ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MASTER OF BUSINESS ADMINISTRATION PROGRAM

ASSESSMENT OF FOREIGN DIRECT INVESTMENT IN ETHIOPIA'S HORTICULTURE SECTOR: TRENDS, CHALLENGES AND PROSPECTS, AND ITS CONTRIBUTION TO DEVELOPMENT

BY

GIRMA BOGALE

JUNE, 2017

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN GENERAL MANAGEMENT

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ACKNOWLEDGEMENTS

As the process of working on my thesis is coming to an end, I would like to pay tribute to people from whom I have drawn immense support. My first word of gratitude is to my advisor Assistant Professor Teklegiorgis Assefa, who deserves my most sincere and heartfelt appreciation and thanks for his scholarly and academic assistance, patience and willingness, which he was kind enough to offer me. Moreover, his prompt responses in the process of reading and commenting the draft script of my essay, his valuable comments, and strategic guidance that he enthusiastically offered have certainly shaped my thesis to take its current essence and structure.

Moreover, in the course of this study, I have also benefited from the generous assistance of several individuals from various institutions. Therefore, I would like to express my gratitude to experts and officials in the Ethiopian Investment Commission, the Ethiopian Horticulture Development Agency, the Ethiopian Horticulture Producer Exporters Association, the Ethiopian Development Research Institute, Ministry of Trade, Ministry of Agriculture, and Oromia Investment Commission for their unreserved support in providing me with the required and necessary data and documents as well as taking part in the survey (responding to questionnaires and interview). Especially, my heart felt appreciation goes to those experts from the Ethiopian Horticulture Producer Exporters Association, for their effort in assisting me during the distribution and collection of questionnaires. In addition, I would also like to express my accolade to those horticulture farm managers/owners who took part in the survey and devoted their scarce time to respond to my questionnaires.

Furthermore, my appreciation and love also goes to my family members, my mother, father, brothers, sisters, and friends, who were a big support and I will always be indebted to you for sharing my dreams and being my rock during hard times. This project would not have been finished without the help of my friends and families. Especially, I am indebted and deeply grateful to my wife Elisabeth Aregawi and my daughters, Kana and Milko, who have a share in my success, through their tolerance and affection.

ACRONYMS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific Group
BOI	The Board of Investment
CBA	Cross-Border Acquisition
CBM	Cross-Border Merger
CIA	Central Intelligence Agency
COMESA	Common Market for Eastern and Southern Africa
DFQF	Duty Free and Quota Free
DI	Domestic Investment
EDRI	The Ethiopian Development Research Institute
EHDA	The Ethiopian Horticulture Development Agency
EHPEA	The Ethiopian Horticulture Producer Exporters Association
EIC	The Ethiopian Investment Commission
EPPESA	The Ethiopian Privatization and Public Enterprise Supervising Agency
ERCA	The Ethiopian Revenue and Custom Authority
ERR	Economic Risk Rating
EU	European Union
FDI	Foreign Direct Investment
FDRE	The Federal Democratic Republic of Ethiopia
FRR	Financial Risk Rating
FSS	Food Safety Standards
GAP	The Good Agricultural Practice
GDP	Gross Domestic Product
GI	Greenfield Investment
GNP	Gross National Product
GRV	The Great Rift Valley
GSP	The Generalized System of Preferences
GTP-I	The First Growth and Transformation Plan
GTP-II	The Second Growth and Transformation Plan

HCD	Human Capital Development
HDCs	Horticulture Development Corridors
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Virus
ICC	International Chamber of Commerce
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPDC	The Ethiopian Industrial Parks Development Corporation
IPM	Integrated Pest Management
ISO	International Organization for Standardization
MDGs	Millennium Development Goals
MIGA	The Multilateral Investment Guarantee Agency
MOA	Ministry of Agriculture
MOFEC	Ministry of Finance and Economic Cooperation
MOT	Ministry of Trade
OECD	Organization for Economic Cooperation and Development
OIC	Oromia Investment Commission
OLI	Ownership, Location and Internalization Advantages
PCI	Per Capita Income
R & D	Research and Development
SNNPR	The Southern Nations-Nationalities and Peoples Region
SPSS	The Statistical Package for Social Studies
UAE	The United Arab Emirates
UK	The United Kingdom
UN	The United Nations
UNCTAD	The United Nations Conference on Trade and Development
USA	The United States of America
USD	The United States Dollar
VAT	Value Added Tax
WB	The World Bank
WTO	World Trade Organization

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ABSTRACT

FDI plays an important role as an engine of employment, technological development, productivity enhancement, economic intensification, and more importantly, as an instrument of technology transfer, especially from developed to developing countries. Ethiopia having realized the inadequacy of the domestic capital and low national saving, opened several economic sectors to foreign investors. The country has also issued several investment incentives to encourage foreign investment. As a result, the main purpose of this study was to assess factors that affect FDI inflow, effectiveness, and growth in the Ethiopia's horticulture sector. The research also investigated the major contributions of FDI in the horticulture sector to the development of Ethiopia in terms of employment creation, generation of revenue, transfer of technology, linkage with domestic firms in boosting national productivity. It analyzed the main challenges and limitations of FDI in the Ethiopian horticulture sector which imped its effectiveness and growth. This study employed mixed research method, where both qualitative and quantitative analysis were applied, using both primary and secondary data. By adopting descriptive research design, questionnaires and interview were the main data collection instruments used to gather primary data from experts, foreign investors and officials of various relevant institutions. The sampling methods used were both probability and non-probability sampling. For the selection of FDI samples in the horticulture sector, cluster probability sampling procedure was employed. The target population constituted 28 medium and large firms in the horticulture sector that are foreign owned. In the selection of samples (110) from experts with better knowledge and information from various institutions, convenience and purposive non-probability sampling techniques were used. The result of this study indicated that the contribution of horticultural FDI to the development of Ethiopia has been constrained by various challenges of poor infrastructure, institutional bureaucracy, and other organizational and human elements. Therefore, it requires an effective intervention of those challenges and impediments enhancing basic infrastructure provision, training and developing skilled manpower, institutional reforms, enforcement of technology transfer and timely implementation of projects, regular environmental auditing as well as a continuous follow up or monitoring for effective implementation of FDI projects to exploit all the benefits of FDI in the Ethiopian horticulture sector.

Keywords: FDI, Ethiopia, Horticulture, Trend, Contribution, Challenges, Limitations, Prospects.

CHAPTER ONE

INTRODUCTION

This chapter deals with the introduction part under which the background, statement of the problem, the objectives, the research questions, significance, and scope of the study are comprised.

1.1. Background of the Study

Foreign Direct Investment (FDI) constitutes long-term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investor is based. It is one of the most striking features of the global economy today. The effects of FDI can be wide-ranging since it typically encompasses packages of capital as well as technical, managerial and organizational know-how (Aveh and Krah, 2013). As a key element of globalization and world economy, FDI is a driver of employment, technological progress, productivity maximization, and economic growth. It plays the critical roles of filling the development, foreign exchange, investment, and tax revenue gaps in developing countries (Vinh, 2012).

Moreover, FDI has an increasingly important role in the development of capital deficient developing countries. This is because, it is not only a stable source of capital inflows, but it also helps in technological transfer and employment generation. It also provides a viable way for developing countries to increase their savings, the surplus of capital account, improving balance of payment and macroeconomic stability of the country (Amanuel, 2014). As developing countries usually have low rates of capital accumulation, FDI is regarded as a vital supplementary source of capital to support domestic investment, to achieve economic growth. In addition to these, FDI provides the developing countries with better access to modern technology, easier technology transfer, promotion of knowledge diffusion, improving managerial and labor skills, etc. the phenomenon, usually referred to as spillover effect of FDI, which contribute to the increase in labor productivity of domestic enterprises and to economic growth (Francis, 2010).

Therefore, as a result of its diversified opportunities, the demand for FDI has increased rapidly, especially over the last few decades. Although the volume of FDI in developing countries has increased significantly overtime, its distribution has been characterized by large variations between and within different regions of the world. Many different factors have affected the volume and distribution of FDI in developing countries. The main beneficiaries of the major FDI inflows

have been the countries with political stability, favorable policies of tax and subsidies, existence of conducive business environment, better administrative policies and low level of corruption. Moreover, macro variables such as size of market, physical infrastructure, skilled labor force, trade openness, inflation, labor cost, productivity and interest rate are also reported as other important factors affecting FDI in developing counties (Yasmin, Hussain and Chaudhary, 2003).

Accordingly, FDI flows into Ethiopia have gradually increased in the last few years. Over the last two decades, foreign investors' perception towards Ethiopia has improved and put the country among the countries that have improved significantly in business start-ups. FDI stock in 2011 was almost five times that of 2000 (AREF, 2013). The annual inflow of FDI increased from US dollars 0.5 billion in 2007 to US dollars 1.2 billion in 2011 (US Department of State, 2015).

According to the EIC (2016), FDI is an important part of the industrial development, economic transition, business liberalization and macro-economic growth story in Ethiopia over the last two decades. FDI plays a dominant role in the economy of Ethiopia through accelerating Gross Domestic Product (GDP), export and domestic investment followed by overall economic growth. The areas with the most promising potential for investment are agriculture, agro-processing, textiles and garment, leather and leather products, tourism, mining, and hydropower. Especially, although only a decade old, the horticulture sector has an immense contribution in generating a huge amount of foreign exchange earnings of the nation.

Ethiopia, according to the EHDA (2016), is endowed with extensive natural resources such as fertile soil, excellent water resource and favorable climate that make the country suitable for the development of different varieties of flowers, vegetables, fruit, and herbs. The government is also providing the necessary support to investors engaged in the horticulture export sector apart from the availability of the attractive investment incentives packages. Due to the priority given to the horticulture sector, within a decade, it has grown rapidly. Currently, there are 136 domestic and foreign-owned companies operating in Ethiopia in the production of flowers, vegetables, fruit and herbs. Of the total, 83 are foreign and joint venture companies while the remaining 53 are local. The foreign currency secured from the sector has been growing from year to year; it is the fifth foreign revenue earner for Ethiopia, generating USD 274.62 million in 2015/2016 budget year compared to USD 28.5 million in 2004/2005. Due to the prevailing investment environment, attractive incentive packages and overall government supports, Ethiopia has become center of

attraction for FDI, in horticulture development. The country is now the second largest supplier and exporter of high quality flowers from Africa (EIC, 2017)

However, EIC (2016) data shows that even though a number of foreign investments are coming from different corners of the world, for the last few years the number of foreign investors flowing into the horticulture sector has been decreasing. Regardless of the country's high potential to investment and its comparative advantage to horticulture development, the actual FDI flow into the Ethiopian horticulture sector is not as expected. Moreover, the contributions of FDI to the development of Ethiopia is low regardless of the huge potential. The low contributions to development are manifested by low local employment opportunity, low revenue generation, weak linkage of FDI and domestic firms in terms of technology transfer, skill development and other positive spillover effects. Therefore, the main aim of this study is to assess the factors influencing the flow, performance and growth of FDI in Ethiopia's horticulture sector as well as to investigate its challenges, limitations and prospects. The study has also tried to investigate the very reason for the current low investment performance of FDI in the Ethiopian horticulture sector. It also attempted to identify the organizational inefficiencies of the investment projects and other factors external to the organizations in the horticulture sector that affect the effectiveness of FDI in contributing to the development of the country.

1.2. Statement of the Problem

Ethiopia has vast amount of arable land, favorable agro-climatic conditions and large labor force to attract investment in the horticulture sector. Although the country has ideal climate, abundant land and labor resource, it does not have adequate capital to develop this sector. Therefore, the country adopted a strategy which takes into account the country's abundant land and labor resources to achieve economic growth. In this regard, massive effort has been exerted to transform the economy (Ogalo, 2011).

According to the Proclamation No. 280/2002 of the investment policy of the FDRE, investments are designed to improve the living standards of the peoples of Ethiopia through the realization of sustainable economic and social development, create wide employment opportunities for Ethiopians and to foster the transfer of technical know-how, of managerial skills, and of technology required for the progress of the country. Although Ethiopia is one of the countries with the fast growing economy, according to MoFEC (2016), still there is a persisting poverty and

unemployment, both in rural and urban areas. Currently, the country is undertaking the GTP-II which is a robust plan requiring significant capital investment and technology transfer. However, due to the low saving of the country, there is financial inadequacy constraining in achieving development goals. Therefore, the government recognized the role of the private sector investment, in particular FDI, to fill the gap of the capital constraint (FDRE GTP-II, 2015).

By considering the significance and the role played by FDI in the horticulture sector, the country has put in place various policies and strategies to boost the growth and expansion of the sector. These efforts include the establishment of the Ethiopian Horticulture Development Agency (EHDA) to facilitate capacity building on pre and post-harvest management as well as value chain management practices, support in post-harvest technology and marketing of horticulture produce, provide support on investment (i.e. availability of information, land and credit facilities, logistics, and handling of security issues), and provide industrial support services and facilities to commercial scale investors and out-growers (EHDA, 2012). The government has also revised the investment proclamations several times and opened the sector to foreign investors with no restrictions. It has also issued several investment incentives, including tax holidays, duty free import of capital goods and export tax exemption to encourage foreign investment (EIC, 2016).

Even though Ethiopia's performance in attracting FDI in the horticulture sector is relatively good as compared to many African countries as well as it is the 4th largest non-EU exporter to the EU cut-flower market and the 2nd largest flower exporter from Africa (after Kenya) (EIC, 2016), however, according to the researcher's observations, there are far fewer FDI firms in the horticulture sector in Ethiopia than the country's size and potential can accommodate using its comparative advantage. Horticulture investments in Ethiopia are mostly smaller in scale by international standards and have not managed to attract huge foreign capital (Shiferaw, 2014). Ethiopia has many comparative advantages for agricultural investments, that make the country the priority choice for the development of horticulture. The country has ideal weather conditions and diverse agro-climatic zones for growing a wide array of fruits, vegetables, flowers and spices. It has also long growing seasons and available of water resources for irrigation, including 122 billion cubic meters of surface water and 2.6 billion cubic meters of ground water (EIC, 2016).

Moreover, though the country has all these comparative advantages and favorable conditions, the horticulture sector is only the fifth foreign revenue earner (only generating USD 245 million

foreign revenues in 2013/2014) (EIC, 2016). According to the EHDA (2016) report, the total number of FDI horticulture projects that are fully operational until January 2017 is only 71. In a country which is the second populous country in Africa, with more than 99.5 million people, and where 49.1 % of the population is between the ages of 15 and 54 years' old, the sector only employs 183,804 jobs, out of which 80 % are women. Even though Ethiopia has 513,000 square kilometers of arable land and the total land area currently readily available for export-oriented horticulture investments is about 49,300 hectares, only 12,797 hectares of this land has been developed. Although the horticulture sector is contributing to the development efforts of the country and foreign investors engaged in the sector are increasing in number as well as the size of land developed with flowers, vegetables and fruit has shown growth every year, the sector has also many challenges and limitations**.** Therefore, the researcher believes that to effectively exploit these opportunities and maximize the benefits, the flow, performance and growth of FDI in the horticulture sector should be examined.

Many studies have been conducted over time looking for factors affecting FDI in a given country. Several scholars empirically analyzed various factors including political risk, business conditions, and macroeconomic variables that have influenced FDI flows to developing countries. But so far, no empirical research has been done with regard to the factors affecting FDI inflows, effectiveness and growth in Ethiopia's horticulture sector, though the issue is worthy of investigation. When compared with other issues, it is one of the least explored areas. However, there are some scholars and experts who have tried to study the determinants of FDI inflow into Ethiopia, for instance, the following are some of these research works. According to Getinet and Hirut (2006) the growth rate of real GDP, export orientation, and liberalization have positive impact on FDI. On the other hand, macroeconomic instability and poor infrastructure have negative impact on FDI. These findings imply that liberalization of the trade and regulatory regimes, stable macroeconomic and political environment, and major improvements in infrastructure are essential to attract FDI to Ethiopia. According to Henok (2014), Ethiopia's role and its strategic location in the Horn of Africa make it preferable by foreign investment. Also government's investment incentive targeted for foreign investors is among the main driving factor. Other determining factors include political and social stability, and favorable climate. According to Solomon (2008), economic development, the political environment, and the business environment are the major determinants of FDI for African countries. This author also argues that a certain minimum level of development is a necessary

condition to attract FDI in Ethiopia. According to Tesfanesh (2012), trade openness, gross domestic product, gross domestic product growth, gross domestic product per capita, telephone line (per 100 people), gross fixed capital formation, inflation and the lag of FDI are determining factors for FDI inflow in Ethiopia.

Moreover, according to the EIC (2015), Ethiopia is attractive to FDI as the country has the following positive qualities: political and social stability, macroeconomic stability and rapidly growing economy, excellent climate and fertile soils, private sector-friendly government, strong guarantees and protections, abundant, affordable and trainable labor force, labor law of international standards, regional hub with access to a wide market, strategic location at the crossroads between Africa, the Middle East and Asia, competitive incentive packages, no tolerance to corruption, low crime rate in Africa, improved economic infrastructure, simple and transparent investment approval procedures. However, the Commission does not indicate the major factor for attracting FDI in Ethiopia.

However, the researcher found one journal article in relation to the factors influencing FDI inflows in Kenya's horticultural industry. According to Njoroge and Okech (2011), poor infrastructure, especially road network and telecommunications; cumbersome regulatory framework whereby potential investors are subjected to bureaucratic and multiple screening and approval system; erratic weather conditions; unfair investment policy requirements for foreign investors; unfavorable labor laws and trade union activities; inadequate policy framework for fair competition; stringent requirement imposed in the EU market are the major factors influencing foreign direct investment inflows in Kenya's horticultural industry.

Therefore, in order to complement this gap, this thesis intended to assess the country-level factors influencing FDI in the horticulture sector of Ethiopia. Thus, the main purpose of this study was to assess the factors influencing the flow, performance and growth of FDI in Ethiopia's horticulture sector as well as to investigate its challenges and prospects. To this end, the study was aimed at exploring the contributions of FDI in the Ethiopian horticulture sector in relation to local employment opportunity, revenue generation to the country, technology transfer and linkage with domestic investments. The study was also intended to assess the negative impacts or limitations of FDI in the Ethiopian horticulture sector. This study differs from previous studies in so far as it applied both qualitative and quantitative research approaches to analyze the factors that encourage

and discourage foreign investors from investing their capital into the horticulture sector and to recommend ways of resolving these barriers to FDI inflow and effectiveness. Moreover, the study tried to examine the effectiveness of activities undertaken by the Ethiopian government to attract investment into the horticulture sector.

1.3. Research Questions

1. What are the major factors attracting FDI to Ethiopia's horticulture sector?

2. What are the main contributions of FDIs in the Ethiopian horticulture sector to the country's development?

3. What are the factors that hinder the performance and growth of FDI in the Ethiopian horticulture sector? To what extent these factors influence the sector?

4. How does the policy, institutional and regulatory frameworks, and incentive schemes in place determine the extent of FDI flows, performance and growth in Ethiopia's horticulture sector?

5. What are the challenges and limitations of FDI in the Ethiopian horticulture sector?

1.4. Objectives of the Study

The thesis has the following objectives:

1.4.1. General Objective

Generally, the main objective of the study was to assess the major determining factors influencing the flow, performance and growth of Foreign Direct Investment in Ethiopia's horticulture sector as well as to identify the policies and practices that encourage and discourage more horticultural foreign investments in order to strengthen the economy of the country.

1.4.2. Specific Objectives

The specific objectives are: -

1. To assess the factors that attract FDI to Ethiopia's horticulture sector.

2. To examine to what extent the policy, institutional and regulatory frameworks, and incentive schemes in place affect FDI flow, performance and growth of Ethiopia's horticulture sector?

3. To investigate and assess the impact of FDI in the horticulture sector on national development of Ethiopia, especially with regard to local employment opportunity and revenue generation.

4. To describe and analyze the strategies employed by Ethiopia to attract and enhance international competitiveness for FDI in the horticulture sector**.**

5. To identify and analyze the challenges and limitations in the course of FDI in the Ethiopian horticulture sector.

1.5. Definition of Terms

There are two key words in this study namely Foreign Direct Investment and Horticulture. Various scholars, books and institutions define these terms in different ways. However, the following definitions will be working definitions in this thesis.

1.5.1. Foreign Direct Investment (FDI)

According to the International Monetary Fund (2016), the term 'Foreign Direct Investment (FDI)', "refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise.

FDI is also defined as cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Ownership of at least 10% of the voting power, representing the influence by the investor, is the basic criterion used (OECD-Library, 2016).

1.5.2. Horticulture

According to Merriam-Webster dictionary, the term 'Horticulture' refers to 'the science or art of cultivating fruits, vegetables, flowers, or ornamental plants. It also refers to the cultivation of a garden.' Similarly, the Oxford Dictionaries define the word as 'the art or practice of garden cultivation and management.'

According to Cropsreview.Com (2016), horticulture is 'the science and art involved in the cultivation, propagation, processing and marketing of ornamental plants, flowers, turf, vegetables, fruits, and nuts. It is unique among plant sciences because it not only involves science and technology, but it also incorporates art and principles of design.' It is also 'the art and science of plant production for both beauty and utility. Rather than staple crops, it focuses on value-added, luxury crops.'

1.6. Significance of the Study

Foreign Direct Investment (FDI) is an engine in the transformation of developing countries like Ethiopia, which lack domestic capital for investment, towards a better standard of life for several reasons. However, even though FDI has been highly recognized by the government of Ethiopia for its contributions to employment opportunity and in the achievement of poverty reduction, there are only few researches that have been conducted on the impacts of national economic growth and development as well as on the trends of FDI inflow. Especially, according to the opinion of the researcher, analyzing the factors influencing the flow, effectiveness and growth of FDI in Ethiopia's horticulture sector is the most under-researched area. By considering the gap, this particular thesis tried to assess the contributions of horticultural FDI for the development of the country through different mechanisms like employment opportunity, backward and forward linkage, revenue generation, technology transfer and other spillover effects. It also attempted to analyze the main factors that encourage and discourage FDI in the horticulture sector of the country. It also tried to investigate the challenges and limitations associated with FDI in the Ethiopian horticulture sector.

Therefore, as the main focus of this study is assessing the factors that influence FDI inflows, effectiveness and growth in horticulture sector of Ethiopia, its findings can be significant to both academicians and policymakers in the following way. First, this thesis helps the government to take some corrective measures in managing and better implementation of FDI in the horticulture sector. Second, the study also provides recommendations to policy-makers and stakeholders about how to maximize FDI inflows, effectiveness and growth in the country's horticulture sector. Third, it can also assist policy-makers in attracting private capital through FDI. Lastly, by adding to the knowledge of the researchers in this field of study, it can be also used as a background for other researchers who are interested in conducting research related to horticultural FDI.

1.7. Delimitation/Scope of the Study

This thesis intended to assess the country-level factors affecting FDI in the Ethiopian horticulture sector. Thus, it only tried to assess the factors affecting the flow, effectiveness and growth of FDI in the Ethiopian horticulture sector as well as to investigate its challenges, limitations and prospects. To this end, the study attempted to explore the contributions of FDI in the Ethiopian horticulture sector in relation to local employment opportunity, revenue generation to the country, technology transfer and linkage with domestic investments. The study also tried to investigate the negative impacts of FDI in the Ethiopian horticulture sector on the surrounding environment where the investments are operating. The study applied both qualitative and quantitative research approaches to analyze the factors that encourage and discourage foreign investors from investing their capital into the horticulture sector and to recommend ways of resolving these barriers to FDI inflow. Moreover, the study tried to examine the effectiveness of activities undertaken by the Ethiopian government to attract investment. However, the study did not take into account FDI in other sectors of the Ethiopian economy as well as domestic and joint venture investment in the Ethiopian horticulture sector.

