishment of EIZ, in Dukem, a total of 125(as reported by Dukem city administration) farmer households were displaced from the project area to secure the land required for the project. Questionnaires were distributed to affected people to evaluate the issues such as their awareness about the benefits of the project, consultation and participation process, discussion on resettlement plan, support from the government

Table 3.9:- Displaced peoples (perception)

s/ n	Issue raised	Level of satisfaction		
		Satisfied%	Neutral%	Unsatisfied %
1	Level of awareness of Benefits of the project to the communities	5(31.3)	8(50)	3(18.8)
2	Community awareness, Consultation and participation process	-	5(31.3)	11(68.8)
3	Discussion of RAP process with affected community	-	4(25)	12(75)
4	Enough time given to affected people before resettlement		3(18.8)	13(81.3)
5	Awareness of laws, regulation and procedures employed	4(25)	12(75)	-
6	Grievance handling mechanisms employed	-	-	16(100)

Source; field survey apr.(2015)

The table 3.10 shows that concerning the level of awareness of the benefit of the project by affected peoples, 31 percent of the respondents said they have awareness of the benefit of the project, 50 percent of the respondents have no idea (neutral) about the

benefit of the project, and 19 percent of the respondents said they don't believe (have satisfaction) on the benefit of the project. In similar manner, regarding consultation and participation, and discussion on the resettlement (RAP) process, 69 and 75 percent of the respondents respectively said they are not satisfied. Furthermore, 81 percent of the respondents have no satisfaction, about enough time given to them for redress, and 100 percent of the respondents complain about the grievance handling mechanisms.

Additional information about community consultation and participation during the startup and implementation stages of EIZ project, focus group discussion and interview with key informants were held. Data /information obtained during this assessment reveals that though it was not planned, the consultation was made mainly with the affected (Displaced Farmers households) people, however did not include those community members and organizations found within the close vicinity of the projects site. The religious and Keble leaders, elders and youth group were not part of the consultation process. Further more concerned stakeholders such as Tele, City water supply, ELPA and other offices were not consulted. It was reported by the focal persons that though the consultation has to be conducted in three phases, at project sites selection, screening and the level of social impact assessment, it was not conducted accordingly as per the EMSF &RAP policy frameworks plan (World Bank).

B. Land acquisition and eviction process

Land acquisition for the EIZ started in 2007 by the initiative and need of the Ethiopian government for industrial development; however the process had a disproportionate effect on displaced farming households as reported by some of the displaced farmers contacted during the survey. As reported by the affected family members contacted, it was reported that the process of land acquisition for the project was not based on plan and prior arrangement; rather it was without the prior consent and awareness of the affected families. The process was so spontaneous so that the displaced farmers were not in a position to be cool down for the time being to be relocated in the new areas ready for them by the administration of Dukem. Around 500 hectares of land were acquired for the EIZ from the two kebeles (Tedecha and Koticha) from which they are a part. The farming households displaced totally lost an estimated land size that ranges from 3 to 7 hectares respectively as reported by the contacted displaced people as though documents were not available to the researcher. A total of 125 households lost 500 hectares of land to EIZ for which they held formal title before the establishment of the EIZ. Such land is known as “assigned land” based on government rules and regulation. The land loser farming households receive compensation (that is not even claimed to be the market price for the land in question) as the land is owned by the government as per the land proclamation of the country (proclamation No 455/2005). These households received compensation related (according to the

governments estimations) to market value which was inadequate as confirmed by focus group discussion result.