1.8. Organization of the Research

The thesis is organized in five chapters. The first chapter deals with the introduction part under which the background, statement of the problem, the objectives, significance, and scope of the study are comprised. Chapter two briefly discusses both the conceptual, theoretical and empirical literatures relevant to the subject. The research approach and design, sources of data and methods of collection, sample size and sampling techniques and method of data analysis are included in chapter three. Chapter four deals with the results and discussion which includes data presentation, interpretation and discussion of the findings. The last chapter deals with summary of the findings, conclusions, recommendations, and limitations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter outlines the conceptual, theoretical and empirical frameworks of the subject under study, i.e. Foreign Direct Investment (FDI). The meaning, theories and the rationale behind FDI are discussed in this chapter. An attempt has been also made to assess various empirical findings in relation to the factors affecting FDI.

2.1. Conceptual Review of Literature

Trade and investment have always been a vital part of any economy and with the concept of globalization it reaches to the international level. The role of FDI in the development of countries is very crucial. It is widely recognized that FDI results in economic benefits to the host countries by providing capital, foreign exchange, technology and by enhancing competition and access to foreign markets. FDI takes place when an investor based in one country acquires asset in another country. In this process, the company investing in the host country also transfers assets such as technology, management and marketing (OECD, 2008).

2.1.1. Definition of Foreign Direct Investment (FDI)

FDI is the investment made by a company outside its home country. It is the flow of long-term capital based on long-term profit consideration involved in international production. This definition is correct but not complete as the important issues of control and management are not included in it. International investment has two forms (Francis, 2010). It could either be portfolio investment, where the investors buy some non-controlling portion of the stock, bond or any other financial security, or direct investment where the investor participates in the control and management of such business venture (Vyas and Giri, 2016). This is the type of investment by multinational companies and it tends to contribute more to economic growth than the portfolio investment. Internationalized production arises from foreign direct investment. This is the investment that involves some degree of control of the acquired or created firm which is in any other country apart from the investors' country. This involvement in the control of the investment is the main feature that distinguishes FDI from portfolio investment (Shiferaw, 2014).

FDI is not just a capital movement. In addition to capital, a controlled subsidiary often receives direct input of managerial skills, technology and other tangible and intangible assets. Unlike portfolio investors, direct foreign investors have substantial control over the management of foreign subsidiary (Solomon, 2008). Hence, an investment by a foreign investor is regarded as FDI if the direct investor holds at least 10% of the ordinary share or voting power of a firm (Francis, 2010).

Therefore, according to the WB (2012), FDI is defined as "the net inflows of investment to acquire a lasting management interest (10% or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments." Generally, it is possible to conclude that FDI is a form of investment, in which the investors provide investment capital in the manufacturing, agriculture, trade, and service sectors of a host country, and participate in management of investment activities with aims of profit collections (OECD, 2008).

2.1.2. Ways of Foreign Direct Investment

There are three ways of Foreign Direct Investment. These are:

2.1.2.1. Greenfield Investment

Direct entry of foreign firms into host country is known as Greenfield Investment (GI). It refers to the establishment of a new firm that in turn enables to create productive assets in a host country. It is a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. Usually, it is financed by capital coming from the investor's country (Sarbu and Gavrea, 2014).

2.1.2.2. Cross-Border Merger and Acquisition

According to UNCTAD (1998), a transfer of ownership of local productive assets to a foreign investor is referred as cross border merger and acquisition. A Cross-Border Merger (CBM) is a transaction in which the assets and operation of two firms belonging to or registered in two

different countries are combined to establish a new legal entity. In this case, the stocks of the companies are surrendered during the amalgamation process and the new company's stocks are issued in the process (Neary, n.d). However, in the case of Cross-Border Acquisition (CBA), the control of assets and operations is transferred from a local to a foreign company, with the former becoming an affiliate of the latter. Here, the local company ceases to exist and becomes an affiliate of the foreign company. An acquisition can be forced through a majority interest in the management, by purchasing shares in the open market, or by offering a take-over proposal to the general body of the shareholders (Sarbu and Gavrea, 2014).

2.1.2.3. Reinvested Earnings

According to UNCTAD (1998), Reinvested Earnings refer part or all of the profit that is not repatriated to the investor's country but reinvested in the host country.

2.1.3. Characteristics of Foreign Direct Investment

According to Vinh (2012), the following are major characteristics of FDI. First, FDI is the main form of foreign investment by individual capital. This means when compared with other form of foreign investment, FDI is an efficient investment form, which has no connection of politics, and burdens of economic debt for host countries. Moreover, it also brings practically high economic efficiency.

Second, foreign investors have the right to control the whole of investment activities of enterprises if these are wholly foreign capital. According to their capital contribution ratio, they can also join to run joint-venture enterprises, which insists on the division of rights and responsibilities as well as profits and risks between investors (*Ibid*).

Third, through FDI, host countries not only receive capital, but also obtain technology, modern techniques and skills, management experiments, etc. Accepting FDI does not increase debit of host countries. By contrast, it helps them to exploit and use effectively their domestic resources (*Ibid*).

Finally, the FDI capital not only is initial investment capital under authorized capital form, but also includes borrowing capital of enterprise to implement or enlarge business as well as investment capital from executive profit (*Ibid*).

2.1.4. Classifications of Foreign Direct Investment

According to UNCTAD (1999), FDI can be classified from the perspective of the investor (the source country) and from the perspective of the host country.

2.1.4.1. Classifications of FDI from the Perspective of the Investor (the Source Country)

According to UNCTAD (1999), from the perspective of the investor, FDI can be categorized into:

2.1.4.1.1. Horizontal Foreign Direct Investment

Horizontal FDI is undertaken for the purpose of horizontal expansion to produce the same or similar kinds of goods and services abroad (in the host country) as in the home country. Hence, product differentiation is the critical element of market structure for horizontal FDI. More generally, horizontal FDI is undertaken to exploit more fully certain monopolistic or oligopolistic advantages, such as patents or differentiated products, particularly if expansion at home were to violate anti-trust laws (Barauskaite, 2012).

2.1.4.1.2. Vertical Foreign Direct Investment

Vertical FDI, on the other hand, is undertaken for the purpose of exploiting raw materials (backward vertical FDI) or to be nearer to the consumers through the acquisition of distribution outlets (forward vertical FDI) (*Ibid*).

2.1.4.1.3. Conglomerate Foreign Direct Investment

In this type of investment, the investment is made to acquire an unrelated business abroad. It is the most surprising form of FDI, as it requires overcoming two barriers simultaneously, i.e. the first is entering a foreign country and the second is working in a new industry (*Ibid*).

2.1.4.2. Classifications of FDI from the Perspective of the Host Country

From the perspective of the host country, FDI can also be classified into:

2.1.4.2.1. Import-Substituting Foreign Direct Investment

Import-substituting FDI involves the production of goods previously imported by the host country, necessarily implying that imports by the host country and exports by the investing country will

decline (Adjei, 2007). This type of FDI is likely to be determined by the size of the host country's market, transportation costs and trade barriers (Byun, Lee and Park, 2012).

2.1.4.2.2. Export-Increasing Foreign Direct Investment

Export increasing FDI, on the other hand, is motivated by the desire to seek new sources of input, such as raw materials and intermediate goods (Adjei, 2007). This kind of FDI is export-increasing in the sense that the host country will increase its exports of raw materials and intermediate products to the investing country and other countries (where the subsidiaries of the multinational corporation are located) (Mammadova and Coskun, 2015).

2.1.4.2.3. Government-Initiated Foreign Direct Investment

Government- initiated FDI may be triggered, for example, when a government offers incentives to foreign investors in an attempt to eliminate a balance of payments deficit (Adjei, 2007).

2.1.5. Motives of Foreign Direct Investment

According to Sarbu and Gavrea (2014), in order to understand the motives of FDI, it is better to explore it from the following two perspectives:

2.1.5.1. Motives of FDI from the Perspective of the Investor (Multinational Firms)

There are a variety of motives for a firm to engage in FDI (Sarbu and Gavrea, 2014). The following are the major motivations of multinational firms to internationalize through FDI:

2.1.5.1.1. Resource-Seeking (Location-Specific) Foreign Direct Investment

This type of FDI is carried out when the investing firm’s aim is to get access to high quality resources in the host country which are not obtainable in home country, or at a lower cost than in the home country. In general, the resources concerned can be natural resources, raw materials, or low cost labor (unskilled, average skilled, cheaper or specialized) (Sakr and Jordaan, 2016).

2.1.5.1.2. Market-Seeking Foreign Direct Investment

In this case, the main aim of the FDI is to provide goods and service to local or regional market which is motivated by market size, market growth forecast, and the company's market shares or competition. The investors who are seeking market size for investment need to have host countries which have a large market size, high potential of market growth and high per capital income

(Maskus, 2003). These investments, typically, are in the areas of production of consumer goods and industrial products. In some cases, providers may be concerned following client companies. Therefore, investors seeking markets often use this measure to overcome trade barriers and are more concerned on responding to market need than reducing costs (Gari and Josefsson, 2004).

2.1.5.1.3. Efficiency-Seeking Foreign Direct Investment

This is a condition when choosing FDI will be most beneficial or profitable to the firm. This motivation to invest is often found in a stage of maturity of the operations of a foreign firm that initially invests for natural resources or new markets and then consolidates its business through investments aimed at increasing efficiency. Such investments are made in cases where the investor has long-term plans or unlimited if access to regional markets is free, and those markets are well developed (Driffield and Love, n.d).

2.1.5.1.4. Strategic Asset-Seeking Foreign Direct Investment

In this case, the main source of company competitive is the fact that multinational firms pursuing a global or regional integration strategy and to ensure competitive power in an unknown environment. These investments can be found when companies decide to purchase certain assets or entering into alliances in order to promote long-term strategic interests (Gari and Josefsson, 2004). For example, a multinational firm can buy a local company (including participation in the privatization of state owned enterprises) to establish the presence of a target market. FDIs made for this purpose are found especially in developed countries (Maskus, 2003).

2.1.5.2. Motives of FDI from the Perspective of the Recipient/Host Countries

These motives of FDI are based on expectations of host countries regarding obtaining benefits as:

2.1.5.2.1. Creation of Jobs

FDI is the focus of attention for the governments of host countries, as it creates new jobs as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more purchasing power to the people, which in turn leads to an economic boost as well as acquiring better standards of life (USC, 2013).

2.1.5.2.2. Increase of the Amount of Capital Invested in the Economy

In many cases, local capital markets do not have sufficient resources to meet capital needs arising from major projects. Moreover, access to foreign currency needed for purchasing equipment and technology is not always available. While domestic investments add to the capital stock in an economy, FDI plays a complementary role in overall capital formation by filling the gap between domestic savings and investment (Moosa, 2002).

2.1.5.2.3. Increase of Government Budget Revenues

FDIs represent new contributors to the economy. Even if investors benefit from certain tax incentives, government budget revenues increase due to increased revenues from payroll taxes (as the result of the creation of new jobs or of higher wages when the number of jobs is maintained unchanged). Moreover, in the case of export-oriented FDI, the activity also leads to an increase in foreign exchange inflows in the host country (Cordero and Paus, 2008).

2.1.5.2.4. Access to Modern Technology

The infusion of technology can have stimulating effects for the economy by promoting local innovation and spreading modern technologies in other companies than the one where the initial investment was made (OECD, 2002). Moreover, FDI has the potential to bring social and economic benefits to host economies through the imitation and dissemination of good practices and technologies within foreign firms, and through their subsequent spillovers to domestic enterprises (Fan, 2002).

2.1.5.2.5. Access to Modern Managerial and Technological Skills

FDI apparently benefits indirectly through knowledge spillovers like managerial skills and latest technology acquired from foreign enterprises as foreign investors bring modern management practices that they share with local stakeholders and give the opportunity for the development of human capital resources. This may result in domestic businesses and also enhances the quality of domestic human capital (Aleksynska, 2003).

2.1.5.2.6. Development of Human Capital Resources

Human capital is the competence and knowledge of those able to perform labor. Foreign investors develop activities which usually need high skilled labor. Therefore, they are interested in

increasing the level of training in the workforce (OECD, 2002). When the employees of these companies are moving to other sectors or start their own business, a diffusion of acquired knowledge occurs in the entire economy of the host country (Aleksynska, 2003). The attributes gained by training and sharing experience would increase the education and overall human capital of the host country (Moosa, 2002).

2.1.5.2.7. Stimulating Domestic Investments

FDI may lead to an increase in domestic investment, as domestic firms may become suppliers of foreign investors, gain access to their distribution infrastructure or just be stimulated to invest in order to face competition arising from foreign investment (Fan, 2002).

2.1.5.2.8. Access to Markets and Export Increase

The main trade-related benefit of FDI for developing countries lies in its long-term contribution in integrating the host economy more closely into the world economy through higher imports as well as exports (USC, 2013). Foreign investors bring not only investments, but also access to distribution channels and expertise in global market sales. FDIs will open a wide spectrum of opportunities in the trading of goods and services both in terms of import and export production (OECD, 2002).

2.1.5.2.9. Supporting Privatization and Restructuring

Certain types of privatization require large amounts of capital and the ability to perform complex economic analysis (Zekos, 2005). Foreign investors can help in this respect, not only by their ability to raise large sums of money for the purchase of an enterprise, but also by the capacity to make further investments and to bring quick efficiency in the privatized company (USC, 2013).

2.1.5.2.10. Improving Efficiency and Competitiveness in Local Companies

Companies owned by foreign investors could bring opportunities on a local market (Zekos, 2005). Local companies may become suppliers to these foreign companies, gain access to new technologies and diversify their production or they may raise the quality of products and management, being stimulated by a high quality competitor (Almfraji and Almsafir, 2013).

2.1.5.2.10. Economic Growth

When domestic savings and investment are incremented by foreign investments, it results in increased trade and productivity which will in turn provide more employment and growth in foreign exchange earnings of a country. This situation ultimately contributes to an increase in the Gross Domestic Product (GDP) and thereby ensuring economic growth (Aleksynska, 2003).

2.1.6. Constraints of Foreign Direct Investment

Understanding the benefits and the drawbacks of FDI is decisive to formulate a sound policy. In recent times, although the policy that favors FDI dominates, there are also views that challenge the benefits of FDI in developing countries (Lattore, 2008). Currently, many individuals and groups argue that the adverse effects of FDI outweigh its benefits. According to their argument, apart from the wide array of positive impacts of FDI inflows to a host country's economic growth, it also has some constraints which is debatable such as:

2.1.6.1. Exploitation of Resources

The over-exploitation of natural resources of a host country is a common phenomenon in the case of FDI. Foreign firms have been known to indiscriminately exploit the resources of host countries in order to get short-run gains and profits and have even chosen to ignore the sustainability factors associated with the local communities and their environment (UNCTAD, 2010).

2.1.6.2. Threaten Small Scale Industries

Multinational companies have large economic and pricing power due to their large sizes. They do not have much problem with regard to financial capital and also use excessive advertisements. They are also global players who have their operations spread across countries and have effective supply chains which enable them to have economies of scale which smaller players in the domestic market of the host country cannot compete with. All this results in the foreign firms having cheaper products and more visibility due to the higher amounts of advertising and have been known to push out smaller domestic companies out of business (Banerji, 2013).

2.1.6.3. Technology

Many anti-FDI views argue that even though foreign companies have access to new and cutting edge technology, most of the time they do not transfer the latest technology to the host country

with a fear that their home country may lose its competitive advantage. Therefore, the maximum potential of the host economy cannot be achieved as a result of old technology transfer (USC, 2013).

2.1.6.4. Inappropriate Consumption Patterns

According to many anti-FDI scholars, foreign firms stimulate inappropriate consumption patterns through excessive advertising, creating a false status issues by consuming international brands and monopolistic market power. The products made by these companies for the domestic markets are not necessarily low in price and high in quality. Moreover, their technology is generally capital intensive which does not suit the needs of a labor surplus economy (Petrovic and Stankovic, 2009).

2.1.6.5. Influencing Political Decisions in Developing Countries

Several anti-FDI views argue that due to their large size and power, foreign firms may jeopardize the national sovereignty and control over economic policies of host countries. In extreme cases, foreign firms may bribe public officials at the highest levels to secure undue favors as well as they may contribute to friendly political parties and subvert the political process of the host country (Akwawo, 2013).

2.1.6.6. Ambiguity in Providing Desired Impact to the Economic Growth

According to anti-FDI views, foreign firms may or may not have the desired and expected growth-enhancing impact on the economy of host countries. FDI might enter into a labor-abundant country with capital-intensive technologies, however, if the labor laws that country are not flexible, this would have a relatively lesser impact on employment generation (Banerji, 2013).

2.2. Theoretical Review of Literature

Theories of the determinants of FDI can be divided into two broad categories:

2.2.1. Micro-Level Theories of FDI

The micro-level theories of determinants of FDI try to provide answer to the questions why multinational companies prefer opening subsidiaries in foreign countries rather than exporting or licensing their products, and how these companies choose their investment locations and why they invest where they do (Hodovic and Miehic, 2009).

2.2.1.1. The Early Neoclassical and Portfolio Investment Approaches

According to the Early Neoclassical approach, interest rate differentials are the main reason for the firms to become a multinational company. In this line of arguments, capital moves from a country where return on capital is low to a place where return on capital is high. This approach is based on perfect competition and capital movement free of risk assumptions (Nayak and Choudhury, 2014).

The Portfolio approach to FDI reacted to this early theory of FDI by emphasizing not only return differentials but also risk. However, the movement of capital is not unidirectional. Capital moves from countries where return on capital is high to countries where return on capital is low and vice versa (Trapczynski, 2013).

2.2.1.2. The Product Life Cycle Theory of FDI

According to this theory, new product is first produced and sold in the home market. At the early stage, the product is not standardized, i.e. per unit costs and final specification of the product are not uniform (Denisia, 2010). As the demand for the product increases, the product will be standardized. When the home market is saturated, the product will be exported to other countries. The firm starts to open subsidiaries in locations where cost of production is lower, when the competition from the rival firms intense and the product reaches its maturity. Therefore, FDI is the stages in the product lifecycle that follows the maturity stage (Marszk, 2014).

Product Life Cycle theory is a dynamic theory because it deals with changes overtime. However, it seems that the theory is not confirmed by empirical evidence, as some multinational companies start their operations at home and abroad simultaneously (Denisia, 2010).

2.2.1.3. Internalization Theory of FDI

According to the Internalization theory, to increase profitability, some transactions should be carried out within a firm rather than between firms and this is one of the reasons why multinational companies exist. In other words, there are transactions that should be "internalized" to reduce transaction costs and hence increase profitability (Fan, 2002).

This theory tries to answer the question why production is carried out by the same firm in different locations. One of the reasons of internalization is market imperfection. Moreover, any kind of

economically useful knowledge can be called technology. Mostly, this technology or knowhow can be sold and licensed (Morgan and Katsikeas, 1997). However, sometimes, there are technologies that are embodied in the mind of a group of individuals and not possible to write or sale to other parties. This difficulty of marketing and pricing know-how forces multinational companies to open a subsidiary in a foreign country instead of selling the technology. In addition, a number of problems may arise if an output of a firm is an input to other firm in other country (Denisia, 2010). For instance, if each has a monopoly position, they may get into a conflict as the buyer of the input tries to hold the price down while the firm that produces input tries to raise it. Nevertheless, these problems can be avoided by integrating various activities within a firm rather than subcontracting the activities (Marszk, 2014).

2.2.1.4. The Eclectic Theory of FDI or OLI Paradigm

According to the Eclectic theory (OLI - Ownership, Location and Internalization advantages), operating in a foreign country market has many costs and these "costs of foreignness" include a failure of knowledge about local market conditions, cultural, legal and many other costs (Morgan and Katsikeas, 1997). Therefore, foreign firms should have some advantages that can offset these costs. Ownership advantage is a firm specific advantage that gives power to firms over their competitors. This includes advantage in technology, in management techniques, easy access to finance, economies of scale and capacity to coordinate activities. Unlike ownership advantages, location advantages are country specific advantages (Sukhoruchenko, 2007). In order to fully reap the benefit of firm specific advantages, multinational companies should consider the location advantage of the host country (Marszk, 2014). This includes accessibility and low cost of natural resource, adequate infrastructure, political and macroeconomic stability. As a consequence, the location advantage of the host country is one essential factor that determines the investment decision of these firms. Internalization advantage is multinational companies' ability to internalize some activities to protect their exclusive right on tangible and intangible assets, and defend their competitive advantage from rival firms (Kastrati, 2013).

2.2.2. Macro-Level Theories or Determinants of FDI

According to Hodovic and Miehic (2009), the macro-level determinants of FDI deal with the host countries situations that determine the inflow of FDI. These include any host country's situations that affect the inflow, effectiveness and growth of FDI, like market size, the economic growth rate,

GDP, infrastructure, natural resource, the political situation, etc. However, the following are the major determining factors:

2.2.2.1. The Size of Domestic Market

According to IMF (1999), the size of the domestic market is a fundamental determinant of FDI. A large market can help firms producing tangible products to achieve economies of scale. The wealth and development of a country can be used as proxy to measure the size of the domestic market (Matei, 2007). Most commonly, per capita income (PCI), which is an indicator of effective demand, is used to measure the size of local market. In addition to PCI, the GDP of a country and the population size are also used as indicators to measure the size of local market (Hodovic and Miehic, 2009). However, if a firm is export-oriented and not market seeking, the size of domestic market will not be an important determinant of FDI (Straker, n.d.).

2.2.2.2. Natural Resources

Natural resources, historically, are the most important determinants of FDI. The need to secure economic and reliable sources of mineral and primary products or natural resources is the major reason for the expansion of FDI. Therefore, countries that have sufficient deposit of some minerals can attract foreign investors, particularly those involved in exploitation of natural resources (Hodovic and Miehic, 2009).

2.2.2.3. Level of Infrastructure

According to Capital Markets Consultative Group (2003), in today's globally competitive business environment, lack of efficient infrastructure means not only high transaction costs for those that are already in business but also a barrier to entry for new firms. Infrastructure development has high importance for the expansion of FDI as efficient and adequate infrastructure implies better access to natural resources and potential market. The availability and reliability of telecommunication services, developed and adequate road and air transport services, reliable water and electricity supply facilities have paramount importance for the profitability of foreign companies and in attracting FDI.

2.2.2.4. Labor Cost and Productivity

Labor cost is also one of the factors that affect the investment decision of foreign investors and this fact has been proven in numerous locations throughout the world. In addition to cheap labor, the out-put labor ratio (labor productivity) also determines the inflow of FDI (Matei, 2007).

2.2.2.5. Inflation

Inflation reduces the real return on investment and firms' competitiveness, through its effect on the cost of inputs and the price of outputs. Low and predictable inflation rate is central for the long-term investment of both domestic and foreign companies. Therefore, countries that pursue policies that reduce inflation rate have better chance in attracting FDI while higher and unpredictable inflation will decrease the inflow of FDI (Lo, Lin, Chi and Joseph, 2013).

2.2.2.6. Exchange Rate Variability

Frequent and erratic changes in exchange rate of the domestic currency affect the inflow of FDI. On the one hand, the real value of foreign investors' capital increases when the host country's currency is devalued (Oliveira, 2001). On the other hand, frequent and continuous declines in the value of host country's currency would decrease FDI inflow, as it creates high uncertainty (Lo et al, 2013).

2.2.2.7. Foreign Debt

Excessive foreign debt is one source of instability and uncertainty in macroeconomic environment of developing countries and hence this foreign debt is likely to affect adversely the inflow of FDI. Excessive foreign debt may signal imminent fiscal crises and foreshadow the future economic situation in a county (Amadeo, 2016).