Table 3.10: Land acquisition under the EIP

Type of land	Area per hectare	No of household displaced
Acquired land	500 hectares	125
Assigned land	233 hectares	-

Source: Dukem town Administration

Case study of affected households

Case 1

AtoTadesse Ede aged 55, educated up to grade 7th during Derg regime is one of the displaced farmers from Dukem Koticha Kebele. 7 Family members are managed under him. Previously he owned 2.5 hectares of Land, 19 Cattles, 35 sheep and other developed Trees and well organized rural Houses, and he is one of the model farmers of the Kebele. He has received compensation of 18 birr/karee. sqm for the 2hectares and 390,000 birr for other related immovable assets, and he is not much satisfied on compensation given to him comparing with current market value. His cattle and sheep are reduced to limited number(less than 10) because of grazing land he lost. He is also criticizing consultation mechanism employed, grievance handling procedures, and lack of transparency in transferring displaced peoples. He and other displaced peoples have been severing after leaved their original place without any facilitated options. He is continuo his livelihood in farming by contracting land from other farmers. There were no

skill training for him and his family on how to lead his future life. He witness that there is no mechanisms deployed by the government for sustainable livelihood. His sons and daughter are still in search of constant job. He is very much concerned about the future of his and his family life. He believes on the benefit of EIP in general, but he feels that, local communities are not yet benefited as a result of establishment of the project.

Case 2

Ato Beyene Regasa is 46 years old with 5 families, is displaced from Dukem Koticha kebele. Previously he owned one hectare of land for which he received compensation of 18 birr/karee sm and 139,000 birr for other immovable assets. He has got 500square meter of urban land for residence from Dukem town Administration. Currently he is continuing doing farm activities, by getting contract land from other farmers. But he is very much concerned about the sustainability of this job, because the price of the land steadily increasing and the price of other inputs are higher than before. He believes that the displacement program was not properly managed by concerned bodies, and as a result he and his family were severing a lot. The job opportunities as was promised for displaced peoples were not projected and the training has not given based on the experience of the peoples. The likelihood of getting money and chance of saving is becoming very low, and he strongly needs government support in training, project for job opportunity and loan.

C. Compensation and Rehabilitation

According to the assessment conducted, data obtained reveal that a total of 125 households were displaced from their farm land where currently the EIZ project is located. All the displaced persons are farmers who are leading their livelihood by income generated from farming activities on their own plot of land entitled to them prior to the project. The causal factor for their displacement is deliberate that the area is identified as potential and conducive area for public development project. Though their eviction was spontaneous and unplanned these displaced people have an understanding that the purpose of their displacement is not for bad but for good which is development.

However, any displaced people from their residing area whether voluntarily or involuntarily for the cause of development, should have the right to be settled in areas of friendly environment which is clean and healthy and also have right to compensation and resettlement with the provision of different government supports to lead their livelihood. This very fact is evidenced by Ethiopian constitution as stated in article 44 as per the following:

“Environmental rights, all persons: have the right to a clean and healthy environment; and who have been displaced or whose livelihoods have been adversely affected as a result of State programs has the right to commensurate monetary or alternative means of compensation, including relocation with adequate State assistance”

As to the aforementioned background information, questionnaires were distributed to some affected people to have deep information.

Table 3.11:-Responses of survey participants by issue of rehabilitation

s/ n	Issues Raised	Responses		
		Satisfied %	Neutral %	Unsatisfied %
1	Level of satisfaction towards Process and amount of compensation	3(18.8)	6(37.5)	7(43.8)
2	Government support for sustainable livelihood of displaced peoples	-	-	16(100)
3	Existence of support from other institutions(NGO)	-	-	16(100)
4	Satisfaction on current living situation	1(6.3)	4(25)	11(68.8)
5	Current existence of formally appointed body in charge of affairs of displaced people	-	-	16(100)
6	Transparent, fair treatment from concerned bodies	3(18.8)	4(25)	9(56.3)

Source; field survey Apr. (2015)

As indicated in the table 3.12: when we see the existence of continuous government or other institutions support to sustain the livelihood of displaced peoples, almost all of the respondents said that they are not satisfied. In relation with their level of awareness of laws, regulations and procedures employed, 75 percent remains neutral to give their opinion, while 25 percent are satisfied.