2.2.2.8. Fiscal Deficit

The fiscal deficit of a government, whether it is financed through printing additional bank notes or through taxation (which equally leads to inflation), decreases the real return on investment. Moreover, in many developing countries it is apparent that due to excessive government borrowing, the financial resources available for the private sector are limited and the interest rate is high. Therefore, there is a negative relationship between fiscal deficit and FDI inflows (Oliveira, 2001).

2.2.2.9. Geographical Proximity

In the current global economic structure, geographical proximity and cultural and linguistic affinities are becoming one important determinant of FDI. FDI from developed to developing countries, especially, is influenced by geographical proximity (Amadeo, 2016).

2.2.2.10. Political Stability

The economic process of a country and in particular the inflow of FDI into a country can be disrupted by unsettled, implicit or explicit, internal or external political instabilities and crises (Kerner, 2014). Without stable political conditions, whatever the economic environment may be, a county's effort to create a more hospitable environment for foreign investors cannot be fruitful. Political instabilities can delay FDI until the storm weathers away or diverts away for good (Bartels, 2009).

2.2.2.11. Legal and Regulatory Framework

While stable, transparent and reliable legal and regulatory frameworks promote both domestic and foreign investment, an inefficient and ineffective legal system is an impediment to enforce laws and contracts. Therefore, fostering an efficient and transparent legal system and regulatory frameworks can make a country attractive for FDI (Kerner, 2014).

2.2.2.12. Privatization

Privatization provides a concrete opportunity for multinational companies to invest in a country. It has generated substantial amounts of FDI in many developing economies. Sound privatization programs have three main characteristics: political commitment, business orientation, and transparency. Large-scale privatization programs send a signal to foreign investors that a government is taking steps to create a climate conducive to FDI. Thus, privatization of state-owned infrastructure and industrial enterprises would have great impact on FDI flows (Sarbu and Gavrea, 2014).

2.2.2.13. Regional Integration (Access to Regional Markets)

Through creating access to regional markets, regional trade agreements can play an important role in terms of enhancing FDI inflows to member countries. Thus, strong regional integration through trade agreements can influence the investment decisions of foreign firms. Regional integration is

a determinant of market-seeking FDI (Bartels, 2009). However, the benefits of regional integration depend on a respective country's domestic market size, level of infrastructure development and availability of skilled and cheap labor force compared to other member countries (Page and Velde, 2004).

2.2.2.14. Investment Promotion Strategy and Incentive Structure

Investment incentives are FDI policy instruments used to attract foreign investors. These include tax reductions and exemptions, special tax allowances, financial incentives such as low interest loans, subsidies as well as grants (Sarbu and Gavrea, 2014). Investment guarantees (e.g. guarantees for repatriation of capital and transfer of profits, and guarantees for provision of foreign currencies) can also be seen as an incentive to attract foreign firms. Bilateral and multilateral investment treaties are also incentive to increase investment, through creating a predictable investment climate, thereby improving direct foreign investors' confidence (Johnson, 2005). However, investment incentives are not substitutes for other determinants like infrastructure and market size. This clearly indicates that the effectiveness of investment incentives is highly determined by the host country's level of development (Bartels, 2009).

With regard to investment promotion, it is particularly vital in developing countries. Image building, investment generation and investors servicing are the three main elements of successful investment promotion. Investment promotion agencies can help the investment process if they identify sectors and clusters of activities where comparative advantages exist and where new ones can be developed (Johnson, 2005).

2.3. Empirical Review of Literature

Many empirical studies have been conducted to identify the factors that influence the inflow, effectiveness and growth of FDI in different countries. These studies have examined a large number of variables that have been set forth to explain FDI. The variables which have been identified as determinants of FDI vary from study to study and from country to country. Regardless of the underlying hypothesis or the classification of these variables, these empirical studies have considered different combinations of these variables with mixed results. Some of these variables are included in formal hypotheses or theories of FDI, whereas others are suggested because they make sense instinctively. Therefore, in reviewing these studies it is difficult to drive one list of

determinants of FDI. In the following few paragraphs, some of the factors affecting FDI inflows, effectiveness and growth are explained in the light of earlier empirical studies.

2.3.1. Factors Affecting FDI in A Host Country from the Perspective of Empirical Findings

According to Mondal (2016), generally speaking, host country's strong economic growth, huge labor force and high educated workforce, and access to capital and institutional support are some of the main factors favoring FDI inflow, effectiveness and growth. However, the author further argues that host country's poor infrastructure, rigidity in the labor market, bureaucracy and corruption, state level obstacles (taxes policies), legal delays are the most important factors discouraging foreign direct investment inflow.

According to Gyurova (2012), in identifying the determinants of FDI in Bulgaria, market attractiveness, low labor costs and EU membership are leading investment incentives whereas bureaucracy and high corruption are major barriers. Moreover, slow government reforms, unclear legislation, unpredictability of laws and regulations and ineffective judiciary are also other problems representing the low quality of institutions, according to this study.

Khrawish and Siam (2010) have studied the determinants of FDI in Jordan. Their analysis revealed that there exists significant and positive relationship between FDI flows into the economy of Jordan and economic and financial variables. The study claims that FDI promotion through incentives through providing targeted fiscal incentives, such as tax concessions, cash grants, and specific subsidies; improving domestic infrastructure; promoting local skills development to meet investor needs and expectations; establishing broad-reaching FDI promotion agencies and improving the regulatory environment and decreasing red tape attract new investments.

Gharaibeh (2015) examined the main determinants of FDI inflows into a host country, by exploring the case of Bahrain. The results of this study stated that country welfare represented by general government consumption expenditure, inflation rate, economic stability represented by annual interest rate, labor force, trade openness, public education, and population have significant relationships with FDI inflows into Bahrain. Therefore, these factors were considered as the main determinants of FDI inflows into Bahrain. On the other hand, according to this author, export potential represented by country export value index, market size represented by GDP growth,

exchange rates, and infrastructure were found to have insignificant relationships with FDI inflows into the country.

Gul, Sajid, Afzal, Khan and Mughal (2012) also assessed the factors influencing FDI in Pakistan. The most important finding of this study is that FDI and economic growth have strong positive association. The authors also argued that FDI and GDP have a strong positive association. According to their argument, the relationship between FDI and inflation is also positive though their association is not very strong.

Tsikata, Asante, and Gyasi (2000) have also investigated the determinants of FDI in Ghana. According to their empirical findings, the incentive structure of the government has been highly instrumental in re-shaping the economy into a relatively FDI-friendly environment. They also argue that the ongoing democratic governance in the country seems to provide reassurance to investors, in terms of property and human rights guarantees in their operations. Most importantly, according to their argument, investors consider the investment climate as a major factor in their decision-making. Further, they also argued that uncertainties in the economy, exchange-rate instability, exorbitant interest rates, bureaucratic red tape at the ports, inadequate supply of utilities, especially electricity and water, and the gradual emergence of market pollution in terms of poor quality goods repackaged under reputable company brands are among factors inhibiting FDI inflows.

Mooya (2003) also investigated the determinants of FDI in Zambia. According to this author, political stability is necessary for attracting investment and political instability is expected to decrease FDI as it increases uncertainty. The author also explained that market size and growth as measured by GNP or GDP is a determinant and there is a dependent relationship between market size and FDI. This author also argued that as a lot of foreign investment is motivated by reducing transaction costs, the effects of the host country's economic conditions on the foreign investor's costs and competitiveness in foreign markets are also of central concern. Thus, the author emphasized that inflation rates and foreign exchange rates are particularly important in this regard. Moreover, according to the author, the development of modern and efficient infrastructure, especially the level of transport and communications facilities and reliable public utilities, is important in attracting FDI. The author also further argued that government policies towards trade

and foreign investment are significant in determining FDI inflow and effectiveness. These policies include using a variety of incentives as major part of their strategy to attract FDI.

Demirhan and Masca (2008) have applied a cross-sectional analysis to study the determinants of FDI flows to developing countries. They measured variables such as growth rate of per capita GDP, inflation rate, telephone main lines per 1,000 people, labor cost per worker in manufacturing industry, degree of openness, risk and corporate top tax rate to identify determinants of FDI flow. According to their econometric results, growth rate of per capita, telephone main lines and degree of openness have positive sign and are statistically significant. This authors also argued that inflation rate and tax rate present negative sign and are statistically significant. As they further argued, even though labor cost has positive sign and risk has negative sign, both of them are not significant in determining FDI flow into developing countries.

According to Lewis (2000), the following factors play important role in attracting FDI in developing countries. First, as the author argued, the education level of a country, especially in technological disciplines, is important in attracting FDI as it is moving from an unskilled type of labor to a more specialized, highly technical type of labor. Second, the long-term economic performance and stability of a country is also important in attracting FDI. According to the analysis of this author, having numerous large urban areas has also significance in attracting FDI since foreign investors are attracted to areas that contain large amounts of people and sufficient infrastructure.

Wilhelms (1998) also examined the determining factors of FDI in emerging economies. Through this study, the author argued that it is institutions, their policies and implementation that give a country a competitive advantage in the global FDI market. According to this author, governmental and market fitness play the central role in attracting FDI. The author further explained that economic openness to investment and trade, law and order, and a corruption free environment are the governmental fitness factors while market fitness is reflected in a balanced tax system, high trade volume, strong financial intermediation, and sound urban and rural infrastructure. As the author stated, urbanization also contributes positively to FDI inflows, probably through institutional concentration and residential sophistication.

Anyanwu (2011) also identified the determinants of FDI inflows to Africa from 1980 to 2007. According to his analysis, there is a positive relationship between market size and FDI inflows as

well as openness to trade has a positive impact on FDI flows. He also argued that higher financial development has negative effect on FDI inflows while high government consumption expenditure attracts FDI inflows to African countries. Moreover, he explained that natural resource endowment and exploitation (especially oil) attracts huge FDI into African countries.

Another scholar Kiiru (2014) also explored the determinants of FDI in Sub-Sahara African countries. In this study, positive economic growth and macroeconomic stability appear to be broad measures of how attractive or friendly the country is towards FDI in Sub-Saharan countries. According to the analysis of this author, these two factors tend to attract FDI as both factors typically go hand-in-hand with improvement in infrastructure, the rule of law, business environment and most importantly to growth in market size of the host country. Moreover, the author also viewed the ability to extract and export natural resources as a factor that attracts FDI despite the lack of economic growth, price stability and strong institutions in Sub-Saharan countries.

Basemera, Hisali and Bbaale (2012) also analyzed the role of institutions in influencing FDI inflows to three East African countries, namely Kenya, Uganda, and Tanzania. According to their findings, institutional variables particularly economic risk rating (ERR), financial risk rating (FRR), inflation, GDP per capita, openness of the economy, and corruption significantly influence FDI inflows to East Africa. However, they argued that, governance, law and order do not significantly influence FDI inflows.

2.3.2. Factors Affecting FDI in Ethiopia from the Perspective of Empirical Findings

A few empirical studies have investigated the factors that determine the inflow of FDI into Ethiopia. Getinet and Hirut (2005) analyzed the determinants of FDI in Ethiopia, through a time-series analysis from 1974 to 2001. According to their findings, growth rate of real GDP, export orientation, and liberalization have positive impact on FDI inflow. On the other hand, as they stated, macroeconomic instability and poor infrastructure have negative impact on FDI inflow into Ethiopia. They also argued that liberalization of the trade and regulatory systems, stable macroeconomic and political environment, and major improvements in infrastructure are essential to attract FDI to Ethiopia.

According to Solomon (2008), in order to identify the determinants of FDI in Ethiopia, the determinants to African countries should be first studied. Accordingly, the performance of least developed African countries in attracting FDI is highly related to their natural resource endowments. However, as the author argued, economic development, the political environment, and the business environment are the major determinants of FDI for the middle income African countries. Therefore, according to his analysis, a host country receives a diversified FDI or non-resource-seeking FDI when it reaches at a certain minimum level of development. As this author argued, this implies for Ethiopia, which is a resource poor least developed country, that a certain minimum level of development is a necessary condition to attract FDI.

Henok (2014) investigated the firm-level determinants of FDI inflows in Ethiopia, by taking the sample of foreign firms based in the capital Addis Ababa and the nearby cities. The findings of this author showed that domestic and regional market seeking, political and social stability and investment incentives were found as the main determinants of FDI. Whereas, according to the study, exchange rate volatility, corruption, and lack of clear policies and regulatory impediments were identified as the main factors that have the potential to deter FDI in Ethiopia.

Amanuel (2015) also empirically examined the factors affecting FDI flow in Ethiopia during 1990-2011, by applying multiple regression models. According to this study, trade openness and inflation rate are significant factors, while market size, infrastructure and human capital are found to be statistically insignificant factors for affecting FDI in Ethiopia.

2.4. Conceptual Framework and Model of the Research

In general, the flow FDI depend on a variety of macro-level characteristics of the host country. The macro-level determinants of FDI deal with the host countries situations that determine the inflow of FDI. These include any host country's situations that affect the inflow, effectiveness and growth of FDI, like market size, the economic growth rate, GDP, infrastructure, natural resource, the political situation, etc. These also include the general wage level, level of education, institutional environment, tax laws, and overall macroeconomic and political environment.

The aim of this research project is to assess the competitiveness of Ethiopia's horticulture sector from the perspective of the country's position in the international production network. From what was described above, this will entail the investigation of the locational advantages associated with

the country. The eclectic theory and in particular the investment development path will constitute an appropriate framework of analysis. This study stresses upon the location-specific advantages of in Ethiopia's horticulture sector. It argues that since labor cost varies among countries, firms with low cost technology move to low labor cost countries. Moreover, it is the availability of cheap and abundant raw material that encourages the foreign firms to invest in the county with abundant raw material. The impact of host country wage level or education level on FDI depends on the skill intensity of the particular production process in question and, hence, may vary from case to case. The impact of institutional quality, physical infrastructure, import tariffs, macroeconomic stability, and political stability on FDI inflow is usually positive whereas that of unfair corporate taxes tends to be negative.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In this chapter, the research approach and design, sources of data and methods of collection, population and sampling techniques, procedures of data collection, method of data analysis, reliability and validity of the study, and ethical considerations- are discussed.

3.1. Research Design

In light of the objectives of the study, the research design for this assessment was descriptive survey as the suitable design for the study. According to Neuman (2007), descriptive research presents a picture of the specific details of a situation, social setting, or relationship. It is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation (Shastri, 2010).

Descriptive type of research was used to assess the factors influencing the flow, performance and growth of FDI in Ethiopia's horticulture sector as well as to investigate its contributions to the development of the country in terms of employment, revenue generation, linkage with local investment and to analyze the challenges encountered by and limitations of FDI in the sector. Therefore, as it applied descriptive method, this study is a fact finding type of research, and it tries to answer the questions who, what, where, when and how of the research problem.

3.2. Research Approach

In order to achieve the objectives of the research, the researcher employed mixed methods, which incorporates both quantitative and qualitative methods of data analysis.

Qualitative research is characterized by its aims, which relate to understanding some aspect of social life, and its methods which generate words, rather than numbers, as data for analysis (Patton and Cochran, 2002). It is concerned with qualitative phenomenon, i.e., phenomena relating to or involving quality or kind. It is concerned with subjective assessment of attitudes, opinions and behavior (Kothari, 2004). In this study, qualitative research was used because FDI is implemented through organizations and by human beings with different cultural backgrounds, motivations, knowledge, stand points and so on, that act within particular contexts in certain boundaries. These aspects involve the complex process in which FDI is operating. Therefore, since the purpose of

the qualitative research method is to discover concepts and relationships in these kinds of settings, using several tools, it is necessary to develop a methodology of research which is adequate for this kind of complex environment.

The researcher also employed quantitative research approach. According to Kothari (2004), quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. It involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid fashion. In this research, quantitative method was employed, using statistical measures like percentage and frequency, based on the available data such as factors that attract FDI in the horticulture sector, the contribution of FDI to the development of the country and factors affecting the effectiveness and growth of FDI in the Ethiopian horticulture sector. The data gathered from respondents then were recorded, organized, tabulated, depicted and interpreted to analyze FDI in the Ethiopian horticulture sector.

3.3. Population and Sampling Techniques

In Ethiopia, there are 136 export-oriented horticulture investment projects which are currently fully operating in the country. Among these projects, 53 of them are domestic investments, 71 of them are FDIs and 12 of them are joint venture partnership. In addition to these, there are also a number of horticulture projects which are under pre-implementation and implementation stages, after taking investment licenses. The samples for the analysis were selected from the total population of 71 FDIs in the horticultural sector in the country which are currently under operation in the Five Horticultural Development Corridors: Oromia and Addis Ababa Corridor, Bahirdar, Abay Valley and South Gondar Corridor, Mekele-Raya and Kobo-Alamata Corridor, Awash, Dire Dawa, Harar and Somali Corridor, and Hawassa and Arbaminch Corridor.

The researcher employed cluster probability sampling procedure for the selection of FDI samples in the horticulture sector. Since there are similarities among investments in the sector, cluster sampling was used to select one cluster of the subject group from the sector. First, five clusters were formed based on the Five Horticultural Development Corridors (HDCs) which were already classified by the government. According to EHDA (2012), HDCs are those areas demarked with a maximum distance of 200 kilometers from centers (major airports), naturally endowed with potential land to be made accessible for establishment of nucleus commercial estates, existence of

potential farmers for the out growers' scheme, existence of labor, road and infrastructure that links the products with the external market.

Therefore, sample horticulture foreign investments operating in the Oromia and Addis Ababa Corridor were chosen as target population for the study. The target population constituted medium and large foreign-owned firms operating in the Ethiopian Rift Valley regions, on the road from Addis Ababa to Hawassa town. This area was purposely selected because a large number of varied horticulture firms are concentrated. The area was also chosen because it is highly convenient for collecting the data from respondents and it is fairly easy to administer as it is near to Addis Ababa. The total population was 30 FDI firms operating in the specified region which were considered to be the representative samples. The name list and full addresses of the FDI firms were obtained from the records available at the EIC, the EHPEA and the EHDA. When it comes to selecting individual horticulture firms, the researcher used convenience sampling in order to include accessible and willing owner/managers of the farms. Initially, the researcher planned to administer questionnaire to at least 28 horticulture FDIs. However, this was not possible mainly due to the unwillingness of five FDI owners (managers) and this eventually reduced the actual number who took part in the research to 23.

In the selection of samples from experts, purposive and quota non-probability sampling techniques were used, i.e. experts were purposely selected with the intention of obtaining the person that can provide more information about FDI. Hence, 110 experts were selected from the EIC, the EHDA, the EHPEA, Ministry of Agriculture, Ministry of Trade, the Ethiopian Development Research Institute, and Oromia Investment Commission. Regarding the selection of samples from government and other officials for the interview, purposive and snowball non-probability sampling techniques were used to get relevant and appropriate individuals that can better provide information on FDI in the horticulture sector. Therefore, six key informants were selected from the EIC, the EHDA, the EHPEA, Ministry of Agriculture, Ministry of Trade and EDRI. In addition, one employee was also interviewed from one of the FDI horticulture farms.

3.4. Data Sources and Instruments of Data Collection

As far as methods of data collection is concerned, in order to gather both primary and secondary data, the researcher employed different data gathering techniques. Hence, to collect the primary data, a survey method of data collection technique was adopted where questionnaire and interview

were used as the main instruments of data collection from the primary sources. The questionnaire was a structured questionnaire that contained both open-ended and closed-ended questions. The open ended questions were used as they permit to obtain adequate, additional, and unlimited number of possible answers to complex issues; and as they permit creativity, self-expression, and richness of detail. While closed ended questions were used as they are easier and quicker for respondents to answer, it is easier to compare the answers of different respondents, and their answers are easier to code and statistically analyze. The questionnaire was self-administered although follow-up telephone calls were undertaken to enhance response rate.

Moreover, interviews were also employed with various stakeholders related to the horticulture sector in Ethiopia: government officers/experts from the Ethiopian Horticulture Development Agency, the Ethiopian Horticulture Producer Exporters Association, the Ethiopian Investment Commission, the Ethiopian Development Research Institute, Ministry of Trade, and Ministry of Agriculture. The researcher preferred to use interview in collecting data from the officials mainly due to its advantage in uncovering and clarifying issues insightfully and exhaustively which would otherwise be difficult to get using questionnaire. The interviews were conducted face-to-face with selected individuals. During the interview, in-depth or semi-structured type questions were used. The semi-structured nature of the interview allowed adapting the questions in such a way that they would include issues and aspects which the researcher had not considered before the interview but had become evident and important during the course of the interview.

In addition to the primary data, secondary data were also collected through the analysis of all available documents, reports publications (published and unpublished) of different sources. The major secondary data sources were world and country investment reports published by the WB, the UNCTAD, the EIC, the EHDA, and the EHPEA. The report from the EHDA and the EHPEA provide general information regarding the horticulture sector in Ethiopia whereas the reports from the EIC provided the FDI and export data in the sector, respectively. Average annual inflows, job created, and income generated by the horticulture sector were the main indicators used for the analysis of this study.

3.5. Procedures of Data Collection

In conducting any kind of research, it is important to make preliminary assessment of the issue under study from existing academic literature and other secondary sources. In line with this, as a

first stage of the research, the researcher conducted desk research involving a general assessment of FDI in Ethiopia and the Ethiopian horticulture sector in particular. Hence, before starting the fieldwork, the researcher did an extensive reading of the existing literature and other secondary sources. In the process of doing this, it became evident to the researcher that there is very little academic work and publications in relation to the horticulture sector in Ethiopia. The researcher could not find much of the data on Ethiopia's FDI statistics in general and the horticulture sector in particular readily available from secondary sources. This made the fieldwork a necessity as such statistics and data had to be found from the respective government actors and sectoral associations in the country. In spite of the limited literature and secondary sources, the researcher tried to use as much data and information as possible from already existing literature and secondary data sources.

The second stage in the data collection process involved was the collection of primary data from the governmental and sectoral sources in Ethiopia. As far as the selection of respondents from the respective sources is concerned, the researcher used different approaches according to the data source used. The experts and officials from various institutions were responsible for providing the data for the research. Moreover, owners or managers of selected horticultural FDI enterprises were also responsible in providing primary data in relation to problem statement of the research.

Generally, the researcher was responsible for collecting the data, for entering it in the database, and for transforming the raw data into the form the researcher worked on. The researcher was also responsible to get the permission to distribute, collect or use the data in the research. The researcher was making sure that at exactly what point each piece of data was to be collected. The total duration time for collecting the primary data was 10 weeks from January 11, 2017 to March 29, 2017.

3.6. Methods of Data Analysis

It is known that data presentation techniques are used depending on the nature of the data. Hence, in order to comprehensively study the issue at national level, it would be ideal if the study was designed in such a way that it uncovers the inflows, effectiveness and growth of FDI in the Ethiopian horticulture sector as intensively and extensively as possible. For this reason, descriptive method was used to analyze the data collected. Moreover, in order to broadly describe the issue in a more credible way as well as to identify and classify the elements or characteristics of the subject under study, data from as many sources as possible should be pooled for making insightful

analysis. Therefore, the research employed a mixture of methods with the aim of triangulation that relates to the collection of data from different sources, in order to uncover plurality not observable when using a single source.

In the process of analysis, the data was analyzed to put it into a manageable size, develop summaries and look for patterns for enabling application of statistical techniques. Descriptive statistics particularly distributions were used where data were summarized in frequency tables, percentages and pie charts. Moreover, the data was presented by using tables and textually in a narrative description form. In order to analyze the qualitative data, content analysis was used which involved analyzing the contents of questionnaires and interviews so as to identify main themes. These themes were then coded and responses were classified under the main themes. To simplify the data analysis, the raw data were coded and inserted into the computer for processing by using the SPSS.