Respondents were asked whether they have satisfaction on the current living situations. 69 percent of the respondents said that, they are not happy, while 25 percent of respondents silent. Concerning transparent, fair treatment provided from concerned bodies, 56 percent of the respondents are not satisfied, 25 percent of the respondents remains silent to answer, and 19 percent are satisfied.

In addition to questionnaires described in table 3.12, different questions were posed to focus group discussion and interview for the group and key informants selected for the intended purpose of this research. Accordingly, information and data obtained from the group discussion held and interview conducted reveals the following results: The affected/displaced farmers who are evicted from their farm land had expressed their feeling that they were not well aware of the project from the very beginning of the project period (as reported by (FGDMs). During the group discussion, some displaced households farmers from the project site expressed their disappointment they had regarding the modality of the compensation which was not fair. The farmers were not in a

position to have their representative on the transaction of determining the amount of payment for compensation.

Among the rehabilitation and resettlement benefits provided for displaced people , allotment of agricultural land, financial assistance related to loss of property, transportation cost, employment and skill development opportunities, special provisions for the rehabilitation of the members, and housing benefits are the major ones ,however the information obtained in this regard reveals that the displaced households from the project site were not entitled to all of these benefit packages, what they were offered were only compensation for the property they own/market value of the land asset and plot of land for house construction in the town of Dukem. They were not provided with employment and skill development opportunities to lead their new chapter (from rural life to totally new urban life).

Most of the displaced farmers did not know what to do with the compensation received. It would have been better if they would have been aware of the compensation purpose and could have taken trainings for new opportunities in their livelihood. It was reported and evidenced that the compensation provided to the displaced farmers was inadequate when compared with the prior assets they had before displacement. According to the available data obtained (during interview with affected people), based on the size of assets ownership, the maximum compensation paid for the

displaced farmers' ranges from ETB 30,000.00 -- 500,000 .00 ETB. Compensation for lands acquired was not based on the value of the incomes accrued from the lands (when compared with the current market price), but on the legal status of the lands. A large proportion of the acquired compensation was 500,000 ETB, as it has confirmed from interview conducted with affected farmers as well as Dukem administration.

It was reported that the displaced people were promised by town administration of Dukem right after the eviction process to get all the facilities required for the continuity of their livelihood. The housing plot of land with all the required infrastructure facilities (road, water points and electric power), were the major issues promised to be implemented on time, however securing these issues were beyond reality. It was not practical as was promised.

D. Alternative Job opportunity for displaced peoples

Questions were raised for group discussion and interview participants with regard to the existence of the provision of alternative employment for the affected households .According to the feedback obtained, With the exception of one contacted person, no members of the affected families have been provided with any vocational training that could able them to generating income for their livelihood by being engaged in the EIZ project on a regular and on-daily basis. Many members of these families did work as daily wage laborers during the construction of multipurpose units in the city and its surrounding. Some of their women get daily

wage work as gardeners or sweepers or as janitors. One of the contacted affected family stated, “ prior to my displacement my experience was farming and my job was tiling a land , but now I don’t have a plot of land to till and hence I am jobless and I am searching for other job which is most likely daily labor for I have no any skill of other jobs.”

In general according to the information obtained from the participants of this assessment, the minimum family size of the affected households is 2 whereas the maximum is 7. What we can conclude from this very fact is how difficult it is to lead a livelihood of families having extended family without having permanent job. To this end, one of the survey participants Ato Sida Gurmu an old man age of 70 years evidenced that he has no other skill other than farming, currently he has no plot of land because of his displacement, the only option he has is searching for a temporary job and hence his livelihood is challenging for him for he is a breadwinner of 12 family members supported by him.

3.10. Current state of Import-Export, Technology transfer and Job opportunity of EIZ

A. Import- Export States

In order to attract foreign direct investment Ethiopian government adopted preferential policy which is targeted to encouraging foreign investors to invest in the country especially in the area of manufacturing. According to data obtained from Ethiopian custom

and duty authority regarding customs duty for imported materials, one hundred percent exemption from the payment of import customs duties and other taxes levied on imports is granted to all investment capital goods, such as plant and machinery, equipment etc. Spare parts worth up to 15% of the value of the imported investment capital goods, provided that the goods are not produced and not available locally in comparable quantity, quality and price are also treated in the same manner. Exemptions from customs duties or other taxes levied on imports are granted for raw materials necessary for the production of export goods.

Regarding income tax holiday investors engaged in a new manufacturing or agro-industry activity are exempted from income tax from 2 to 7 years, and Ethiopian products and services destined for export are exempted from the payment of any export tax and other taxes levied on exports.

Since the establishment of the EIZ, the respective companies in the zone have undergone through different import and export transaction. Most importantly industrial raw materials such as equipment's, plant and machineries, spare parts, etc. are the major items imported by 10 companies since 2010. According to the available data obtained from the Ethiopian Revenue &Custom Duty Authority, 10 companies imported an industrial product that amounts to ETB 3,187,583,776.74 upon which custom duty, excise, VAT and sure tax amounting to ETB 394,861,891.00 is registered. On the other hand according to the data obtained from

RCA out of the 12 companies only 2 companies exported 895 312 591.66ETB. The exported amount over imported is 0.28. The tax payment variation is companies specific. To mention a case in point, East steel plc. imported 40% of the total imports whereas Hugian International shoe factory imported 19% of the total imports. For detail information see the table 3.13.

We can understand that, as all companies in the zone imported the majority of intermediate inputs, the imported amount over exported amount is steel covers large proportion, which needs critical attention in line with Ethiopian policy direction articulated in the GTP document.

Table3.12: material imported and tax paid by EIZ

TYE AR	TRADER	VALUE in birr	QNTY	DUTY	EXCISE	VAT	SUR_T AX
2015	KEPA TEXTILE PLC	24,698,605.56	1,972.00	104,749.68	0.00	109,960.93	58,918.58
2013 - 2015	DONGFANG SPINNING PRINTING AND DYEI	424,397,121.73	20,443,606.00	5,009,877.47	2,552,511.67	6,337,281.61	254,673.01
2010 - 2015	EAST CEMENT SHARE COMPANY	586,158,100.40	79,794.00	2,789,913.35	75,908.29	4,255,311.99	668,816.17
2012 - 2015	EAST STEEL PRIVATE LIMITED COMPANY	1,267,919,411.22	92,775.00	301,756.57	34,927.43	172,952,663.81	322,394.61
2011 - 2015	HUA JIAN INTERNATIONAL SHOE CITY (E)	618,403,151.91	43,073,260.00	73,479,005.21	4,006,485.95	73,683,238.89	42,283,793.25
2012 -	INTERCONTINENTAL	9,375.99	3.00	784.31	0.00	1,524.02	449.27

2014	INDUSTRIAL PLC						
2014 - 2015	KEPA TEXTILE PLC	71,124,78 2.83	60.00	336,898. 93	0.00	1,058,33 3.04	979.74
2014 - 2015	LINDE (ETHIOPIA) GARMENT PLC	21,748,27 0.61	272,125. 00	432,701. 27	168,026 .50	429,539. 77	315,958. 10
2014 - 2015	YUECHEN INDUSTRY P.L.C	52,372,38 5.01	31,204.0 0	309,849. 46	0.00	1,325,05 6.50	569.16
2010 - 2013	ZHONGSHUN CEMENT MANUFACT URING PLC	120,752,5 71.48	114.00	475,908. 06	116,520 .30	343,381. 90	263,222. 62
Total	10	3,187,583, 776.74	63,994,9 13.00	8324144 4.31	6,954,3 80.14	2604962 92.5	4416977 4.51