Lastly, all the data collected were integrated with the reviewed literature in order to assess the horticulture investment inflow, effectiveness, and growth as well as its challenges and limitations. Since the research is descriptive, both qualitative and quantitative data analysis techniques were employed. Specifically, simple statistical analyses like percentage, frequency, tabulation were used in order to analyze the data easily.

3.7. Reliability and Validity of the Study

Lincoln and Guba (1994) proposed four qualitative research criteria: credibility, transferability, dependability and confirmability, each of which have equivalent criteria in quantitative research - internal validity, external validity, reliability and objectivity, respectively. In qualitative approach, the credibility criteria refer to whether the results of the research are believable. This goes in line with the criteria of internal validity, which refers to the extent to which a study's results can be accurate. Transferability deals with how well the results of a research can be generalized to other contexts. This refers to external validity - the extent to which the results of a study can be generalized to other situations and to other people. Transferability can be enhanced by describing the research context and the assumptions that were central to the research thoroughly, so that other researchers who may want to transfer the results to a different context can make reasonable judgment of how sensible the transfer is. The third criteria, dependability is analogous to reliability in quantitative research (Lincoln and Guba, 1994).

However, in quantitative approach, according to Lincoln and Guba (1994), reliability refers to whether it is possible to obtain the same results if the research is repeated. In order to enhance this, dependability criteria in qualitative research calls for the need for the researcher to account for the ever-changing context within which research occurs and how these changes affect the way the research is conducted. The fourth criteria, confirmability, refer to the degree to which the results could be corroborated by others. It is analogous to objectivity in quantitative research, which emphasizes that the findings of a study should depend on the nature of what is studied rather than on the personality, beliefs and values of the researcher. One way to enhance this is to document the procedures for checking and rechecking the data throughout the study so that others can conduct a data audit that examines the data collection and analysis procedures and makes judgements about the potential for bias or distortion.

Therefore, these four set of criteria were assumed as a point of reference to ensure the reliability and validity of this research. In order to make a responsible research, the researcher conducted the research using appropriate, reliable methods and adequate controls. In line with this, the researcher used multi-way methodological triangulation that relates to the use of different data sources to enhance the credibility of the study. With respect to dependability, all phases of the study ranging from methodological choice and selection of sample cases for the survey and data analysis procedures have not only been clearly sorted out but also strictly followed as much as possible. The researcher presented all respondents with a set of questions that were developed in such a way that they show a good match with the research questions and the study's analytical framework. However, the researcher adjusted the interview questions to fit with the formal role of respondents when needed.

Likewise, in order to enhance the transferability of the findings, the selection of horticulture foreign enterprises was proposed to be conducted in such a way that the resultant samples were diversified enough to represent the whole sector. However, this was not conducted as planned, partly due to the unwillingness of some horticulture firms to participate in the study and partly due to constraints in terms of limited time and financial resource. Nevertheless, the researcher tried to give as much care as possible to make the collected data and analysis as comprehensive and insightful as possible so that it would provide a database for making reasonable judgments about the Ethiopian horticulture sector. Moreover, the researcher also gave much attention to detail. In

reference to the fourth criteria, dependability, the researcher tried to account for the ever-changing context within which the research was conducted and an effort has been made to draw a conclusion by choosing an appropriate method or set of experimental condition.

3.8. Ethical Considerations of the Research

It is inevitable that any research in the field of the social science disciplines is vulnerable to bias and subjectivity. Especially, the degree of this problem would be also high when the research applies qualitative research approach. Therefore, in this regard, the researcher seriously took into account the following ethical issues: An effort was made by the researcher to avoid bias and to be as objective as possible. The rights, dignity, privilege, consent and personality of the participants were protected and respected. The anonymity and privacy of the participants as well as the confidentiality of the data they provide were carefully respected. The researcher has never used the data gathered during this research for any other purposes.

In relation to the anonymity of respondents, the disclosure of their identity or position in any way has a potential bearing on their professional career. As a matter of fact, keeping respondents' identity anonymous was the basic ethical consideration underlined in the planning stage of the field survey not only because this was necessary to convince data sources but also as a moral imperative to make sure that respondents won't be affected due to their participation in the study. In line with this, assurance was given to all respondents that their identity would be kept anonymous throughout the study. However, it should be noted that in the analysis and interpretation stage, it may be necessary to refer to the organization of the respondents to provide context regarding the information they gave. In such circumstances, their organization is referred without mentioning their personal background and position.

CHAPTER FOUR

RESULTS AND DISCUSSION

In this chapter, an attempt has been made to discuss the data presentation, interpretation and discussion on the findings; through both quantitative and qualitative analysis. This is done by using both primary and secondary data. In this chapter, a central analysis was made based on the data gathered through the interview and questionnaires as well as available secondary sources (both published and unpublished). This chapter also tried to capture the broad-spectrum of perceptions and opinion of participants of the study regarding the factors affecting FDI in the Ethiopian horticulture sector. Following the data presentation in tabular form, discussions, analysis and interpretations were made based on the responses of experts and FDI owners/managers in the horticulture sector.

4.1. Response Rate of the Survey

In this study the researcher selected a total of 138 respondents for questionnaires. Out of this number, 110 questionnaires were distributed for a group of experts selected from different government institutions and an association related with the horticulture sector such as the EIC (25), the EHDA (25), the EHPEA (25), Ministry of Agriculture (10), Ministry of Trade (10), the EDRI (5), and OIC (10). From the 110 questionnaires, 102 of them were filled and returned by the experts and 8 questionnaires were not returned back. The response rate for this category is 92.7%.

Table 1: Response Rate of the Survey

Questionnaires	No. of Distributed Papers		No. of Collected Papers		Response Rate
	Total No.	Percentage	Total No.	Percentage	
Questionnaires to FDI Owners (Managers)	28	100	23	82	82
Questionnaires to Experts	110	100	102	92.72	92.72
Total	138	100	125	90.6	90.6

Source: Field Survey (February and March 2017)

Moreover, as presented in Table 1 above, 28 FDI owners (managers) engaged in the horticulture sector were also provided with the questionnaires. Out of this number, 23 questionnaires were filled and returned back by the FDI owners (managers). The response rate for this category is 82.1%. Generally, from the total 138 distributed questionnaires to experts and FDI owners (managers), 125 respondents filled and returned back, and 13 questionnaires were not collected. Therefore, the response rate of the survey is 90.6%. Regarding the interview, six key informants

were selected from the EIC (1), the EHDA (1), the EHPEA (1), the EDRI (1), Ministry of Agriculture (1), and Ministry of Trade (1). In addition, one employee was also interviewed from one of the FDI horticulture farms.

4.2. The Socio-Demographic Characteristics of Respondents

Table 2 presented below shows the socio-demographic data of experts from the EIC (24 respondents), the EHDA (23 respondents), the EHPEA (24 respondents), MoA (9 respondents), MoT (9 respondents), the EDRI (5 respondents), and OIC (8 respondents).

As shown in Table 2, the socio-demographic characteristics of the respondents shows various distinction exists among the respondents. Hence, 84.3% of the respondents are males while the remaining 15.7% are females. The majority of the respondents' age falls in the category of 26-30 and 31-35 years, which corresponds to 37.25% and 20.6%, respectively. The age category 36-40 is 18.63% while age of the respondents greater than 40 and between 20-25 are 14.7% and 8.82%, respectively.

Table 2: Socio-Demographic Characteristics of the Respondents

Respondents' Background	Socio-demographic Characteristics	Number of Respondents	Percentage
Age	20 – 25 Years	9	8.82
	26 – 30 Years	38	37.25
	31 – 35 Years	21	20.6
	36 – 40 Years	19	18.63
	Above 40 Years	15	14.7
Sex	Female	16	15.7
	Male	86	84.3
Marital Status	Single	29	28.43
	Married	70	68.63
	Divorced	3	2.94
	Widowed	-	-
	Separated	-	-
Educational Background	Certificate and Below	-	-
	Diploma	16	15.7
	Degree	65	63.72
	Masters and above	21	20.6
Work Experience	0 - 5 Years	17	16.67
	6 – 10 Years	46	45.1
	11 – 15 Years	23	22.56
	16 Years and Above	16	15.7

Source: Field Survey (February and March 2017)

Moreover, as presented in Table 2, the marital status of the respondents is characterized by three categories, single, married and divorced. Those respondents with single marital status are 28.43% while married and divorced respondents are 68.63% and 2.94, respectively.

With regard to the educational background of the respondents, 15.7% of the respondents are Diploma holders, 63.72% are Bachelor Degree holders and 20.6% of the respondents have Master's degree and above. In relation to the work experience of the respondents, 45.1% of the respondents have 6-10 years of experience, 22.56% of the respondents have 11-15 years of experience, 16.67% of the respondents have 0-5 years of experience and 15.7% of them have 16 and above years of experience. As the majority of the respondents are qualified and experienced enough, it is possible to say the information provided by them is reliable.

4.3. Overview on the National Context of Ethiopia

Discussing the demographic setting, geographical locations, climatic aspects, natural resources, and socio-economic conditions of the national context of the country is helpful to provide a better insight on the background of FDI in the Ethiopian horticulture sector. The FDRE is located in the northeastern region, commonly referred to as the Horn of Africa. Ethiopia is a Federal Democratic Republic composed of 9 national regional states: Tigray, Afar, Amhara, Oromia, Somali, Benishangul-Gumuz, the SNNPR, Gambella and Harari, plus two Administrative cities, the capital Addis Ababa and the City Administration of Dire Dawa. As a landlocked country, Ethiopia is bound to the east by Djibouti and Somalia, to the north and northeast by Eritrea, to the south by Kenya and to the west by the Sudan and South Sudan (US Department of State, 2015).

Ethiopia, home for over 80 ethnic groups and with an estimated population of 99.5 million people and a population growth rate of 2.6% as of 2013, it is the second most populous country in Africa, after Nigeria (WB, 2015; CIA, 2015). The highest proportion of the population, 43.94%, is aged between 0 and 14 years old; 15 to 24 years old comprise 19.98% while 25 to 54 years old account for 29.31% of the population. This shows that 49.29% of the population is young and productive. People between the age of 20-49 constitute for 37.4% while the remaining 4.9% and 4.4% are occupied by people's age ranging 50-59 and 60 and above, respectively (EIC, 2015; CIA, 2015).

The total land area of Ethiopia is 1.14 million sq. km. which makes it the ninth largest country in Africa. Ethiopia is a country of great geographical diversity. The topographical differences result in different climatic zones which make Ethiopia an attractive country for different kinds of agricultural production. About 60% of the surface is suitable for agriculture. The country has 513,000 square kilometers of (45%) arable land and 34,200 square kilometers of (11 million hectares/3%) irrigable land. Even though the country has 74.3 million hectares of land suitable for

agriculture, out of which only about 24% are currently utilized (UNCTAD, 2016). Moreover, there are 12 major well-known river basins as well as many lakes covering the area of 7400 square kilometers (Wiersinga and Jager, 2009)

Located within the tropics, Ethiopia's physical conditions and variations in altitude have resulted in great range of terrain, climate, soil, flora and fauna. Ethiopia has an elevated central plateau varying in height from 2,000 to 3,000 meters above sea level. In the North and center of the country, there are some 25 mountains whose peaks reach over 4,000 meters. It has high and rugged mountains, flat-topped plateaus, deep gorges, incised river valleys and vast rolling plains. Its altitude ranges from the highest peak at Ras Dashen (4620m above sea level) down to the Dallol (also known as the Danakil) depression, approximately 148m below sea level (EIC, 2014).

Ethiopia's climate varies according to the different agro-ecological regions. The geographical differences result in three climatic zones: Cool zone, above 2400m, temperature range from freezing to 16°C; Temperate zone, between 1500-2400m, temperature from 16-30°C; and Hot zone, below 1500m, temperature ranges above 27°C. As a result, the central plateau has a moderate climate with minimal seasonal temperature variation. The mean minimum during the coldest season is 6°C while the mean maximum rarely exceeds 26°C. Temperature variations in the lowlands are much greater, and the heat in the desert is extreme, with occasional highs of 50°C. Heavy rainfall occurs in most parts of the country during June, July and August. The average annual precipitation on the central plateau is roughly 122cm. The Northern provinces receive less rainfall, and the average annual precipitation in the Ogaden is less than 10cm. The western most region of Ethiopia receives an annual rainfall of nearly 200cm (Wiersinga and Jager, 2009).

However, generally, there are two major seasons encompassing dry and wet seasons. The dry season prevails from October through May. The wet rainy season runs from mid-June to mid-September. The climate in Ethiopia is suitable for growing over 146 types of crops (UNCTAD, 2016). Much of Ethiopia has a temperate climate by African standards because of its elevation which is highly favorable for horticulture production (Wiersinga and Jager, 2009; EIC, 2014).

4.4. The Horticulture Sector in Ethiopia

As a respondent from the EHDA described, Ethiopia is one of the countries in Africa which have huge potential and ideal conditions for the development of different varieties of horticultural crops.

The country is endowed with extensive natural resources in different agro-ecological zones which are suitable for the cultivation of a wide range of horticultural products throughout the year (Interview, February 2017).

First, temperatures are conducive to horticulture production and there are long hours of sunshine - usually more than 11 hours a day. Unique is the great variation in climates, due to the great variation in altitude ranging from 180m below sea level up to 4,500m. Altitudes between 500m (normally warm) and 2,600m (cool nights and mild day temperatures), and all altitudes in between, are common. The diverse agro-climatic conditions in its highlands and lowlands make the country a suitable place for the production of a wide range horticulture production, all types of fruits, vegetables and flowers. Second, water for irrigation is available in ample quantity, including 122 billion cubic meters of surface water and 2.6 billion cubic meters of ground water, makes it possible that a large variety of crops can be grown. It has 12 river basins, 18 natural lakes (including the Rift Valley lakes). The country has also a potential of 11 million hectares of irrigable land. As the country has these vast surface and underground water resources, the well-drained soil in Ethiopia is suitable for growing horticultural products. Accordingly, a large varieties of flowers, vegetables, fruit and herbs are being grown currently in various areas of the country, which make the country to have a fast-growing export business (EHEPA, 2014; EIC, 2016).

As the same informant stated, since 1991, Ethiopia entertained and introduced a mixed economy where private businesses flourished. Following the emergence and expansion of the private business, the dawn of horticulture farms also came to Ethiopia. Hence, privately owned horticulture farms started to emerge and most of the farms started producing vegetables and fruits for local and international markets. Through time, following the vegetables and fruit farms, other horticulture varieties came into existence. These include production of roses, herbs and cuttings. Particularly, the floriculture has shown a remarkable growth in the last 12 years and provided many economic and job opportunities to the country (Interview, February 2017).

Even though the total cultivated area for horticulture is limited given the country's immense potential, the horticulture sector, which is dominated by flower production, is currently the fifth foreign revenue earner to the Ethiopian economy next to coffee, pulses and oil seeds, gold and chat. The country is also the second largest horticulture producer in Africa, next to Kenya (EIC, 2016; EHDA, 2014; EHPEA, 2016).

4.4.1. The Horticulture Sub-Sectors in Ethiopia

Generally, as informants from the EHDA and the EHPEA explained, the export-oriented horticulture in Ethiopia comprises the following three sub-sectors, dealing with flower (floriculture), fruits and vegetables, and herbs production. There are a number of important similarities and common determinants for each of these three sub-sectors, for example in relation to growing conditions, investment climate, infrastructure availability, etc. However, each of these sub-sectors also has a number of distinct features and characteristics in terms of, for example, the level of production and exports, end-market characteristics, etc. (Interview, February 2017; Interview, March 2017).

Table 3: Volume of Export Quantity and Value Performance by Flower, Fruits and Vegetables

Year	Flower		Vegetable and Fruit		Total Value (In Million USD)
	Qty (In million Stems)	Value (In million USD)	Qty (In 000s ton)	Value (In million USD)	
2004/05	83.00	12.60	37.65	15.95	28.55
2005/06	186.45	21.97	34.55	12.74	34.71
2006/07	478.04	63.60	42.08	16.95	80.55
2007/08	1021.52	111.70	41.12	18.53	130.23
2008/09	1294.97	130.71	39.83	17.41	148.12
2009/10	1636.72	170.20	66.41	31.86	202.06
2010/11	1804.72	184.00	93.01	40.00	224.00
2011/12	2102.11	212.56	123.6	53.15	265.52
2012/13	2257.29	188.02	137.66	65.98	266.00
2013/14	2140.9	195.04	149.6	46.96	242
2014/15	599.49	201.24	141.72	43.55	244.80
2015/16	796.42	225.32	163.27	49.30	274.62

Source (EHDA, February 2017)

4.4.1.1. Flower Production and Export (Floriculture)

Floriculture is a relatively new sub-sector to Ethiopia as for long the production of flowers had been limited to few varieties of field flowers. However, this situation has changed very rapidly over the past years. Through time, the country emerged as one of the prominent flower exporters from a negligible player in the global flower industry within a short period of time. Consequently, flower production and export went through a remarkable growth from year to year both in terms of value and volume. Despite its late entry into the flower business, the country is now the second largest flower producer and exporter in Africa, next to Kenya and the fourth largest non-EU exporter to the EU cut-flower market. The favorable climate, availability of land and the incentive packages provided by the government have all contributed to the phenomenal and successful growth of the floriculture sector in the last 12 years (*Ibid*).

Due to of logistical reasons, most flower farms are located within a radius of 4 hours driving to the airport in Addis Ababa. Nevertheless, the main reasons for farmers choosing a certain location are altitude and soil type preference (*Ibid*). At altitudes of around 2,400 to 2,600 meters, the Ethiopian highlands around Addis Ababa are characterized by high daily temperatures and cool nights, high solar radiation and annual rainfall of about 1,200 mm. These climatic conditions make the highlands very suitable for the production of medium to large-sized rose varieties. Moreover, other regions that are located at lower altitudes of 1,100 to 1,800m are also suitable for the production of small to medium-sized rose varieties and other flowers like summer flowers and cuttings (EHDA, 2014).

Currently, flower farms in Ethiopia are cultivating a vast variety of flowers, including roses, gypsophila, hypericum, amysanthemum, limonium, carnations, allium and carthamus, chrysanthemum, static and pot plants and a range of other types of flowers. However, roses are the most widely produced variety of flowers as the Ethiopian highlands provide near ideal growing conditions for roses (EHPEA, 2016).

According to the 2016 reports of the EHDA, within the horticulture sector, the flower sub-sector contributes 82% of the sector's foreign revenue earning although it accounts for only 11% of the developed horticulture land. As shown in Table 3, the value of Ethiopian annual flower exports rose from 660,000 thousand USD in 2001 to 212.56 million USD in 2011/12. Moreover, this value has reached 225.32 million USD in 2015/16. In the same way, the total cultivated area of floriculture has shown astonishing growth over the years. It has grown from 40 hectares in 2002 to 1618 hectares in 2016 (EHDA, 2017).

Furthermore, as an informant from the EHPEA asserted, the growth of the Ethiopian flower industry's export occurred not only as a result of rising demand in existing markets and the opening up of new markets but more importantly due to the capturing of market share from other exporting countries such as Kenya, Zimbabwe, Zambia and Uganda (Interview, March 2017).

4.4.1.1.1. Cut-Flower Cultivation and Export

According to the same informant from the EHPEA, the majority of flower farms in Ethiopia are currently involved in cut-flower production and export. The export volume is still increasing significantly each year as gradually a larger areas coming under production (Interview, March

2017). Therefore, in various parts of the country, such as Ziway, Debre Zeyt, Nazaret, Koka, Holetta and Sebeta, a number of farms have been established for the production of cut-flower. The majority of the farms grow only roses. Most of the farms grow multiple rose varieties, six to ten on average. The most important rose varieties currently in cultivation are Pascha, Circus, Aloha, Milva, Shanty, Duett, T. Amazon, Paschamina, Jupitor, Indian Sunset, Sweet Candia, etc. (EHDA, 2016; EHPEA, 2016).

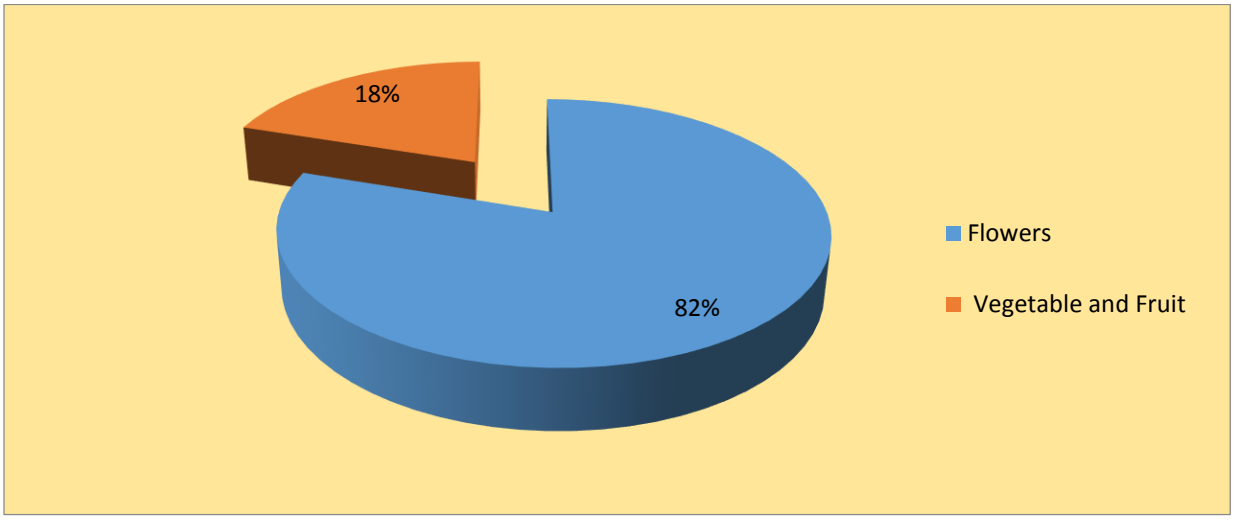
4.4.1.1.2. Cuttings Propagation and Export

Another category of floriculture farms comprises propagators, as discussed by informants, who are mainly subsidiaries of European breeding companies. They have high-tech, sophisticated production systems and supply their mother companies on direct order. Until 2004, Ethiopian exports of unrooted and rooted cuttings were negligible. However, from 2005 onwards several breeding companies have set up production facilities in Ethiopia. Hence, unrooted and rooted cuttings now represented about half of the flower export. This category is dominated by relatively few European breeding companies that are specialized in developing new varieties and their propagation. They sell their cuttings to growers worldwide. A number of rose farms also propagate cuttings for their own use and for sale to other farms. Therefore, although the cut flowers and young plant propagators are commonly treated as similar parts of the floriculture sub-sector, the two are quite distinct (Interview, February 2017; Interview, March 2017).

4.4.1.2. Fruits and Vegetables Production and Export

According to the respondent from the EHDA, fruit and vegetable cultivation is certainly not a new activity in Ethiopia as the production of horticultural crops has been undertaken for decades. In addition, there are numerous small producers growing a small range of vegetables for the local and regional export market. The sub-sector comprises large state farms supplying fruits and vegetables to the local market and for exports. There are still only a few private companies involved in the commercial production of vegetables for export trade (tomatoes, strawberries, fresh herbs) (Interview, February 2017).

Figure 1: Share of Export Value by Horticulture Sub-Sectors (2015/2016)

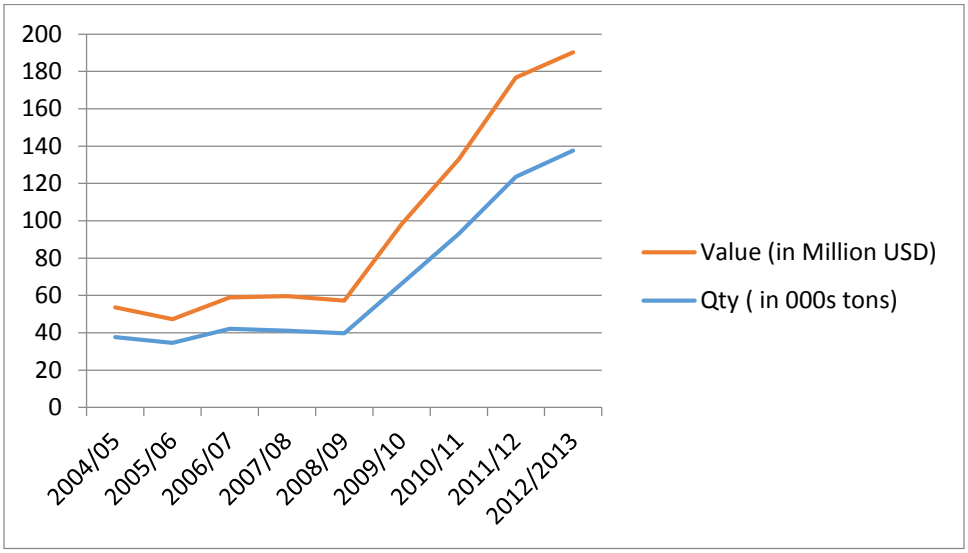


Source: EHDA (February 2017)

The total area under export-oriented fruit and vegetable cultivation (including potatoes and other roots and tuber crops) in Ethiopia is around 11,371 hectares in 2012/13 which accounts for around 88.8% of the total land developed by the horticultural production. As shown in Figure 1, even though the sub-sector is using much land, as compared to the flower sub-sector, the income generated through the export of fruits and vegetables is much less, i.e. 49.3 million USD in 2015/16 which accounts for 18% of the foreign income generated in the horticulture sector. This is due to the fact that the fruit and vegetables are mainly supplied to the local markets (EHDA, 2017).

As emphasized by an informant from the EHPEA, the major problem of the fruits and vegetables sub-sector is that it exports and competes only in few products such as tropical fruits, tomatoes, onions and cabbage (Interview, March 2017). On the other hand, according to another informant from the EHDA, there is little domestic market demand for produce that does not meet the high export quality standards: second grade green beans (sometimes up to 40% of total production) for example, are hardly sold at the national market. However, in some East African countries like Kenya, Tanzania and Uganda, the domestic vegetable market is much larger and thus serves as a development base for vegetable exports (Interview, February 2017).

Figure 2: Growth of the Quantity and Income Generated by Vegetable and Fruit Export



Source: EHDA (March 2017)

However, with all these problems, as shown in Figure 2, the production of fruits and vegetables as well as the value generated through export is growing, both in quantity and quality. For instance, the export quantity of fruits and vegetables has reached 163,270 tons in 2015/16, from where it was 37,650 tons in 2004/05 (EHDA, 2017). As these respondents argued, Ethiopian export fruits and vegetables to the EU market have been limited and mainly restricted to a few crops such as the export of green 'bobby' beans, small quantities of strawberries, and (cherry) tomatoes. However, in the informal sector which is dominated by smallholder growers and small scale traders and transporters considerable amounts of citrus fruits, onions, tomatoes, potatoes, garlic and other vegetables are exported to Djibouti and from there to other countries in the Middle Eastern region (Interview, February 2017; Interview, March 2017).

4.4.1.2.1. Fruits Production and Export

As stated by the respondent from the EHDA, although Ethiopia has a long tradition of producing fruits such as banana, pineapple and mango, for home consumption and export to neighboring countries, it is only recently that investment has been made in larger scale production of less traditional crops including strawberries, table grapes and passion fruits (Interview, February 2017. Currently, there are investors engaged in large scale and modern fruit production and this is seen as an area that has enormous potential for development (EHPEA, 2016).

In addition to the export of relatively low value fruits, as the informant further mentioned, nowadays there are a number of trials undertaken to produce more high value crops for export and to access new or more attractive fruits markets (i.e. grapes, avocado, passion fruit). The most widely cultivated and exported fruits include mango, banana, papaya, avocado, citrus, grape, and pineapple are the most common tropical and sub-tropical fruits cultivated; and pear and plum are emerging as temperate fruits. For instance, a foreign strawberry grower ventured into the drip irrigated production of this fruit is a good example for the fresh export to the EU market (Interview, February 2017).

The export volume and value of fruits has always been substantially lower than vegetables and it is directed mainly to Somalia, Djibouti, Saudi Arabia, the Sudan and other Middle East countries while exports of fruits to Europe are negligible. The export of fruits to the Middle East has to compete with the domestic production in those countries. Fruit production has increased notably in some Middle East countries, but demand for fresh fruits appears to be growing as well, which implies that domestic producers cannot fulfil the demand, thereby leaving a market for Ethiopian produce (*Ibid*).

4.4.1.2.2. Vegetable Production and Export

The availability of fertile land, labor and readily available water together with cold chain facilities at airports and a rapidly improving road and rail transport network all make Ethiopia the right place to invest in vegetable production. Therefore, currently, there are some vegetable exporting farms throughout the country. These farms produce and export a wide variety of vegetables including green beans, snow peas, broccoli, okra, asparagus, cherry tomatoes, green chili, potatoes, cauliflower, leeks, paprika, cucumber, pepper, tomato, paprika, eggplant, baby corn onion, garlic, cabbage and tomatoes. (EHDA, 2016; EHPEA, 2016).

In addition to these medium and large-sized farms, as stated by the respondent from the EHDA, export vegetables from smallholders (some of them organized into cooperatives) are cultivated in several areas of the country where vegetables are produced on small plots irrigated with lake or ground water. The farmers tend to sell all their produce to middlemen and traders who pick it up from the roadside in small open trucks and bring it to Djibouti for further export. The fresh onions, tomatoes, cabbage and potatoes for exports to Djibouti and from there to Saudi Arabia, Yemen and other Middle East destinations are mainly produced by these small scale farmers (Interview,

February 2017). According to the researcher's personal observation and experience, the produce is exported in bulk without any value addition and tends to have a relatively low value, price and quality. Due to a general lack of care and proper facilities during transport, produce often arrives in poor condition.

As reports from the EHDA (2016) and EHPEA (2016) shows, the supply of vegetables for the European market comprises predominantly green "bobby" beans. The export to Europe used to be somewhat more diversified, including peas, mange touts and asparagus. However, the share of these latter crops has declined over the past years, whereas the export of green beans has been growing. As compared to fresh beans from some competing countries, the current export supply chain of green beans lacks value addition. The produce is usually exported in open boxes, either for direct supply to supermarket chains or for repacking and sale by international traders.

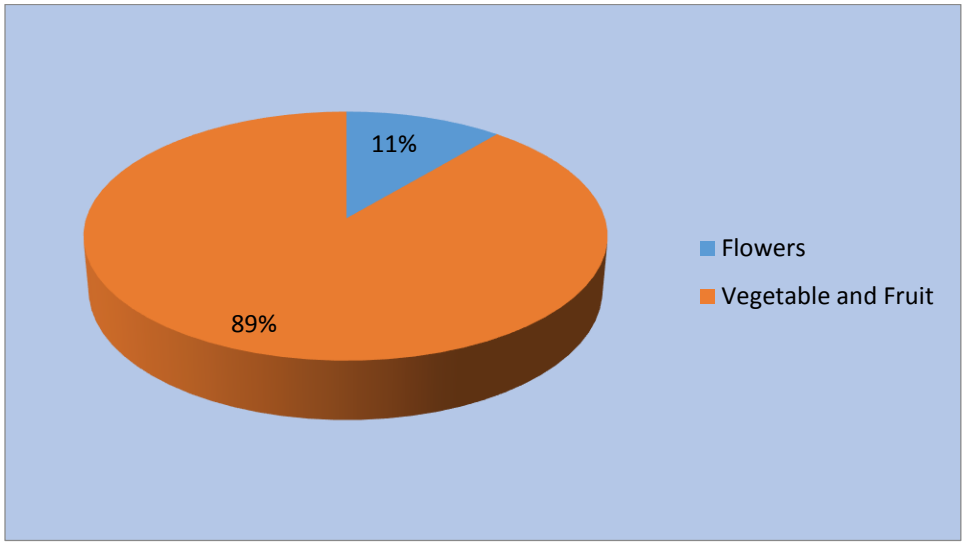
4.4.1.3. Herbs Cultivation and Export

Ethiopia's climate is very suitable for the production of herbs and there are many investors that are keen to exploit the potential. The companies already engaged in this sub-sector are highly productive with high production standards and produce over 21 herbs varieties including rosemary, tarragon, mint, chives, basil, etc. for export as fresh product to many international market destinations (EHPEA, 2016).

4.4.2. Horticultural Development Corridors

In order to attract investors, as a respondent from the EHDA explained, especially foreign investors, in the horticulture sector the government is providing various incentives. These incentives include the provision of land at reasonably low lease rate (ranging from Birr 3000 to 12,300/hectare/annum) (Interview, February 2017). As a result of this, the land developed by export-oriented horticulture investments is increasing from time to time. For instance, as shown in Table 8, the total area of land developed by the horticultural investments has been reached 12,797 hectares in 2012/13, from where it was 2,046 hectares in 2007/08.

Figure 3: Share of Land Developed by Horticulture Sub-Sectors in 2012/13



Source: EHDA (February 2017)

In terms of the share size of land developed, as shown in Table 4, vegetable and fruit development used the largest share (89%) of the land in 2012/13, whereas the remaining percentage is cultivated with different varieties of flowers. Even though the flower sub-sector contributes 82% of the sector's foreign revenue earning (225.32 million USD in 2015/16), it accounts for only 11% of the developed horticulture land. From this, it is possible to understand that though it is highly productive in terms of income generated, flower production does not need much land.

Table 4: Total Land Developed by Export-Oriented Horticulture Investment

Year	Developed Land (ha)		
	Flower	Vegetable and Fruit	Total
2007/08	922	1124	2046
2008/09	1240	1665	2905
2009/10	1306	1841	3147
2010/11	1300	5214	6514
2011/12	1442	11,110	12,552
2012/13	1426	11,371	12,797

Source: EHDA (February 2017)

In addition to this, according to the same informant from the EHDA, the government has identified and is making readily available the land required for export-oriented flower, fruit, vegetable, herbs and other investments of the sector in different corridors. As a result, the government has identified five horticulture development corridors (Interview, February 2017). Horticultural Development Corridors are those areas demarked with a maximum distance of 200 kilometers from centers

(major airports), naturally endowed with potential land to be made accessible for establishment of nucleus commercial estates, existence of potential farmers for the out growers' scheme, existence of labor, road and infrastructure that links the products with the external market (EHDA, 2012). The five Horticultural Development Corridors are: Oromia and Addis Ababa Corridor; Bahirdar, Abay Valley and South Gondar Corridor; Mekele-Raya and Kobo Alamata Corridor, Awash; Dire Dawa, Harar and Somali Corridor; and Hawassa and Arbaminch Corridor (EHDA, 2014).

4.4.3. Market Destination for Ethiopian Horticulture Exports

Ethiopia, according to an informant from the EHDA, besides the natural endowments, its geographic proximity to Europe and the Middle East adds further for more competitiveness (Interview, February 2017). Moreover, the exceptional air connections of Ethiopian Airlines make it an ideal place to connect with all major and emerging markets (EHPEA, 2016). Recent improvements to internal road and rail network also open up an opportunity for the use of refer transport by road or rail to the coast and then sea freight to diversify market destinations (EHPEA, 2017).

The major market destination for the Ethiopian horticulture produce is Europe, particularly the Netherlands. The country is also exporting the majority of its horticultural products to the Middle and Far East, Russia and the USA markets (EHPEA, 2016). Moreover, the market destinations are widening as more buyers are coming to Ethiopian producers since the quality and quantity of production is increasing from time to time. Therefore, there are over 100 international destinations across the world for Ethiopian flowers, vegetables, fruits, herbs, and cuttings (EHPEA, 2017).

Currently, as shown in Table 5, Ethiopian flowers are dominantly exported to the Netherlands (80.3 %), Germany, Saudi Arabia, Norway, Belgium, the United Arab Emirates, Japan, USA, France and Italy. However, the majority of fruits and vegetables have traditionally been exported by road to neighboring countries, Somalia (56.8 %), Djibouti and the Sudan. Recently, increasing quantities of fruits and vegetables are also being shipped by air to the Netherlands, the UAE, Saudi Arabia, the UK, Germany, Belgium, Russia and Yemen (EIC, 2017; EHDA, 2017).

Table 5: The First Top 10 Market Destinations for Ethiopian Horticulture Exports

No.	Market Destination	Flower		Market Destination	Vegetable and Fruits	
		% Share in Quantity	% Share in Value		% Share in Quantity	% Share in Value
1	Netherlands	81.7	80.3	Somalia	51.9	56.8
2	Germany	4.6	4.2	Djibouti	40.3	23.4
3	Saudi Arabia	2.4	3.6	Netherlands	2.4	7.2
4	Norway	2.0	2.3	UAE	2.9	4.1
5	Belgium	1.5	1.3	UK	0.3	2.6
6	UAE	0.8	1.3	Sudan	1.0	1.6
7	Japan	1.4	1.2	Germany	0.1	0.9
8	USA	1.2	1.2	Belgium	0.2	0.7
9	France	0.8	0.9	Russian Federation	0.1	0.6
10	Italy	0.9	0.8	Yemen	0.2	0.4

Source: EIC and EHDA (February 2017)

4.5. Foreign Direct Investment in Ethiopia's Horticulture Sector

As a participant from the EHDA affirmed, even though the revival of the horticulture export development sector in Ethiopia started only about a decade and half ago, the sector has scored significant positive developments. Ethiopia's horticultural export volumes have increased annually over the past decade and the major part of this growth is created by foreign investments in the floriculture sub-sector (Interview, February 2017). Before 2000, according to another informant from the EIC, the infant horticulture sector in Ethiopia was also dominated by local players. After early 2000, the picture changes as many foreign investors, without whom the phenomenal growth of the horticulture export sector since 2002 would not have occurred, come into play. The inward FDI flow started to build momentum slowly in the first half of 2000s and through time investment in horticulture has shown dramatic growth, to the point of surpassing most African countries with operations established long before those in Ethiopia (Interview, February 2017). In the last few years, as explained by the informant from the EHDA, especially, more and more interest from the foreign investors has been shown in the horticulture sector. The production and export of flower, fruit and vegetables is growing as more foreign investors are coming into the sector, due to growing demand for Ethiopian horticulture products (Interview, February 2017).

According to UNCTAD (2014) reports, the annual FDI flow to the Ethiopian economy increased continuously from USD 135 million in 2000 to USD 545 million in 2004, except for few years until 2010. It then remained constant more or less around USD 344 million for years between 2005 and 2007. Since then, it showed upward and downward trend alternatively until it peaked at USD 953 million in 2013. With a 240% increase from the amount in 2012, Ethiopia emerged as the third

largest recipient of FDI in Africa in 2013. As a result, the FDI stock held within the economy reached 6.1 billion USD in 2013, up from 5.1 billion USD in 2012. In spite of the yearly increase, the share of FDI in gross fixed capital formation has declined from 8.7% in 2005 to 5.7% in 2013. When compared to the FDI inflow to the overall economy, the relative share of FDI inflow in the horticulture sector maintained a yearly average share of 20% of the overall inflow to the economy from 2004 and 2006. Since then, its significance fell tremendously except the year 2010 for which the annual FDI inflow in the horticulture sector accounted for 75% of the inflow to the overall economy.

However, according to secondary data from EIC (2017), the annual FDI flow to the horticulture sector has declined for the past few years. After 2009, the number of new horticulture projects per year showed a general declining trend over the years even though it is fluctuating. In line with the declining trend of the annual inflow, the relative share of FDI in the horticulture sector, within the general economy's FDI stock showed declining trend in the last few years. Despite the declining trend in the yearly inflow, by 2014 the FDI stock within the Ethiopian horticulture sector sums up to 80% of the total investment in the sector as a whole and Ethiopian investors account for only 20% of the investment. But in 2016, the proportion of investment flow to the sector has become 38.9% for domestic investments and 61.1% for foreign investments (including joint ventures). This shows how significant FDI is in the horticulture sector unlike the other export oriented industries such as coffee wherein local investors and growers play significant role.

Therefore, this trend implicates that although Ethiopia is the most successful producer and exporter of horticulture products in Africa, in relatively short period, other countries both in Africa and elsewhere, offer strong competition that could erode export market share in the future. In order to exploit the sector, as the horticulture investment needs huge capital, it is a must for the country to promote and attract FDI from capital abundant countries. As a result, the researcher has found it rational and very important to assess the implication and significance of FDI in the horticulture sector. Moreover, it is also important to analyze the factors influencing FDI flow, performance and growth in the sector as well as assess whether the experience can be transferred to other export-oriented sectors as well.

4.5.1. Factors Attracting FDI to Ethiopia's Horticulture Sector

Several factors can contribute for the country to attract FDI flow into its horticulture sector. According to an informant from the EDRI, Ethiopia has become a good destination for investors as a result of several factors. Geographical proximity and existing economic interaction can be a factor for the flow from the Asian countries whereas in the case of European investors, in addition to geographical proximity and existing economic interaction, development oriented bilateral and multilateral programs to promote FDI in developing countries might have played a role (Interview, February 2017). Moreover, Melese and Helmsing (2010) argued that in addition to the attractiveness of Ethiopia in attracting FDI, the rising horticulture production costs in Europe, which led to relocation of production to developing countries, development cooperation programs such as the Dutch Program for Cooperation in Emerging Markets (PSOM) played significant role. Accordingly, the program has been instrumental in encouraging Dutch and other European growers to invest in Ethiopia, by providing up to 60% funds for FDI projects in designated developing countries. Likewise, the possibility of producing in a country exempted from duty in the European market is also another probable cause in pushing FDI to Ethiopia. Furthermore, Taylor (2011) noted that the booming in Ethiopian horticulture was supported by a shift of growers' focus from other established exporting countries to Ethiopia not only due to the attractive investment climate but also the possibility of tapping opportunities under various programs.

Therefore, the attractiveness of the Ethiopian horticulture sector should be assessed and examined in detail based on local factors within the Ethiopian economy.

4.5.1.1. Factors that Considered by FDI Before Investing in Certain Location

Regarding the factors to be considered by FDI in selecting investment location, as shown in Table 6, the majority of the respondents (52.2%) chose security as the highest priority, the number of respondents who chose labor availability and market accessibility is equal (21.7%), and only one (4.35%) FDI owner (manager) replied land price as a significant factor. From this, it can be concluded that security, labor availability and market accessibility are important factors to attract FDI.

Table 6: Factors that Considered by FDI Before Investing in Certain Location

Factors that should be considered before investing in certain location	Number of Respondents	Percentage
Security	12	52.2
Labor Availability	5	21.7
Market Accessibility	5	21.7
Land Price	1	4.35
Total	23	100

Source: Field Survey (February and March 2017)

4.5.1.2. Reasons for FDI to Choose Ethiopia as Horticulture Investment Destination

According to the EIC (2016), Ethiopia is an attractive FDI destination for horticulture investments due to several reasons, especially as result of its: geographic proximity to market destination to Europe, Africa, the Middle East and other parts of Asia; availability of large and cheap labor force; abundant arable land availability; ideal climatic conditions for horticulture cultivation; conducive investment climate and incentives; and rapid growth of the horticulture sector.

Table 7: Reasons for FDI to Choose Ethiopia as Horticulture Investment Destination

Why you chose Ethiopia as the location of your investment than other countries?	Number of Respondents	Percentage
Geographic Proximity to Market destinations	5	21.74
Large and Cheap labor force	7	30.43
Abundant Land Availability	2	8.7
Ideal Agro-Climatic Conditions for Horticulture	8	34.8
Conducive Investment climate and incentives	1	4.35
Rapid Growth of the Horticulture Sector	-	-
Total	23	100

Source: Field Survey (February and March 2017)

According to the responses provided by FDI owners (managers) selected as sample respondents, as shown in Table 7, the reason for choosing Ethiopia as horticulture investment location is due to its ideal agro-climatic conditions which is suitable for horticulture production. This corresponds to 34.8% of the respondents. The other respondents, 30.43% responded availability of large and cheap labor, and another 21.74% responded to the geographic proximity of the country to horticulture market destinations as a reason to select Ethiopia for horticulture investment. The other 8.7% of them responded to abundant land availability in the country. Moreover, one FDI owner (manager) responded to the investment climate and incentives. Since Ethiopia has a conducive temperate climate by African standards, due to its elevation, which is highly favorable for horticulture production, it is attracting FDI in the horticulture sector from various countries.

Furthermore, as 49.29% of the population is young and productive as well as there is high unemployment rate, cheap labor is available for employment in the horticulture sector, which is a labor-intensive business. In addition, as Ethiopia is located at the crossroads between Europe, the Middle East as well as the rest of Africa and Asia, it creates the opportunity for the FDI to easily export horticulture products to the market destinations. From this it can be analyzed that foreign investors are very sensitive to location advantages that maximize their returns. In addition, low costs and risks of operations are also the main desires of FDI projects in the sector.

4.5.1.3. FDI Preference to Factor of Production in the Ethiopian Horticulture Sector

Developing countries highly need FDI as a source of economic development, income growth and employment. The level of significance of FDI to a certain country may depend on the degree of progress and availability of resources in that country. Countries with limited capacities and resources view FDI as a remedy for their constraints. Nevertheless, foreign investors are more attracted to countries with growing economies and various business opportunities as investment requires a foundation that helps the achievement of investment goals and objectives (Streeten, 1997). With the intention of achieving their investment objectives, FDI prefer to use more of one factor of production than other factor.

Table 8: FDI Preference and Rationale to Factors of Production in the Horticulture Sector

Factor of production	Number of respondents	Percentage	Rational for preference	Number of respondents	Percentage
Labor	40	39.21	Cheap labor	55	53.9
Capital	19	18.62	For the sake of job opportunity	6	5.9
Technology	12	11.8	The nature of business	41	40.2
Capital and labor in proportion	31	30.4			
Total	102	100	Total	102	100

Source: Field Survey (February and March 2017)

According to the responses of the respondents, FDI in the Ethiopian horticulture prefer to use more labor than capital and technology. As shown in Table 8, the majority (39.21%) of the respondents replied that FDI in the horticulture sector prefer more labor than capital and technology, while 30.4% of the respondents replied capital and labor in proportion. Moreover, 18.62% of the respondents replied to more capital than labor and technology as well as 11.8% of the respondents replied to more technology than labor and capital. This indicates that though all the factors of

production are important, labor is the most significant factor of production for FDI inflow in the Ethiopian horticulture sector.

As shown in Table 8, the majority of the respondents reasoned out that the availability of relatively cheap labor and business nature are the rationale to prefer more labor than capital. Those respondents whose reason is cheap labor are 53.9% while those who reasoned out business nature governs the choice of factor of production are 40.2%. However, 5.9% of the respondents replied that job opportunity is the rationale to prefer labor.

Therefore, this shows that FDI projects in the Ethiopian horticulture sector are labor intensive than capital. Moreover, this can also be justified from the known fact that labor is cheap in Ethiopia than capital and this could be the rationale for using relatively more labor than capital. Furthermore, FDI projects are employing more labor than using capital intensively to gain an advantage of maximizing profits. This indicates only a relative use of more labor than capital does not imply the employment of enough labor in Ethiopia. In addition to the large labor, the horticulture projects are also employing huge capital, especially land, for their investments.