Table 3.13: materials exported and tax paid by EIZ

TY EA R	TRADER	CIF_VAL UE birr	QNTY	DUTY	EXCIS E	VAT	SUR _TA X
2015	DONGFAN G SPINNING PRINTING AND DYEING	7,556,816. 26	433,610. 00	0.00	0.00	0.00	
2012 2015	HUAJIAN INTERNAT -IONAL SHOE CITY	887,755,7 75.40	3,701,060 .00	5,797,217. 28	268,757. 65	6,147,249 .67	
	Total	895,312,5 91.66	4,134,670 .00	5,797,217. 28	268,757. 65	6,147,249 .67	

Source: FDRE, Revenue and Custom Authority (2015)

Though the aforementioned reliable data about import, export and tax issues is registered by the EIZ companies in the process of the work transaction, it was reported that the process was full of challenges. To this end, key informants of the companies contacted during this assessment confirmed that the problems associated with high transportation cost, untimely custom clearance on port, poor road infrastructure facilities and absence of clear trade regulation are the bottle necks for their business transaction. Ethiopia's custom service problems raised by the companies were also evidenced by the survey conducted by the World Bank in 2012 in its assessment based on FDI in Ethiopia, stated that Ethiopian average custom duration is twice longer than China and Kenya. The problems encountered the companies have negatively affected their business transaction for not to be competitive as required.

B. Technology and Knowledge Transfer

Technology transfer, diffusion and skills training should be taken as one among the key competence areas of industrial investment to be competitive in their products. To realize the action to be taken, technology transfer should be consider as a strategic objective. To effect this, the provision of training to get skilled and semi-skilled workers is mandatory so that the projects could get the required technology support for their effective and efficient operational activities that will result in high level productivity and competitiveness. And this is evidenced by a study conducted by

D.ZENG (2015) pertaining to the Global experience of China and Africa which is focusing on special economic zone.

According to this research the experience of most African countries, reveals that investors are confronting the problem of getting skilled and semi-skilled workers and as a result they are not getting the required technological support at their domain. To intervene and secure technological support investors should have a strategy to have centers such as vocational training center at their nearby so that they can easily make use of the centers for the required technological support.

Regarding technological transfer of EIZ, questionnaires, focus group discussion, interview questions and observation were conducted to know, the prevalence, magnitude, impact and problem of technology transfer by EIZ.

According to the available data obtained during the survey, it was found out that, though little has been done, all investors of the EIZ companies have done their level best in the area of technology transfer in unstructured manner by their own. Initially, they brought skilled professionals from their country origin according to the demand of their company profile. Later on, they provided skill training for the local workers by their own experts from china locally and some key line workers of the locality abroad in china.

However, the provision of this training is limited to in-house level, not expanded outside the companies.

On top of this, questions pertaining to prevalence of mechanism for technology transfer; market access for technology Transfer Company's product; and whether there is existence of local economic linkage of EIZ companies were addressed to the respondents of the survey. Accordingly responses were registered against each question by rate of yes and no response. Regarding to question pertaining to the existence of established mechanism for technology and knowledge transfer, as can be seen from the table 3.15 out of the total(24) respondents 5(21%) and 19(79%) respondents respectively confirmed their answer by rate of yes and no respectively . On the other hand with regard to question pertaining to whether there is market opportunity or not for the products of companies, out of the total respondents, 3(13%) and 21(87%) respondents confirm their answer by rate of yes and no respectively. According to the respondents, the majority of the products of the companies are for export. And for some companies like steel and cement producer there is a huge demand from domestic market. For further detail see table 3.14.