4.5.2. The Contribution of FDI in Horticulture to the Development of the Ethiopian Economy

As shown in literature part of this study, the costs and benefits of FDI are the subject of intense debate. The level of positive and negative impacts (costs and benefits) can vary among various countries depending on the nature of the host country itself, the investing company, and the interaction between them (Grosse, 1988). However, though debatable, a number of studies indicated that FDI has been as an important fuel for the growth of a given economy by providing an improved balance of payments that lead to increase in the GDP and the real GDP per capita (Hooda, 2011). By increasing physical capital stock flows, FDI can increase country's output and productivity through a more efficient use of existing resources and by absorbing unemployed resources (Zbida, 2011).

As a result, countries try hard to attract FDI. It is desired by most developing countries, and governments prepare economic programs for fostering it in their country. Therefore, attracting FDI to one's country is competitive, especially among emerging and newly established countries (Mammadova and Coskun, 2015). Ethiopia is one of these countries, with the rich natural resources that tries attract the foreign investors to the country.

Accordingly, a key informant from EIC also said that there is a positive relationship between Ethiopia's economic development and FDI. Economic growth of the country is directly affected by FDI. New job opportunities, technology, managerial know-how, marketing skills and many other aspects are acquired in Ethiopia from the experiences of foreign investors. FDI in the Ethiopian horticulture sector has great benefits for the economy, especially in terms of significant developments at macroeconomic indicators such as rapid increase at GDP. Adding to economic growth, human capital contribution, competition level, technology transfer and management and governance practices are some other benefits of FDI in Ethiopian horticulture sector to the country's economy (Interview, February 2017).

Therefore, the researcher attempted to assess the opinion of experts on the contribution of horticulture FDI to the development of Ethiopia. Accordingly, the majority of respondents from a group of experts responded that the contribution of FDI in the horticulture sector to the development of the country is great. As shown in Table 9, from the total 102 respondents 63 of them (61.8%) responded that contribution of FDI in the horticulture sector to development of Ethiopia is great. However, 33.3% and 4.9% of the respondents replied the contribution is low and very great, respectively.

Table 9: Opinion of Experts on Horticulture FDI Contribution to the Development of Ethiopia

Extent of Contribution	Number of Respondents	Percentage
Very Great	5	4.9
Great	63	61.8
Low	34	33.3
Total	102	100

Source: Field Survey (February and March 2017)

Moreover, according to informants from the EHDA and EHPEA, even though FDI in the horticulture sector is at infant stage and has several weaknesses, its contribution to the development of the country is significant. They further argued that there is a huge inflow of FDI to the Ethiopian horticulture sector, which results in being a catalyst for many other sectors. For example, many other sectors such as finance, transportation, construction and export sector are directly benefited from FDI in the horticulture sector. They also said that the sharp economic growth in Ethiopian economy in the last decades is also affected from the amount of export rates of FDI in the horticulture sector (Interview, February 2017; Interview, March 2017).

4.5.2.1. Revenue Generated by FDI in the Ethiopian Horticulture Sector

According to a key informant from the EHDA, even though only a decade and half old, the horticulture sector has shown significant progress in generating high foreign income. The horticulture export sector has contributed significantly to the foreign exchange earnings of the country. As a result, currently, horticulture is the fifth foreign revenue earner to Ethiopia next to coffee, pulses and oil seeds, gold and chat (Interview, February 2017). For example, as shown in Table 10, the country has generated 274.62 million USD in 2015/16, US$245 million in 2013/2014, and 265.7 million USD in 2011/2012 compared to US$28.5 million in 2004/2005, which is an exponential growth. This is about 10% of the total earnings of the country per year (EHPEA, 2016). As the same respondent argued, the export-oriented horticulture is earning such high revenue in only limited and insignificant area of land, given the immense potential of Ethiopia. The total area of land developed by export-oriented horticulture production in Ethiopia is almost about 12,797 hectares, which is only 11% of the developed horticulture land in the country (Interview, February 2017).

Table 10: Total Value of Income Generated through Export of the Horticulture Sector

Year	Total Value (In Million USD)
2004/05	28.55
2005/06	34.71
2006/07	80.55
2007/08	130.23
2008/09	148.12
2009/10	202.06
2010/11	224.00
2011/12	265.52
2012/13	266.00
2013/14	242
2014/15	244.80
2015/16	274.62

Source: EHDA (February 2017)

However, according to the survey respondents, the level of revenue generated by horticulture sector in Ethiopia is not encouraging. Hence, about 65.7% of the respondents confirmed that the revenue generated by horticulture sector in Ethiopia is average which corresponds to low as responded by 23.53% and very low as replied by 2.94% of the respondents. Only 7.84% of the respondents replied that the revenue generated by horticulture sector in Ethiopia is very high.

Table 11: Opinion of Experts on Revenue Generated by FDI in the Ethiopian Horticulture Sector

Level of Revenue Generated by FDI	Number of Respondents	Percentage
High	8	7.84
Average	67	65.7
Low	24	23.53
Very Low	3	2.94
Total	102	100

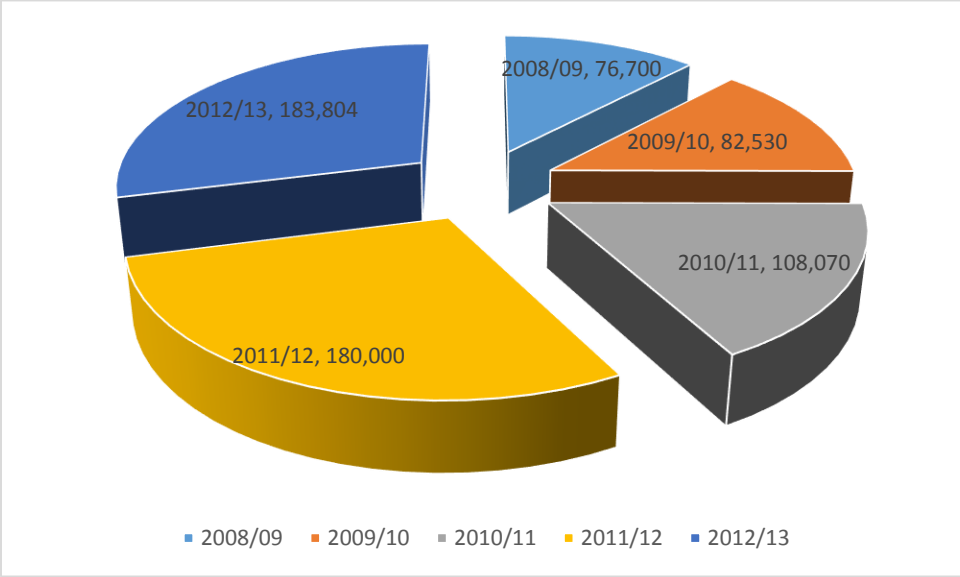
Source: Field Survey (February and March 2017)

So many justifications were forwarded by the respondents for the revenue to be low and average contributions such as capital flight back to their home, remittance to their home rather than reinvesting their corporate profits, delays in commencing the actual business operation. Moreover, horticulture foreign investments do not implement their full capacities of their project proposals. Some foreign investors are land speculators in such a way that they transfer their land to others. Therefore, it can be concluded that the contribution of FDI to revenue generation is not enough. Growth and sustainability of the contribution to the country's foreign exchange earnings is expected from the sector, through an increase in net production area (size), increase in productivity, and improvement in quality, which will have an impact in boosting prices and total revenue.

4.5.2.2. Employment Opportunity Created by FDI in the Horticulture Sector

As clearly indicated in the literature part, one of the motivations to attract FDI is its potential to create employment opportunity. In addition to other advantages, FDI creates employment opportunities for a large number of previously unemployed people, both skilled and unskilled. FDI is associated with faster local employment growth (Federico and Alfredo, 2007). However, there are also complaints that foreign firms merely exploit local labor and make no contribution to the economy, either through creating jobs, training workers, or creating linkages with local suppliers (Oxfam, 2003b). Therefore, the researcher attempted to find out the employment opportunity created by foreign investments in the Ethiopian horticulture sector.

Figure 4: Employment Opportunity Created by FDI in the Horticulture Sector



Source: EHDA (February 2017)

According to a key informant from the EHDA, Ethiopia not only has globally competitive advantages for quality horticulture produce, cost of freight, cost of production and proximity to markets. But also labor costs are cheaper than many African countries already involved in the horticulture export. The labor intensive process required for seeding, cultivating, harvesting, and packing makes the floriculture sector unique in absorbing a huge labor force (Interview, February 2017). As a result, apart from contributing to the overall economic development of the country, as shown in Figure 4, the horticulture export sector has particularly created job opportunities for about 183,804 people, of whom the 80% are women (EHDA, 2014), a section of the population that has been historically underemployed. This is making an important contribution to local economies, to the empowerment of females in the community and to household food security.

Table 12: Opinion of Experts on Employment Opportunity Created by FDI in the Sector

The Employment Opportunity Created by FDI in the Horticulture Sector	Respondents	Percentage
Very Great	3	2.94
Great	20	19.61
Low	79	77.45
Total	102	100

Source: Field Survey (February and March 2017)

However, another key informant from the EDRI argued that the contribution of horticulture FDI to employment in Ethiopia is not satisfactory (Interview, February 2017). This argument is also supported by the responses of the majority of the respondents to the question that refers to the contribution of FDI to employment in the Ethiopian horticulture sector. As shown in Table 12, from the total respondents, 77.45% of the respondents replied that employment contribution of FDI in the horticulture sector is low while 19.61% and 2.94% perceived FDI employment opportunity to be great and very great, respectively. Moreover, according to responses made by an informant from the EHDA, the contribution of FDI to employment is not effective and as it was expected. Even though it is low, employment creation still constitutes the most significant contribution of horticulture investments to local development among populations in Ethiopia. The low contribution of FDI to employment emanates from both failures of starting operation and failure to employ as it was planned in the original proposal (Interview, February 2017).

4.5.2.2.1. Skilled and Unskilled Labor Availability to the Horticulture Sector in Ethiopia

Horticulture is generally a labor-intensive sector with high demand for unskilled labor, trained and skilled supervisors, technicians, agronomists, horticulturalists, and professional managers, etc. As such its competitiveness is highly sensitive to changes in labor costs. Here, it is also necessary to explore the availability of both skilled and unskilled labor to the horticulture sector.

Therefore, in relation to the availability of skilled labor to the horticulture sector in Ethiopia, as shown in Table 13, 64.7% of the respondents replied that skilled labor is less available while 24.51% of them responded that skilled labor to the horticulture sector is available in Ethiopia. However, only 10.8% of the respondents replied that skilled labor is not available to the horticulture sector. This implies that the government should give emphasis on establishing institutions and create programs, in order to produce skilled and competent supervisors, technicians, agronomists, horticulturalists, irrigation engineers, and professional managers to fill the gap. Due to this gap, according to an informant from the EHPEA, some horticulture farms are hiring foreign skilled professionals from abroad.

Table 13: Opinion of Experts on the Availability of Skilled and Unskilled Labor in the Sector

Skilled labor availability	Respondents	%	Unskilled Labor availability	Respondents	%	Source of Labor	Respondents	%
Available	25	24.51	Available	90	88.24	FDI Home Country	14	13.7
Less Available	66	64.7	Less available	12	11.8	Local Community around the FDI Firms	62	60.8
Not Available	11	10.8	Not available	-	-	Nearby areas and regions	26	25.5
						Anywhere else	-	-
Total	102	100	Total	102	100	Total	102	100

Source: Field Survey (February and March 2017)

Regarding the availability of unskilled labor, as shown in Table 13, the majority of the respondents (88.24%) replied that unskilled labor is available in Ethiopia to be employed in the sector while only 11.8% of respondents replied that unskilled labor is less available. This result can be analyzed that regardless of unskilled labor availability in the country, the employment opportunity created by FDI in the horticulture sector is low, which implies ineffectiveness of FDI in creating employment opportunity as it is expected to be.

Furthermore, with regard to the source of labor to FDI employment in the horticulture sector, as presented in Table 13, 60.8% of respondents said that the major source of labor is the local community around the FDI firms. However, 25.5% and 13.7% of the respondents replied that nearby areas and regions and FDI home country are the main sources of labor requirements of FDI in the horticulture sector, respectively. This implies that FDI in the horticulture sector is creating employment opportunity to the local community around the investments as well as to the nearby areas and regions.

Generally, even though labor, especially unskilled labor, is available in the country, the FDI which are currently operational in the horticulture sector are not employing as they were expected to do. As an informant argued, who is an employee in one of FDI enterprises, this failure most importantly emanates from the difference between FDI proposal and their actual operation so as to obtain the investment land and the capital they require (Interview, March 2017). Therefore, any investments in a certain location is expected to be a source of local employment opportunity as far as the labor is available, especially with the intention of compensating the effects of negative externalities of the investments.

4.5.2.2.2. The Wage and Salary Paid by FDI in the Horticulture Sector

Even though wages and salaries vary depending on the size of enterprise, type of profession, level of skill required, and they are determined by the agreement between the employer and the employee, generally, the cost of labor in Ethiopia is low by African standard (EIC, 2015). Therefore, the intention of the researcher here is to explore whether the FDI operating in the Ethiopian horticulture sector pay higher wages and salary than domestic firms in the sector.

Table 14: Wages and Salary Paid as well as the Productivity of FDI in the Horticulture Sector

Wage and salary of FDIs vs Domestic Enterprises	Respondents	Percentage	Productivity of FDI	Respondents	Percentage
Very High	7	6.86	Excellent	5	4.9
Relatively Higher	75	73.53	Very good	61	59.8
The same as that of domestic investors	20	19.61	Good	24	23.52
Lower	-	-	Poor	12	11.76
Total	102	100	Total	100	100

Source: Field Survey (February and March 2017)

Accordingly, the responses provided by the majority of the respondents (73.53%) showed that FDI in the horticulture sector pays relatively higher wage and salary than that of domestic enterprises. Moreover, 19.61% and 6.86% of the respondents replied that FDI pays the same as that of domestic investors and very high salary and wage, respectively, when compared with the local or domestic firms. Therefore, from this it possible to conclude that foreign investments in the horticulture sector are paying relatively higher wage and salary when compared with domestic firms in the sector.

With regard to the productivity of FDI operating in the Ethiopian horticulture sector, the majority of respondents (59.8%) replied that the productivity of FDI is very good while 23.52% and 11.76% of the respondents replied good and poor, respectively. This can be said that the relatively higher wages and salary paid by FDI in the horticulture sector is enhancing the motivation of workers for higher productivity.

However, according to an informant from one of the FDI firms, the contribution of the employment generated by FDI in the horticulture sector has limitations, especially due to low wages and salaries. Although FDI firms are paying relatively higher wage and salary as compared to domestic firms, the payments do not match with the living expenses of employees. As this informant argued, in addition to relatively low wages, employees also face lack of employment security, which means

that employees can easily lose their jobs. Nevertheless, there are few higher paid positions for professionals such as those in the human resources department as well as production managers and supervisors (Interview, March 2017), which means a relative increase in wages of skilled workers.

4.5.2.2.3. Human Capital Development (HCD) by FDI in the Horticulture Sector

In the previous sub-section, it has been discussed how much FDIs are largely expected to come up with a large sum of employment opportunities. But more than the employment opportunity, they transfer new skills and knowledge of doing business that can have a significant impact up on the economy. Therefore, foreign investments play possible role in the development of human capital of a given nation (Mulu, 2017).

Accordingly, as informants from the EHDA and EHPEA argued, human capital contribution is one of the important benefits of FDI to the Ethiopian horticulture sector. FDI companies make regular training programs to their employees and transfer the experience to their staff. Therefore, the FDI in the Ethiopian horticulture has a spillover effect over the human capital of the country. This effect constitutes such human capital development process including skill improvements, employment creation in improved jobs, introduction of a modern industrial structure, and transfer of technologies. In other words, the FDI in the Ethiopian horticulture sector plays an important role on the HCD though improving skills, paying better salary and creating improved jobs. Moreover, operations of foreign investors in the sector provide benefit to the country both by decreasing the unemployment and increasing the number of experienced workers. In the Ethiopian horticulture sector foreign investors are giant international companies with high level of experience and they transfer their experience to the national staff, resulting in well trained staff. Work environment, wages and benefits of foreign investors make the horticulture sector more attractive to work (Interview, February 2017; Interview, March 2017).

4.5.2.3. The Linkage and Spillover Effects of FDI in the Horticulture Sector

As discussed in the literature section of this study, FDI is highly demanded not merely to capital inflow but also for its linkage and spillover effects that bring comprehensive development. It can have an impact upon the economy through its effect on the domestic investment. Especially, if the FDI companies are investing in similar sectors where the domestic investments are operating, the effect will be very successful. FDI creates a backward linkage when it utilizes the necessary inputs

for its production from domestic firms there by encouraging local firms' capacity of supplying inputs. On the other hand, FDI can supply their products to local firms as market chain through forward linkage (Behailu, 2015).

Accordingly, as an informant from the EDRI argued, when there is linkage between domestic and foreign investors, there will be spillover effects and technology transfer that enhance local productivity and domestic trade (Interview, February 2017). Therefore, it is necessary to investigate the interaction between FDIs and the domestic ones in the Ethiopian horticulture sector in terms of linkage and spillover effects.

Table 15: Opinion of Experts on the Level of Linkage and Spillover Effects of FDI with DI

Backward linkage	Respondent	Percentage	Forward linkage	Respondents	Percentage
Yes	40	39.2	Yes	27	26.5
No	62	60.8	No	75	73.5
Total	102	100	Total	102	100
Degree/Strength of the linkage	Respondents	Percentage	Degree/Strength of the linkage	Respondents	Percentage
Very Strong	-	-	Very Strong	-	-
Strong	3	2.94	Strong	-	-
Weak	75	73.53	Weak	29	28.4
Very Weak	24	23.53	Very Weak	73	71.6
Total	102	100	Total	102	100

Source: Field Survey (February and March 2017)

As presented in the Table 15, the linkage between foreign investments and the domestic firms in the horticulture sector exists to some extent. However, the majority of the respondents, 60.8% and 73.5% for backward and forward linkages, respectively, confirmed that there is no linkage. Regarding the strength of the linkage, 73.53% of respondents that confirmed the existence of backward linkage between FDI and domestic firm is weak while 71.6% of the respondents replied that the forward linkage is very weak. Therefore, it can be analyzed that there is an occasionally created linkage but with weak interaction. Moreover, the FDIs in the Ethiopian horticulture sector do not utilize the necessary inputs for their production from domestic firms, which would encourage local firms' capacity of supplying inputs. On the other hand, foreign investments do not supply finished products to local firms as a market chain as well. This further implies that FDI in the horticulture sector import the necessary inputs for production from abroad as well as they totally export their horticulture produce to other market destinations. In general, though the foreign investments are contributing to the development of the country, they play a minor role in the

development of the domestic firms. This indicates that the competitive positions of the foreign investments are much stronger than the domestic ones in the Ethiopian horticulture sector.

4.5.2.4. Technology Transfer from FDI to Local Firms and Forum for Experience Sharing

Technology transfer is one of the primary objectives of enhancing economic growth, capital accumulation, production and even changes in the organization of social relations (Njoroge and Okech, 2011). As the informant from the EDRI pointed out, the technology and productivity of local firms improve as foreign firms enter the market and demonstrate new technologies, provide technical assistance to their local suppliers and customers, and train workers and managers who may be later employed by local firms. Moreover, FDI firms do not only transfer new technologies but also modern organizational structures as well (Interview, February 2017).

Accordingly, as another informant from the EHDA analyzed, the foreign owned companies in the Ethiopian horticulture sector are better than the local ones in terms of capital, technology, knowledge, expertise, input procurement as well as marketing outlets. One of the major expected contributions from these horticulture companies is in the form of technology transfer to local communities and local farmers. As a result, the foreign firms are expected to play a role in transferring knowledge and experience, to upgrade the performance of the locally owned farms as well (Interview, February 2017). Therefore, it is necessary to investigate the degree and conditions of interaction between foreign investments and the domestic ones in the Ethiopian horticulture sector in terms of transfer of knowledge and experience sharing.

As shown in Table 17, with regard to technology transfer from FDI to local firms, 77.45% of the respondents said that there is no technology transfer between the two while 22.55% of the respondents replied that there is technology transfer. In relation to the extent of technology transfer from FDI to domestic firms, 76.5% of the respondents replied that the degree of transfer is poor while 18.63% and 4.9% of the respondents said it is good and very good, respectively. From this it is possible to infer that there is no suitable ground for technology transfer between FDI and domestic investments in the Ethiopian horticulture sector.

Table 16: Opinion of Experts on Technology Transfer and Experience Sharing in the Sector

Technology transfer	Respondents	Percentage	Forum for experience sharing	Respondents	Percentage
Yes	23	22.55	Yes	81	79.4
No	79	77.45	No	21	20.6
Total	102	100	Total	102	100
Extent of Technology transfer	Respondents	Percentage	On What Conditions the technology transfer depends?	Respondents	Percentage
Excellent	-	-	Willingness of FDI Owners	34	33.33
Very Good	5	4.9	Enforceable by Investment Agreement	65	63.73
Good	19	18.63	Willingness of Domestic Investment Owners	3	2.94
Poor	78	76.5			
Total	102	100	Total	102	100

Source: Field Survey (February and March 2017)

However, as presented in Table 16, even though technology transfer from FDI to domestic firms in the horticulture sector remains poor, the majority of respondents (63.73%) replied that the condition is enforceable by the investment agreement of the country. From this it can easily be understood that although technology transfer is one of the criteria in FDI agreement, there is no follow up for effective implementation. As technology transfer is one of the advantages of FDI aimed at enhancing domestic capacity and productivity, the low transfer of technology in the horticulture sector indicates that FDI is not contributing in its full potential to the development of the country.

According to an informant from the EHPEA, there are two key barriers to the transfer of knowledge and technology from FDI to domestic firms. First, the technologies on offer are not affordable for local smallholders. Second, most of the technologies are not suited to smallholder domestic farming systems. Therefore, the gap in technology and capital between the giant foreign farms and domestic enterprises makes technology transfer difficult (Interview, March 2017).

However, with regard to experience sharing, as shown in Table 17, the majority of respondents (79.4%) replied that there is an arrangement for experience sharing among FDI and local firms in the horticulture sector while 20.6% of them responded that there is no such forum. According to the above informant from the EHPEA, as their started to increase in number, in 2002, both foreign owned and domestic horticulture companies operating in Ethiopia established an association, known as the Ethiopia Horticulture Producers and Exporters Association (EHPEA), to facilitate the private sector horticulture exports as well as to tackle problems they face individually. Currently, EHPEA members have reached to 96 foreign and domestic firms operating in the

horticulture export market. The association represents and advocates the interests of its members both locally and internationally. Moreover, the association is also serving as forum of experience sharing as well as a channel for knowledge transfer (Interview, March 2017).

Generally, the increasing number of FDI in the horticulture sector forces domestic companies to develop their capacity and copy technology from investing companies. In order to compete at the international market, domestic companies should produce quality horticulture products by applying better technologies, which is impossible without the full cooperation of leading foreign investments operating in the sector. Furthermore, the transfer of knowledge from FDI has also an impact on educational levels and increase skills among the working population in the sector through training and investments in research and development.

4.5.2.5. Infrastructure and Social Service Provision to the Community

In addition to the contribution to the development of the country, as an informant from the EHPEA expressed, foreign investments in the Ethiopian horticulture sector are also providing various social services and infrastructure to local communities. A number of horticulture companies have engaged in community support programs involving primary and secondary school construction and renovation, teacher employment, clean drinking water provision, road maintenance and construction, healthcare services provision including hospitals, meal provision and subsidizing in primary schools (Interview, March 2017).

However, according to the personal observation and experience of the researcher, while these interventions have addressed the needs of the local populations, healthcare and meal provision had not managed to reach the target groups due to financial limitations of the companies and a lack of consultation on the exact needs of local communities. As such, to increase the positive contributions of foreign horticulture investments additional efforts are required to fully comprehend local needs. Moreover, it is also important to consider the fact that interventions driven by community consultation might lead to a situation where local leaders and communities ask for all kinds of favors from foreign investors, which in turn might promote dependency syndrome.

4.5.3. Factors Hindering the Performance and Growth of FDI in the Horticulture Sector

As widely discussed in the literature section of this study, it is common to have some factors that challenge the performance and growth of investments in any location. This section of the study tried to identify the most important factors inhibiting the performance and growth of FDI in Ethiopian horticulture sector. Even though there might be numerous factors that inhibit the performance of FDI in Ethiopia's horticulture sector, the researcher identified lack of infrastructure, lack of capital, inaccessibility of the market, excessive institutional bureaucracy, corruption, lack of inputs and materials, lack of unskilled man power, lack of skilled man power, unfair taxation, investment policy and law and land-related problems as the most important factors. Hence, these factors that are presented below in Table 17, are not an exhaustive list. Rather the researcher tried to identify the major factors, in order to measure to what extent they are challenging the investment effectiveness and growth. The response of the sample FDI owners (managers) is also presented in Table 17 and the analysis is based on their responses to these factors.

Table 17: Factors Hindering the Performance and Growth of FDI in the Horticulture Sector

No.	Factors Inhibiting the Effectiveness of FDI in the Horticultural Sector	Degree of Influence									
		High		Medium		Low		Negligible			
		Frq.	%	Frq.	%	Frq.	%	Frq.	%	Total	%
1	Lack of Infrastructure	16	69.6	5	21.7	2	8.7	-	-	23	100
2	Lack of Capital	10	43.5	11	47.8	2	8.7	-	-	23	100
3	Marketing Problems	-	-	-	-	3	13	20	87	23	100
4	Excessive Institutional Bureaucracy	15	65.2	7	30.43	1	4.35	-	-	23	100
5	Corruption and Weak Governance	13	56.52	8	34.8	2	8.7	-	-	23	100
6	Shortage of Inputs and Materials	-	-	-	-	9	39.1	14	60.1	23	100
7	Lack of Skilled Man Power	9	39.1	9	39.1	5	21.8	-	-	23	100
8	Lack of Unskilled Labor	-	-	-	-	4	17.4	19	82.6	23	100
9	Unfair Taxation	-	-	-	-	2	8.7	21	91.3	23	100
10	Investment policy and law	-	-	2	8.7	10	43.5	11	47.8	23	100
11	Land related Problems (Acquisition, lease price)	10	43.5	11	47.8	2	8.7	-	-	23	100

Source: Field Survey (February and March 2017)

4.5.3.1. Lack of (Bad) Infrastructures

Lack of or poor infrastructure is frequently outlined as one of the barriers that foreign firms face in Ethiopia. Foreign investors encounter bad communication facilities, weak distribution systems, lack of adequate business services, etc. Infrastructures such as electric power supply, water supply, access to roads, telecommunication and internet services are some of the basic facilities required by foreign investments.

Based on this fact, the researcher tried to investigate whether the lack of these infrastructures is critical or negligible to the operation of FDI in the horticulture sector. As shown in Table 17, the majority of the respondents (69.6%) replied that lack of infrastructures in the country is highly affecting the effectiveness and growth of FDI in the horticulture sector. Few respondents (21.7%) responded that the effect of lack of infrastructures is medium in inhibiting the effectiveness of FDI in the country. From this it is possible to infer that lack of infrastructures is one of the factors affecting the performance and growth of FDI in the Ethiopian horticulture sector.

4.5.3.2. Lack of Capital

The availability of capital is one of the driving forces for all investments in general and for foreign investments in particular, as they relatively demand more capital than domestic investments. Not only the availability but also the process of acquiring the capital is the decisive factor in effecting the investments to operate as per their schedule. Especially, access to capital should not take longer time for the horticulture sector.

As presented in Table 17, some of the respondents (43.5%) replied that the effect of lack of capital is high, while the majority (47.8%) of the respondents confirmed that the effect of lack of capital is medium and only 8.7% of the respondents said that the problem of access to capital is low. Based on the responses of FDI owners, it is possible to conclude that there is lack of capital in the horticulture sector with a varying degree of influence ranging from high to low. However, one of the advantages of attracting foreign investments is the capital they bring to the country. The capital includes the machineries used in the production and from this aspect sometimes the process of importing capital goods creates lack of capital.

4.5.3.3. Marketing-related Problems

There are a number of key requirements relating to marketing including market research, market evaluation, promotion, trade-fair and quality management. There is a need to undertake market studies in order to get a clear picture of the range of products in demand in the target markets including volumes, varieties, seasonality, quality requirements, and most importantly competitiveness of the Ethiopian horticulture. Without continued access to relevant market studies, it is very difficult for the country to compete in the international market.

Therefore, marketing is by far the vital factor that determine the profitability and viability of the investment as well as the motivation of the investors. The researcher attempted to explore whether the marketing issues are severe problem to foreign investors in the Ethiopian horticulture sector. As in the Table 17, the majority of respondents (87%) replied that marketing issues are negligible in affecting the effectiveness and growth of FDI in the horticulture sector. However, few respondents (13%) responded that market inaccessibility problem is low. Therefore, this result implies that marketing issues are not serious problem in inhibiting the effectiveness and growth of FDI in the Ethiopian horticulture sector.

4.5.3.4. Excessive Institutional Bureaucracy

The excessive and complicated bureaucratic procedure in different government institutions as well as the lack of implementation of various government regulations may be a serious challenge to foreign investors. The fact that FDI has many contact institutions to start the investment, excessive bureaucracy may lengthen the duration of time to begin the actual business operation unless these institutions are efficient and effective in handling the issues of FDI.

Accordingly, as shown in Table 17, the majority of respondents (65.2%) replied that excessive and complicated institutional bureaucracy is highly hindering the effectiveness and growth of the Ethiopian horticulture sector. Moreover, 30.43% of the respondents replied that the effect of institutional bureaucracy is medium in inhibiting the sector. Still there are few respondents (4.35%) who accept the existence of institutional bureaucracy but they confirmed its influence is low. From this it can be inferred that, bureaucratic bottlenecks which tendering to retard investment activities, though they are declining, there is still institutional bureaucracy that challenges the effectiveness of FDI in the Ethiopian horticulture sector. Therefore, the government needs to give attention on

the conduct of government officials and experts who allegedly tend to manipulate government regulations for the sake of personal benefits.

4.5.3.5. Corruption and Weak Governance

Ethiopia does relatively well on indicators of corruption, including the World Wide Governance indicators. However, due to the recent rapid economic growth, it is reasonable to assume that challenges of corruption are rising. Corruption ranges from petty to grand corruption and usually takes place in a very hidden manner, which is a symptom of bad and weak governance. It spoils good governance and diverts the resources from its planned use to personal benefits. It also hampers business activities through affecting free competition by favoring some and discouraging others (WB, 2014).

According to an informant from the EIC, recently, the Ethiopian government has shown increased political commitment in combating corruption and lack of good governance. The country constantly puts efforts in ensuring a more investor-friendly labor law, better intellectual property legislation and a more effective competition law. However, despite the laws and regulations, corruption still remains one of the most serious problems in Ethiopia's investment climate due to the weak internal oversight within government institutions (Interview, February 2017).

Accordingly, the researcher tried to assess the extent of influence of corruption and weak governance on the effectiveness and growth of FDI in the Ethiopian horticulture sector. As a result, as shown in Table 17, 56.52% of the respondents replied that corruption and weak governance is highly hindering FDI in the horticulture sector while 34.8% of the respondents said that the effect of corruption is medium. The other 8.7% of the respondents considered the effect of corruption as low while no respondent replied the effect to be negligible on FDI in the Ethiopian horticulture sector. It can be analyzed from the response of the respondents that a large proportion of the respondents put corruption severity is high. Therefore, this result shows that the problem of corruption and weak governance is impeding the effectiveness growth of FDI in the Ethiopian horticulture sector. This in turn implies that the law enforcement systems of the government against corruption need to be upgraded.

4.5.3.6. Shortage of Production Inputs and Materials

Availability of production inputs and materials is one of the location advantages considered by foreign investors. Even though not often, foreign investors may face challenges in getting a sustained supply of inputs and materials.

Based on this assumption, the researcher tried to investigate if there is shortage of the supply of raw materials to be taken as a factor affecting the effectiveness and growth of FDI in the Ethiopian horticulture sector. Regarding the problem of supply of production inputs and materials, as presented in Table 17, the majority of the respondents (60.1%) confirmed that its effect is negligible and 39.1% of respondents replied that the effect is low. Therefore, it can be concluded that shortage of supply of production inputs and materials availability is not a factor hindering the effectiveness and growth of FDI in the Ethiopian horticulture sector.

4.5.3.7. Lack of Skilled Manpower

Lack of skilled manpower is one of the critical factors that constrain investment activities, especially in developing economies. In Ethiopia, there is an availability of large and cheap labor. However, the question lies whether the available labor fits the business requirement in terms of skill and know-how. Therefore, the researcher tried to find out whether the FDI operating in the Ethiopian horticulture sector have encountered the problem of getting skilled manpower or not. From the respondents, as shown in Table 17, 39.1% of them replied that getting skilled manpower is highly challenging problem. Moreover, 39.1% of the respondents also replied that the effect of lack of skilled manpower on FDI in the sector is medium while the rest of respondents (21.8%) responded that the degree of the problem is low. From this result, it can be analyzed that FDI in the Ethiopian horticulture sector face the problem of lack of skilled manpower that fits the context and requirements of the sector.

4.5.3.8. Lack of Unskilled Manpower

The availability of unskilled manpower is also the basic requirement of investments, especially for labor intensive activities like the horticulture sector. Unskilled labor is highly demanded by the FDI operating in the horticulture sector. As a result, the researcher attempted to investigate if there is lack of unskilled manpower that might affect the effectiveness and growth of FDI in the Ethiopian horticulture sector. As presented in Table 17, the majority of the respondents (82.6%)

replied that lack of unskilled manpower is negligible to affect FDI in the horticulture sector. However, few respondents (17.4%) replied that the effect of lack of unskilled manpower on the effectiveness and growth of FDI in the horticulture sector is low. Therefore, lack of unskilled manpower is not a challenge for hindering FDI in the Ethiopian horticulture sector.

4.5.3.9. Unfair Taxation

Taxation is one of the instruments of collecting revenue to support government expenditures and development endeavors. Therefore, the government has the obligation and right to collect taxes. However, if there is no proper tax administration, it discourages business activities, especially foreign investments. The government of Ethiopia identified areas of investment eligible for exemption of customs duty and exemption of income tax to encourage the flow and performance of FDI.

The response of FDI owners indicates that taxation is negligible as a factor that hampers the effectiveness and growth of FDI in the Ethiopian horticulture sector. This is supported by 91.3% of the respondents and only few respondents (8.7%) replied that taxation has an effect but its effect is low. From this, it can be concluded that the government effort of relaxing tax to be paid by FDI in the horticulture sector is well recognized by FDI owners as incentive.

4.5.3.10. Investment Policy and Law

According to an informant from the EDRI, the investment framework in Ethiopia is characterized by complex regulations, lack of transparency and weak enforcement. Despite the existence of normative framework, consistent implementation is still lacking and unfair interpretation of laws appears in many fields. The existing 'implementation gap' in the business legislation often discourages foreign investments that are also deterred by the bureaucratic and weak administration. By recognizing the decisive role of the private sector in the economy, the government has revised the investment proclamation for four times in the last twenty-five years. It revised the previously restricted sectors to be open for foreign investors (Interview, February 2017).

Accordingly, the researcher tried to assess how FDI owners feel towards the Ethiopian investment policy and law. As a result, 47.8% of the respondents replied that there is no problem in relation to investment policy and law of the country. However, 43.5% of the respondents responded that the effect of the investment policy and law is low to affect FDI. Therefore, from this it can be

concluded that the Ethiopian investment policy and law is not affecting the effectiveness and growth of FDI in the horticulture sector.

4.5.3.11. Land-Related Problems

In Ethiopia, land governance is strongly anchored on the 1995 FDRE Constitution, which sets out basic laws for governing the ownership, management and administration of land. Land is under state ownership for the primary goals of insuring social equity and tenure security; it is not subject to sale or to be used as a means of exchange. Individuals, companies and other organization have only use right of land. The government can legally appropriate land for investment by private actors who are required to pay to use the land (FDRE, 1995).

Therefore, according to an informant from the EIC, investors (both foreign and domestic) have the right to land following agreement on payments to be made for land use, through rent and lease. The rural land is acquired through rent while urban land is acquired through leasing for a certain number of years. The lease and rental prices of urban and rural land vary according to location, type of investment and class of land. The lease time differs between the different regional states. By international standards, land cost of lease is very low (Interview, February 2017).

Accordingly, since horticulture investments require land, land availability and security of tenure are perceived as major constraints to the development of horticulture production in Ethiopia. Several private investors have experienced concern with delays in acquiring land leases, the length of the lease period, the lack of an efficient land market and the unwillingness of banks to accept land as collateral (LANDac Ethiopia Country Factsheet, 2016). As a result, the researcher attempted to investigate how land availability, acquisition, rent and lease prices in Ethiopia are inhibiting the effectiveness and growth of FDI in the horticulture sector.

Accordingly, 43.5% and 47.8% of the respondents replied the effect of land-related problems on the effectiveness and growth of the sector is high and medium, respectively. Therefore, the result shows that the foreign investors in the Ethiopian horticulture sector are not happy with the availability, acquisition, rental and lease prices of land in the country.

4.5.4. Trends of FDI in the Ethiopian Horticulture Sector

As discussed in the previous sub-section, by utilizing the available resources and creating value, investment is regarded as one of the greatest engines in economic growth and prosperity of counties. As a developing country, Ethiopia needs a huge amount of investment that can utilize its available resources. In order to achieve this, in addition to promoting the domestic investment, the country should always attract foreign investors.

4.5.4.1. FDI Flow to Ethiopia's Horticulture Sector

According to an informant from the EDRI, as compared to other African countries, the flow of FDI in the Ethiopian horticulture sector is quite low and a full of fluctuations which indicates the existence of unhealthy flows (Interview, February 2017). Therefore, the researcher attempted to investigate the current trend of FDI flow in the Ethiopian horticulture sector, by taking into account the opinion of experts operating in the sector.

Table 18: Opinion of Experts on the Current Trend of FDI Flow to the Horticulture Sector

What is the current trend of FDI Flow to Ethiopian horticulture sector?	Respondents	%
Increasing	91	89.2
Decreasing	-	-
Remain Constant	11	10.8
Total	102	100

Source: Field Survey (February and March 2017)

Accordingly, as presented in Table 18, 89.2% of the respondents replied that the current trend of FDI flow to the Ethiopian horticulture sector is increasing while 10.8% of the experts said that the trend remains constant.

However, according to a secondary data from the EIC, even though the flow of FDI to the Ethiopian horticulture sector is characterized by frequent fluctuations and it is encountered with a positive and negative annual increase rates, the number of horticulture projects taking licenses annually is currently decreasing. As shown in Table 19, for example, the number reached to 14 in 1999 from 2 in 1992 as well as from 2 in 2001 to 166 in 2008. The highest number per annum was registered in 2008, but since then the number is decreasing from year to year though there are fluctuations.

Table 19: Total Number of Licensed Horticulture Projects in Ethiopia

Year	Total Number of Licensed Projects	Year	Total Number of Licensed Projects
1992	2	2005	21
1993	4	2006	49
1994	5	2007	89
1995	8	2008	166
1996	10	2009	93
1997	10	2010	88
1998	8	2011	36
1999	14	2012	45
2000	4	2013	67
2001	2	2014	52
2002	4	2015	57
2003	5	2016	39
2004	19	2017(January and February)	1
		Total	898

Source: EIC and EHDA (February 2017)

Therefore, from this result, it is possible to say that the trend of FDI flow to the Ethiopian horticulture sector is not smooth and healthy. In order to insure a healthy and consistent increase of FDI flow to the Ethiopian horticulture sector, various policies have to be designed and implemented with the intention of attracting foreign investors.

4.5.4.2. Origin of FDI Projects in the Ethiopian Horticulture Sector

Another way to look into the status of FDI in the Ethiopian horticulture sector is in terms of its origin. According to an informant from the EIC, the flow of FDI between countries is influenced by factors such as historical, political and cultural relationship between countries as well as other factors like colonial legacy, geographical proximity, country trade agreement with other countries, regional trade or investment agreement etc. (Interview, February 2017).

The FDI projects in the Ethiopian horticulture sector originates from around 34 countries. At individual country level, India is the principal source of FDI, which accounts for 17% of the total investment in the sector. It is followed by the Netherlands which has 16% share. The Netherlands is closely followed by China and Malaysia each of which accounts for 14%. These four countries are the source of more than 60% of the total FDI flow. In terms of regional level, with more than 45% share, Asia is the most important source, followed by the EU which accounts for slightly over one fourth of the total amount of the FDI. Moreover, Israel, Saudi Arabia and USA investments have also significant share in the Ethiopian horticulture sector (EIA, 2017).

Generally, according to the respondent from the EIC, even though Asia is the most important source of the FDI in the Ethiopian horticulture sector, the European horticulture sector plays an instrumental role as a focal market destination, input supplier and dominant force in shaping the Ethiopian horticulture sector (Interview, February 2017).

4.5.4.3. Status of Horticulture Projects in Ethiopia

The status of FDI projects in the horticulture sector can be seen from two perspectives:

4.5.4.3.1. Investment Type of Horticulture Projects

As shown in Table 20, investors operating in the horticulture sector include local, foreign direct investment (FDI) and joint ventures enterprises. However, this survey only focused and took into account FDIs in the Ethiopian horticulture sector which are currently fully at the operational stage. Currently, there are a total number of 136 horticulture investments in Ethiopia in the production and export of flower, fruits and vegetables, and herbs. The proportion of farm ownership is made up of 53 local investors (38.9%), 71 FDI (52.2%) and 12 joint venture partnership (8.8%). Hence, it is possible to say that the majority of the companies operating in the sector are owned by foreign investors in the form of sole proprietorship or partnerships. Regarding the distribution of operational horticulture projects into sub-sectors, 90 (66.2%) projects are engaged in the production and export of flower, 30 (22.1%) of them in the vegetable, 10 (7.35%) of them in the fruit and 6 (4.41%) of them are operating the production and export of herbs (EHPEA, 2017).

Table 20: Status of the FDI Projects in the Ethiopian Horticulture Sector

Type of Investment	Status of Licensed Ethiopian Horticulture Projects							
	Pre-Implementation Projects		Implementation Projects		Operational Projects		Total Number of Licensed Projects	
	No. of Projects	%	No. of Projects	%	No. of Projects	%	No. of Projects	%
Domestic	592	90.8	53	48.2	53	39	698	77.7
FDI (including Joint Ventures)	60	9.2	57	51.8	83	61	200	22.3
Grand Total	652	100	110	100	136	100	898	100

Source: EIC and EHDA (February 2017)

4.5.4.3.2. FDI's Efficiency in Starting Actual Business Operation in the Horticulture Sector

According to an informant from the EIC, foreign investments are expected to start their actual business within six months after securing the investment land. However, due to the organizational

inefficiencies and other challenges in the sector, they took longer time to start their project operation (Interview, February 2017).

Table 21: Efficiency of FDI in Starting Actual Business Operation

Time taken to start actual business Operation of horticulture FDI	Respondents	Percentage
6 Months	5	21.7
Between 6 Months - 1 Year	10	43.5
Between 1 year - 1.5 Years	6	26.1
2 Years and Above	2	8.7
Total	23	100

Source: Field Survey (February and March 2017)

Therefore, the researcher, tried to explore the time taken by FDI in the Ethiopian horticulture sector to start the actual business operation. As presented in Table 21, only 20% of the FDI started their actual business operation within six months of time. However, 43.5% of the respondents replied that it took 6 months to one-year time to begin their actual business operation. The rest 26.1% and 8.7% of the respondents confirmed that it took 1 to 1.5 year and two years and above time to start their actual business operation, respectively. Generally, 78.3% of foreign investments in the Ethiopian horticulture sector did not start their actual business operation within the limit set to start the business. This indicates that there are some efficiency barriers that deter foreign investments from starting their project operations.

This survey result is also similar with a secondary data from the EIC and EHDA. As shown in table 20 above, since 1992 to January 2017, 898 projects have taken license to operate in the Ethiopian horticulture sector. Out of this total licensed projects, 652 (72.6%) projects are at the pre-implementation, 110 (12.2%) projects are at the implementation, and 136 (15.1%) projects are at operational stages. With regard to the investment type of the licensed projects, 90.8% of the projects at the pre-implementation stage are domestic projects and 9.2% of them are FDI (including joint ventures) projects; 48.2% of projects at the implementation stage are domestic projects and 51.8% of them are FDI projects; and 39% of the projects at the operational stage are domestic projects and 61% of them are FDI projects. This shows that there is delay in projects in starting the actual projects, though an investor is expected to start construction within six months and actual operation in one-two years depending on the type of projects. Moreover, among the total licensed projects in the horticulture sector, 77.7% of them are domestic projects while 22.3% of them are FDI projects (EIC, 2017; EHDA, 2017).

Therefore, based on the above data, it can be concluded that the performance of the horticulture sector is low. Regardless of the emphasis of the government towards enhancing the sector, as shown in Table 20, the average percentage of projects which are currently operating is 15.1%. For example, regarding the service sector the percentage of projects in operation is 63%. The main reason for the low performance of the sector is delay in projects. It is also possible to infer that there is a weak follow up in insisting the project owners to start the projects as per the standard time set. The reluctance of project owners to start the operation and a weak follow up ultimately resulted in low effectiveness of FDI in achieving the objectives of creating more jobs and be more reliable source of revenue to enhance the development of the country.

4.5.5. Major Challenges Impeding FDI in the Ethiopian Horticulture Sector

According to informants from the EHDA and the EHPEA, the Ethiopian horticulture sector is suffering from various challenges. These challenges to the sector include: Lack of infrastructure and logistic; excessive and complicated institutional bureaucracy; lack of skilled labor; foreign exchange shortages and limited access to finance capital; long lead-times for inputs and exports due to the current logistic infrastructure; land-related problems; and lack of investors' commitment to work as per the agreement of their business plan. However, even though the government is taking major steps to alleviate these challenges, lack of infrastructure and excessive institutional bureaucracy are the major problems or challenges affecting the Ethiopian horticulture sector (Interview, February 2017; Interview, March 2017).

4.5.5.1. Lack of Infrastructure as A Challenge Impeding FDI the Horticulture Sector

As shown in Table 22, the majority of the expert respondents (73.5%) confirmed that lack of infrastructures is one of the obstacles to the effectiveness and growth of FDI in the Ethiopian horticulture sector. This is also supported by the information provided by FDI owners (managers) in the horticulture sector. The majority of FDI owners confirmed that lack of infrastructure is one of the factors highly hampering FDI effectiveness and growth in the Ethiopian horticulture sector.

Table 22: Lack of Infrastructure as a Challenge to FDI in Ethiopian Horticulture Sector

Is lack of infrastructure an obstacle to the effectiveness and growth of FDI in the sector?	Respondents	Percentage
Yes	75	73.5
No	27	26.5
Total	102	100
Who is the responsible body for the provision of infrastructures?	Respondents	Percentage
Investors	4	3.92
The Local Administrations where the FDIs are found	7	6.9
The Federal Government	61	59.8
The Regional Governments	30	29.4
Total	102	100

Source: Field Survey (February and March 2017)

With regard to the responsible body for the provision of the infrastructures, as presented in Table 22, the majority of the respondents (59.8%) replied that the major responsibility remains with the federal government. However, 29.4% of the respondents said that providing infrastructures is the responsibility of regional governments while few respondents (6.9%) replied that it is the responsibility of local administrations where the FDI firms are found.