Table 3.14: Response of respondents by issue of technology and knowledge transfer

s/ n	Issues Raised	Responses			
		Yes		No	
		Respon dents	Perce nt%	Respo ndents	Perce nt%
1	Existence of mechanisms for technology and knowledge transfer	5	20.8	19	79.2
2	Market availability and readiness for technology and knowledge transfer	5	20.8	19	79.2
3	Availability of market opportunity for companies product	3	12.5	21	87.5
4	Existence of local economic linkage	15	62.5	9	37.5

Source:-Field survey Apr.(2015)

On the other hand it was found out that the type of companies in the zone are different by their technological level some are using high level technological support while some require medium level technological support and as a result the prevalence of technology and knowledge transfer is so minimal and it has been in house

level which is to meant that it has no linkage with the local surrounding business community outside the zone.

According to availed data during this assessment (see table 3.16), out of 12 companies of the zone 7(58%) have feature of medium-high level technology,(East cement factory and agricultural equipment are the ones to be mentioned). whereas 5(48%) have feature of low-medium level technology. What we can deduct from this finding is that the majority of the companies accommodate little number of workers who have high level skill, and the majority of the workers are Chinese except few Ethiopian nationals. As a result the level of technological knowledge transfer is so minimal and it is limited to in-house level. As to the technology transfer the companies are not exposed to external environment and have no strategic business partners in the local setting and in the country at large who can share the technological input required.

Table 3.15: Type of EIZ companies by products and initial invested capital

No	Firm operating in the EIZ7	Main products	Sector and SIC code	EIZ entry y/r	Completed investment
1	L&J Engineering Co. Ltd	Construction cement products	Manufacturing/Concrete products Cement hydraulics SIC: 3241	2010	\$1260 00
2	The headquarter of East Cement share Company	Administrative services, personnel management, sales billing logistics etc.	Services/Business services SIC: 7389	2006	\$60 million
3	East Cement Leasing Company	Construction equipment rental service	Services/Heavy construction Equipment Rental and Leasing SIC:7353	2008	\$5.14 million
4	Change Cheng Packaging Co. Ltd	Woven bags and packaging material	Paper and Allied products packaging material SIC:2671	2010	\$5100 0
5	Eastern Hotel Co.	Hotel services	Services/Hotels SIC 7011	2008	\$5000 00
6	LQ4 Pipe manufacturing Co Ltd	steel pipes	Manufacturing /Primary metal SIC:3317	2010	\$9 million
7	Eastern Steel Co.	Steel bars and steel wire	Manufacturing steel works SIC 3312	n.a	\$54 million

8	Yulong Technology Building Materials Co. Ltd	Gypsum board gypsum powder, gypsum blocks	Manufacturing concrete products Gypsum products Sic 3273	2010	\$420000
9	Zhongshun cement Manufacturing Co, Ltd	Cement Production	Manufacturing concrete products/cement, hydraulics SIC 3241	2008	\$11 million
10	Hua Jian Shoe Co Ltd	Leather shoes	Wholesale trade/Footwear SIC 3711	2011	-
11	Changfa agricultural Equipment Manufacturing	Agricultural equipment e.g tractors, harvesters and engines	Manufacturing /farm machinery and equipment SIC 3523	2011	-
12	Higer Pickup KD	Pickups	Manufacturing/ Motor Vehicles passenger cars SIC 3711	2011	-

Source: Emelie Rohne (2013), compilation based on information provided by the Qiyuan group, the EIZ web page and news clippings

3.11. Prospects of the Eastern Industrial Zone

The success of the zone is dominantly dependent on the type and degree of support from the government side based on the area of existence of clear and sustainable provision, proper management of incentive packages and sound supervision. Accordingly during the assessment of this study, the following issues were observed as prospective of the EIZ.

The Government of Ethiopia has given due emphasis to ensuring fast and sustainable development of the industrial sector as pillar in the policy framework of GTP I. Experiences of successful countries shows that, SEZ serve as instrument to enhance industrial sector development. SEZ play the role of attracting international investors, generating foreign exchange, technology and knowledge transfer, encouraging domestic entrepreneurs, diversified economic growth, enhance competitiveness, etc. Hence establishment of EIZ has paramount importance in the in the industrial development of the country.

The eastern Industrial zone is located 35 km from capital city Addis Ababa on the main way to Djibouti, which the majority of import-export transaction of the country is managed. Debre Ziet, Dukem, and Gelan are the nearest urban centers with highly growing population, lab our force, tourism and residence and transportation. The zone is found at the area of prospective industrial corridor of the country which currently the road, railway, electricity and other infrastructures are already connected.

Access to outside infrastructure like highway, railway, and electricity are found good. Onsite infrastructure consists of internal road, water, necessary warehouse and office buildings are already established, which currently made the zone attractive for potential investors. Currently there is high demand from foreign investors especially from China to inter into the zone to leverage the advantages of these established facilities. When the potential

companies enter into the zone an opportunity for employment, technology transfer, linkage with (SME) and regional as well as local, export volume and revenue of government will increase.

As a result of the establishments of EIZ the long process to lease the land (this is due to red tape appears in the public office), the time spent to build facilities reduced. The reduced time taken to secure leases for land in the EIZ would therefore be of significant value to prospective investors, both domestic and foreign.

Regarding establishment of special economic zone there is a political commitment from Ethiopian government to enhance the global competitiveness of strategic and priority industries. Currently the government has already start working on clarifying policy direction, enacting laws (proclamation no 885/2015), establishing institution (industrial park corporation), facilitating financial availabilities. This government action would enable EIZ to solve the current existing challenges and offer an improved business environment to prospective investors.

The producers can enjoy highly growing and trainable labor force of the area. In addition there would be big regional and domestic markets for companies' product. Furthermore, companies can enjoy regional trade preferences in COMESA, AGOA and the European Union market.

3.12. Summary of the Major Findings

Based on the aforementioned brief highlights, this research has come out with the following major findings:

- During the establishment of the EIZ consultation was not fully participatory and planned. The consultation should involve mainly the affected and those found within the close vicinity of the projects site. The religious and Keble leaders, elders and youth group should also be part of the consultation process. Further more concerned stakeholders such as Tele, City water supply, ELPA and other offices are also required to be consulted about supports required, socio economic benefits of the project for the country, the local people and the general public in general.
- Prior to the establishment of the EIZ, based on the policy and procedures of the country as well as international standards, there has been no social and environmental impact assessment conducted and no environmental management plan has been realized for adverse effects that might occur.
- Initially the establishment of the zone was not based on legally enacted law rather it was based on MOU signed between the government of Ethiopia and Chinese consortium. As a result of the absence of the formation law, rules and procedures, the zone and its respective companies are working under challenging situation of absence of clear and transparent laws, institutional arrangement, support and regulation, custom clearance, logistic and infrastructure facility,

governance, operation and management systems, and stakeholder communication, etc.

- The industrial zone is found to be a significant potential source in absorbing local labor force by creating employment opportunity in the local setting. A case in point is that, since the establishments of the zone more than 16,500 employees have been deployed in different companies of the zone.
- This industrial zone is found to be a good role model for attracting foreign investors who have an intention to invest in such industrial zone development. Currently a total investment that worth USD 140 237 000 from 12, (3 big companies are not included) have been invested by investors of the zone in areas of manufacturing, steel, cement, garments, textile, vehicle motor, etc.
- Different company's products such as Shoe, Garment, Cement, Vehicle Motors, Steel, etc. are found to be good potential sources of revenue and thereby contributing to the economic development of the country.
- Though not well developed as required, the potential business prospect of EIZ in creating employment, technology and knowledge transfer and overall its

contribution to the country's economy development agenda is found to be significant.

- Absence of training and research centers in the zone for technology and knowledge transfer and diffusion to support the EIZ has resulted in relatively poor performance of operational activities thereby to support the country's industrial development.
- Despite some challenges and problems observed, this industrial zone is first of its kind in the country and hence, it is found to be a good center of excellence and bench mark for the upcoming industrial zones to be established in the country.
- The zone and its respective companies are not strongly working to make back or front linkage with the required entities of the locality, or to make partners with the local investors, based on the policy and directions of the country.

Chapter Four: Conclusion and Recommendation

4.1. Conclusion

This study attempts to investigate, examine and answer different relevant questions which related to EIZ. Achievements and challenges associated with the establishment of the Chinese based Industrial Zone located at Dukum in Eastern Shewa of Oromia Regional State.

Based on different views of different scholars on literature of global experiences, this paper identified the very fact that the establishment of special industrial zones has its own modality pertaining to area selection, clear policy with political commitments, institutional legal framework, governance structure, operation and management systems, financial and human resources, communication and economic linkage, social and environmental issues, technology and knowledge transfer. Accordingly, this paper critically assessed and examined the case of Eastern Industrial Zone (EIZ) from the view point of these stated parameters and came out with key findings articulated in the main body of the paper.

As discussed in the literature reviews clear policy, laws, regulatory framework, and institutional arrangements, separate administration identified as key determinant factors for SEZ's smooth and successful implementation. In this regard, as identified in the research EIZ established in absence of laws, regulatory framework

that articulates the roles and responsibility of each involved parties and separate institutional arrangements. As a result of these number of interrelated problems and challenges related to leadership and management, local and national linkages, technology and knowledge transfer, research and development center, social and environmental issues, strategic focus of marketing have been observed in the zone.

In general this paper presents different recommendations on the key area of Institutional Arrangement and its Legal Framework, leadership and management, Human and Financial, social and environmental issues, market, technology and knowledge transfer, center for training & research, economic linkages, among others.

4.2. Recommendations

Based on the findings of this study, the following are recommended.

- EIZ has been established with the absence of legal policy framework and as a result the scheme has encountered various problems related to absence of: clear and transparent roles and responsibilities; infrastructure facilities; custom clearance; incentive packages; coordination and communication with concerned stake holders; environmental and social impact assessment. However, recently the government enacted a proclamation of establishing Industrial park and or zone upon which every transaction of the SEZ is managed. Therefore all

challenges which have been occurred and identified through this research should be intervened by proclamation No (886/2015) of special economic zone especially based on rules and procedures to be emanated from the proclamation of same.

- The marketing plan of the EIZ should be integrated with the regional and national plan of the country and strategically focused to attract potential investors which can create back linkage, ensure value chain and promote technological and knowledge transfer of different business categories. In addition to this, the EIZ need to have a strategy of communication in order to have a linkage with concerned stakeholders (Business community, Government organizations, and local community) for its effective and efficient operational activities of the business.
- Training and research centers for technology and knowledge transfer and diffusion should be established within the EIZ in order to support the respective companies to be effective and efficient in its operational activities and thereby to meet its set targets.
- The EIZ should strive in as much as possible to develop and effectively practice all the required operational systems, administrative procedures with highly skilled

staff, and a committed management and close supervision of board to deliver quality business service to its constituents.

- The administration of employees of the EIZ respective companies should be in accordance with the labor should formally be documented in policy and procedures manuals. This will help to maintain and attract well qualified, experienced and competent employees from the labor market proclamation of the country origin. In addition to this improved salary scale and benefit packages must be well established with clear criteria for entry and advancement, and the system, and also could minimize turnover of labour force.
- Prior to the establishment of Industrial zone environmental and social impact assessment should be conducted as per conventionally set standard
- One of the industrial park development policies of the country is, to attract the investment type which, ensure linkages with small and medium industries and capacity to promote local inputs based on the country's comparative advantages. To check the alignment of the zone activities with the policy directions, the researcher recommends the following points for further research. This includes; linkages

of the zone with local master plan and local economy, ensuring domestic partnership, the impact of the zone and its respective companies on the balance of import-export, Potential adverse effect of social and environmental issues, especially pollution.

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