Generally, lack of infrastructure provision is one of the major factors in hindering FDI effectiveness and growth in the Ethiopian horticulture sector. Especially, infrastructures like power supply, telecommunications, internet, access to road and water supply are among the most serious challenges retarding the effectiveness of FDI in the sector. Hence, each body has its own share in the provision of infrastructures. However, if each body does not fully recognize its own responsibility, the problem will be aggravated and in turn result in low inflow of FDI and remains to be a cause to the delay of the project and ultimately hamper the effectiveness of FDI in the sector.

4.5.5.2. Institutional Bureaucracy as A Challenge Impeding FDI the Horticulture Sector

According to an informant from the EIC, the process of obtaining an investment license takes not more than 3 hours if all the necessary requirements are fulfilled by an investor while the process of land provision takes not more than a month (Interview, February 2017).

As shown in Table 23, the majority of the respondents (60.9%) replied that they have spent less than 5 hours to obtain an investment license. This is almost in conformity with the standard set by EIC to offer the license. However, 30.5% and 8.7% of the respondents replied that they invested

5-8 hours and 9-12 hours to get the investment license, respectively. This shows that 39.2% of the investors seeking an investment license obtain beyond the standard time set by the EIC. Therefore, the failure to meet the standard time indicates that there is an institutional bureaucracy that limit the flow and growth of FDI in the Ethiopian horticulture sector.

Table 23: Time Taken by FDI to Get Investment License and Land in the Horticulture Sector

Time taken to get investment license	Respondents	Percentage	Time taken to get investment land	Respondents	Percentage
Less than 5 Hours	14	60.9	Less than 2 Months	3	13
Between 5-8 Hours	7	30.5	Between 3-5 Months	7	30.5
Between 9 -12 Hours	2	8.7	Between 6-8 Months	10	43.5
Above 12 Hours	-	-	Above 8 Months	3	13
Total	23	100	Total	23	100

Source: Field Survey (February and March 2017)

In relation to the time spent to obtain land for an investment after registration, the majority of respondents (43.5%) replied that it took from 6-8 months to get investment land for their projects. However, 30.5% of the respondents confirmed that it took from 3 to 5 months to get the land while only 13% of the respondents spent less than 2 months and another 13% of the investors spent above 8 months. Therefore, this indicates that there is more bureaucracy in obtaining the land than receiving the license.

4.5.5.3. FDI Knowledge and Satisfaction with the Ethiopian Investment Policy

According to the informant from the EIC, Ethiopia has made a considerable progress in economic and social development since 1992 because of the implementation of favorable policies and strategies that are instrumental in improving the national economy. As the same informant argued, various policies and strategies have initiated a new push towards creating frameworks conducive for economic and social development. The inflow of FDI has been increasing over the last twenty-five years, due to the investment-friendly environment created in the country (Interview, February 2017).

Therefore, the researcher tried to investigate the knowledge and level of satisfaction of foreign investors in the horticulture sector with regard to the Ethiopian investment policy. As presented in Table 24, all of the respondents replied that they have clear and adequate knowledge about the Ethiopian investment policy. However, their level of satisfaction with the investment policy of the country varies. As shown in Table 29, the majority of the respondents (65.2%) replied that they

are satisfied and 26.1% of the respondents are highly satisfied with the Ethiopian investment policy. However, few respondents (8.7%) replied that they are only partially satisfied with the Ethiopian investment policy.

Table 24: Foreign Investors' Knowledge and Satisfaction with the Ethiopia Investment Policy

Clear and Adequate Knowledge of FDI about Ethiopia investment policy	Respondents	Percentage	Level of Satisfaction with investment policy	Respondents	Percentage
Yes	23	100	Highly satisfied	6	26.1
No	-	-	Satisfied	15	65.2
			Partially Satisfied	2	8.7
			Dissatisfied	-	-
Total	23	100	Total	23	100

Source: Field Survey (February and March 2017)

4.5.5.4. Tax Fairness to FDI in the Ethiopian Horticulture Sector

Every investor has a tax obligation. The Ethiopian tax law provides for the direct and indirect taxes. The direct taxes are divided into five categories: personal income tax, rental tax, withholding tax, corporation tax, etc. The main types of indirect taxes applicable are VAT, customs duty, excise and turn over taxes (EIC, 2015).

Table 25: Responses of Foreign Investors to the Tax Fairness in the Ethiopian Horticulture Sector

Does the tax you are paying is fair?	Respondents	Percentage
Yes	20	87
No	3	13
Total	23	100

Source: Field Survey (February and March 2017)

Therefore, the researcher attempted to explore the opinion of foreign investors in the horticulture sector regarding the fairness of the Ethiopian tax system. As shown in Table 25, a large majority of the respondents (87%) replied that the tax they are paying is fair. Moreover, according to the respondents, taxation is not a factor to impede FDI effectiveness and growth in the Ethiopian horticulture sector. This is similar with the responses offered by experts regarding the incentives available to foreign investors such as tax holiday, tax exemption and duty free import of goods. Therefore, this can be concluded that taxation is not a challenge, rather it is an incentive to attract foreign investors in the horticulture sector.

4.5.5.5. FDI Owners Comments on Services Rendered by EIC and EHDA

Foreign investors require different services from different institutions and agencies. However, the services rendered by the Ethiopian Investment Commission (EIC) and the Ethiopian Horticulture Development Agency (EHDA) is more important and directly related than other institutions. As discussed in the previous sub-sections, the EIC is responsible for facilitating both domestic and foreign investment. However, the EHDA is a separate agency, established in 2008, which provides institutional support for the development of the horticulture sector in the country. It is responsible for promoting, facilitating, coordinating, and supporting investment in flowers, fruits and vegetables. The EHDA has separate technical support case teams for flowers and fruits and vegetables. Investment promotion and marketing departments also have teams that work for both sectors (EHDA, 2014).

Table 26: Opinion of Foreign Investors About Services Offered by EIC and EHDA

Opinion of foreign investors on service offered by the EIC and the EHDA	Respondents	Percentage
Excellent	-	-
Very Good	5	21.7
Good	6	26.1
Poor	12	52.2
Total	23	100

Source: Field Survey (February and March 2017)

Accordingly, the researcher tried to assess the opinion of foreign investors in the sector with regard to the services offered by these two government agencies. As shown in Table 31, the majority of the respondents (52.2%) replied that the services provided by EIC and EHDA is poor. However, 26.1% and 21.7% of the respondents replied that the services offered by the agencies is good and very good, respectively. Therefore, this can be concluded that the poor services provided by these agencies have its own role in affecting the performance and growth of FDI in the Ethiopian horticulture sector.

4.5.5.6. Reasons for Terminated FDI Projects in Ethiopia's Horticulture Sector

With regard to the termination of FDIs in the Ethiopian horticulture sector, even though the researcher was unable to get the exact the number of terminated foreign investments in the horticulture sector, as shown in Table 27, the majority (82.4%) of the experts responded that there

are foreign investments which terminated their business operation. However, 17.6% of the respondents replied that they are not sure with regard to the existence of terminated investments.

Table 27: Reasons for Terminated FDI Projects in Ethiopia's Horticulture Sector

Are there FDIs in the horticulture sector that terminated their business or operation?	Respondents	%
Yes	84	82.4
No	-	-
Not Sure	18	17.6
Total	102	100

Source: Field Survey (February and March 2017)

Regarding the reasons for the termination, according to the response of the experts on the survey, the following can be some of the major factors for the foreign investments to terminate their business in the horticulture sector: The bureaucracy in relation to land availability; lack of support from the government; the investors would not get the land as easy as they were promised; lack of road access and electricity; due to their own potential problem like finance; and some are ambitious, some do not value professionals, some take the managerial position only since they are owners (relative of owners), some start the project because they have money, etc.

4.5.5.7. The Ethiopian Business Environment (Investment Climate)

The government of Ethiopia is currently actively pursuing improving the current investment climate through adopting more efficient bureaucratic processes in the areas of registration, logistic, and tax processes (US Department of State, 2015). According to the observation of the researcher, even though there are many improvements in relation to bureaucratic delays, it is not easy for investors to start and do business in the country and still some government offices have problems in giving proper services to investors.

As presented in Figure 5, based on the World Bank's the 10 criteria included in the ranking of Doing Business 2017 Report: starting a business (179), dealing with construction permits (176), getting electricity (127), registering property (133), getting credit (170), protecting minority investors (175), paying taxes (90), trading across borders (167), enforcing contracts (80) and resolving insolvency (120), Ethiopia still has one of the lowest scores as compared to 190 world countries (WB, 2017).

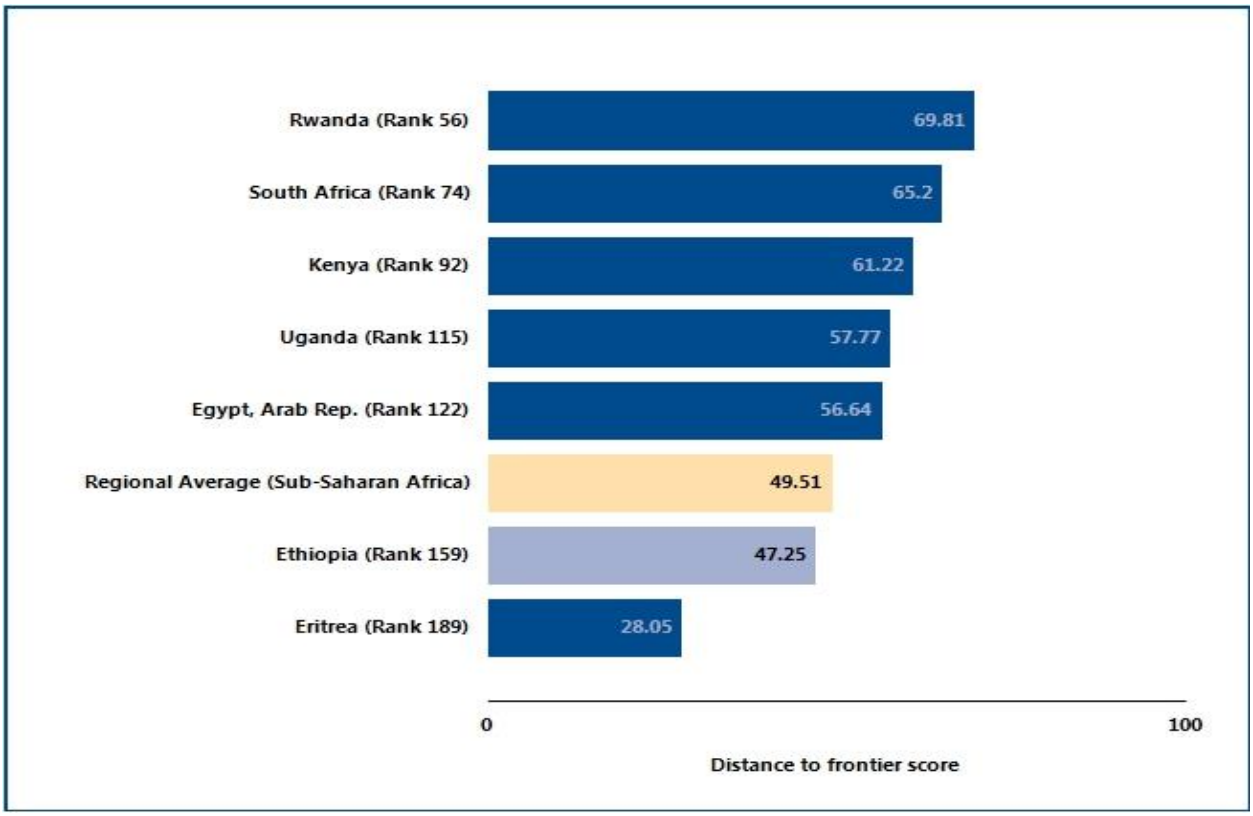
Figure 5: Rankings on Doing Business 2017 – Ethiopia

Source: World Bank (2017) (Scale: Rank 190 center, Rank 1 outer edge)

Moreover, although the government is working to establish an expedited one-stop shop service that will significantly cut the time and cost of acquiring investment and business licenses, as compared to most African countries, the Ethiopian business environment or investment climate still has many shortcomings. Bureaucratic hurdles continue to affect project implementation and some foreign investors report that the investment climate still lacks the capacity to meet the requirements of investors. The foreign investors find the decision making and the negotiations with authorities hard and time-consuming. This is due to the fact that different people participate in the negotiations and often each of them make a decision on their own leading to lack of consistency between the opinion of decision makers and policy statements. Furthermore, there are also some long and complex procedures connected with permits and approvals that are still part of a centrally-planned system.

As presented in Figure 6, currently, the country ranks lower (159th out of 190 countries) than the regional average for Sub-Saharan Africa in the World Bank ease of doing business. It has even lower ranks than its major regional competitors in the horticulture export investment such as Kenya, Uganda and Rwanda (WB, 2017).

Figure 6: How Ethiopia and Comparator Economies Rank on the Ease of Doing Business



Source: World Bank (2017)

Note: Distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier.

Therefore, in general, during the last years, the Ethiopian horticulture sector has been growing due to the participation of a number of local and foreign investors attracted by the various incentive packages and support as well as conducive government policies. However, in order to maximize this achievement and its contribution to the country's economy, the government should take steps making it easier to start a business: streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. The government should undertake business registration reforms in stages, and they have to be part of a larger regulatory reform program. This will result in more benefits such as greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities. Generally, the horticulture export development sector should be given more priority by the government to spearhead it through providing the necessary support.

4.5.6. Limitations of FDI in the Ethiopian Horticulture Sector

According to an informant from the EDRI, even though FDI in the Ethiopian horticulture sector has great benefits for the economy, it has also some minor costs on the country due to its limitations such as environmental impacts and workers' exposure to harmful chemicals (Interview, February 2017).

4.5.6.1. Impacts of FDI on the Environment and Measures Taken

Every human activity affects the ecosystem, directly or indirectly. The conflicting notions of preserving the natural shape of the earth, on the one hand, and carrying out developmental activities for the benefit of its inhabitants, on the other, have been there for a long time. Therefore, as the same informant from the EDRI argued, even though the perseveration and assurance of the sustainable existence of the environment should be uncompromised, some developing countries may relax their environmental regulations as a means to attract FDI. Foreign investors, especially those with significant financial, political and negotiating power, can cause damage to the host countries' environment. Indeed, these investments might cause damage to the environment through waste, emissions and smoke from their operations (Interview, February 2017).

According to Altayesh (2016), the negative impact caused by poor farming practices in the Ethiopian horticulture sector is environmental pollution of various kind, especially soil pollution and contamination and high consumption of water resources. These environmental problems are generally linked to the inputs and raw materials (agro-chemicals, i.e. pesticides and fertilizers) used by the sector and the waste disposal mechanisms.

Table 28: Impacts of Horticulture Investments on the Environment and Measure Taken

Do FDIs in the Horticulture sector carry out their activities in environmentally friendly ways	Respondents	Percentage
Yes	9	8.82
Partially	14	13.73
No	79	77.45
Total	102	100
Are there any measures to be taken against any negative impacts of FDI on the environment in the horticulture sector?	Respondents	Percentage
Yes	21	20.6
No	81	79.4
Total	102	100

Source: Field Survey (February and March 2017)

Therefore, the researcher attempted to investigate the opinion of experts with regard to the environmental impacts of FDI in the Ethiopian horticulture sector. Accordingly, as presented in Table 28, the majority of the respondents (77.45%) confirmed that the activities of FDI in the Ethiopian horticulture sector are not environmentally friendly and 13.73% of the respondents replied that their farming activities are partially environmentally friendly. However, only few respondents (8.82%) replied that the foreign investments in the horticulture sector operate in environmentally friendly ways.

Therefore, according to the responses of the experts, the major negative impacts of horticulture investments on environment include air, soil and water pollution (both surface and ground). Even though every investor provides environmental impact assessment document at the initial stage of investment, some of the investors fail to build treatment plant to reverse the environmental impacts. They also suggested that heavy use of pesticides and chemical fertilizers in the horticulture farms are putting pressure on the natural balance of the ecosystem and resulting in the degradation of soil, water and the environment. Moreover, the horticulture sector is known for its high water consumption. Depending on the case, a daily consumption of water per hectare may go as high as a 160,000 liters, due to the sector's routine production cycles, i.e. water resource is needed for irrigation, for the application of pesticides and other chemicals throughout the process. In addition, wasteful practices like over-watering have also contributed to the severity of the problem. However, despite the fact that there are no limitations on the amount of water used, some horticulture investments have employed various water-saving techniques such as drip irrigation, hydroponics and automation systems.

With regard to measures to be taken, a large majority of the respondents (79.4%) replied that there are no measures taken against any negative impacts of FDI on the environment in the horticulture sector. However, few respondents (20.6%) said there are measures against environmental impacts.

Generally, according to the informant from the EDRI, even though investors are required to undertake Environment Impact Assessment (EIA), it is not taken as a serious case and it lacks the follow up from government offices to crosscheck whether the project is harmful or environmentally friendly. Even though there are signs of environmental awareness as exemplified by the treatment of wastewater prior to disposal and the gradual adoption of integrated pest management (IPM) approaches by some horticulture companies, the main challenge facing

adoption of these practices, however, is the slow regulation process of government agencies. Furthermore, there is also lack of an integrated water management system to reduce the level of wastage and pollution as well as government agencies are not tasked with regulating the amounts of water extracted by the horticulture companies (Interview, February 2017).

Therefore, attention should be given to the sustainable use of natural resources and minimizing the magnitude of negative effects on the environment, by all stakeholders in the Ethiopian horticulture sector. It must be noted that any investment endeavor that does not care for the environment is likely to bring a challenge than a contribution to the development.

4.5.6.2. Poor Working Conditions in the Ethiopian Horticulture Investments

According to an employee from one of the horticulture firms, exposure to chemicals (primarily pesticides) among employees constitute an important complaint in the horticulture sector, as a danger to their health. Critique come not only from employees, but also from communities living near the horticulture companies. As this employee argued, the exposure to chemicals is linked to poor health and increased frequency of health problems upon starting work in the horticulture sector (Interview, March 2017). According to another informant from the EHDA, the working conditions have been improved through time, and that the introduction of certification standards had played a notable role. However, these complaints are present despite the wide adoption of these certification standards that notably focus on regulating the use of harmful chemicals (Interview, February 2017).

4.5.7. Future Prospects of FDI in the Ethiopian Horticulture Sector

4.5.7.1. Investment Opportunities and Incentives to FDI in Ethiopia's Horticulture Sector

According to an informant from the EIC, Ethiopia has various investment opportunities to offer domestic and foreign investors. Among these, the horticulture sector is one of the priority areas in the country. In 1998, by recognizing Ethiopia's significant comparative advantage to horticulture production and export, the government identified the sector as an option for export diversification through high-value crops. As a result, the horticulture sector, being new to the country has drawing the attention of many domestic and international investors (Interview, February 2017).

As another informant from the EHDA asserted, in order to attract more investors to the sector, the government is providing various supports and incentives to local and foreign investors engaged in the horticulture sector. The government offers many advantages for the horticulture sector, including: land and water are almost free of charge, support in capacity building, promotion and marketing (e.g. trade fairs), and huge investment on infrastructure (Interview, February 2017).

Moreover, as the respondents mentioned, the following incentives are also made available for those engaged in the horticulture sector: Duty free (exemption from customs duty and import tariffs) privilege for the machineries, capital goods, vehicles and construction materials and up to 15% on spare parts; A one-to-five year income tax holiday (exemption from income tax); Financial support (on bank loan bases); availability of land on lower and cheap land lease; and investments in exports are exempt from income taxes if at least 50% of the output is directly exported or if at least 75% of the output is indirectly exported for a period of no less than five years.

Furthermore, a foreign investor has also the right to make the following remittances out of Ethiopia in convertible foreign currency: Profits and dividends; principals and interest payments on external loans; payment related to technology transfer as well as collaboration agreements; proceeds from the sale or liquidation of an enterprise; compensation paid to an investor, and proceeds from the sale or transfer of shares or partial ownership of an enterprise to domestic investor.

Table 29: The Level of Satisfaction of FDI with Incentives in the Ethiopian Horticulture Sector

Does the government provide incentives to FDI in the horticulture sector?	Respondents	%	Are the incentives adequate?	Respondents	%	What is your level of satisfaction with the incentives?	Respondents	%
Yes	23	100	Yes	19	82.6	Highly satisfied	5	21.8
No	-	-	No	4	17.4	Satisfied	15	65.2
						Partially Satisfied	3	13
						Not Satisfied	-	-
Total	23	100	Total	23	100	Total	23	100

Source: Field Survey (February and March 2017)

Therefore, the researcher tried to assess the level of satisfaction of foreign investors with government incentives in the horticulture sector. As shown in Table 29, all of the respondents confirmed that the government provides investment incentives to foreign investors engaged in the horticulture sector. Moreover, 82.6% of the respondents considered that the incentives given are adequate while only few respondents replied that the incentives are not adequate. With regard to

the degree of satisfaction of FDI with government incentives, 65.2% of the respondents responded that they are satisfied while 21.8% of them said they are highly satisfied. However, few respondents (13%) replied that they are partially satisfied.

4.7.5.3. FDI Owners Future Plan about their Investments

The researcher also tried to investigate the future plan of foreign investors in the Ethiopian horticulture sector. With regard to the intention of foreign investors in the horticulture sector whether to shift their current horticulture business to other business or terminate their investments, as presented in Table 30, all of them responded that they do not have plan either to shift or terminate their investments. Therefore, it is possible to infer that the FDI is promising on the basis of business sustainability. However, currently, the foreign investors in the horticulture sector do not have the intention to transform their current investment activities to other sectors as they plan to proceed with the existing business.

Table 30: FDI Owners Future Plan about their Investments

Do you have a plan to shift your business to other sectors?	Respondents	Percentage	Do you have a plan to terminate your business?	Respondents	Percentage
Yes	-	-	Yes	-	-
No	23	100	No	23	100
Total	23	100	Total	23	100

Source: Field Survey (February and March 2017)

As emphasized in the previous sub-sections, Ethiopia is endowed with both fertile soil and suitable agro-ecological zones for agriculture that makes the country the priority choice for the development of horticulture investments. In addition, the country has vast source of water, both surface and underground. Therefore, the government identified the sector as an option for export diversification through high-value horticulture crops.

Table 31: Total Land Available and Future Potential of the Ethiopian Horticulture Sector.

No.	Development Corridor	Land Registered in Land Bank (ha)	Identified Land for Development (ha)	Potential Land for Out growers Scheme (ha)	Total (ha)
1	Oromia and Addis Ababa	7354	1298	4000	12,652
2	Bahir Dar, Abay Valley and South Gondar Corridor	361	1000	4000	5361
3	Awash, Dire Dawa, Harar and Somali Corridor	-	2000	1000	3000
4	Hawassa and Arbaminch Area	-	1787	2000	3787
5	Mekelle-Raya and Kobo Alamata	3000	500	20,000	24,500
	Total	10,715	6585	31,000	49,300

Source: EHDA (February 2017)

Accordingly, as an informant from the EHDA discussed, the government demarked naturally endowed specialized areas, known as Horticultural Development Corridors, with a maximum distance of 200 kilometers from centers (major airports) for the establishment of nucleus commercial export-oriented farms, existence of potential farmers for the out growers' scheme, existence of labor, road and infrastructure that links the products with the external market (Interview, February 2017). In the five horticulture export development corridors, as shown in Table 31, a total of 49,300 hectares of land has been identified and made ready for investment, and out of this, 25.66% of the land is identified in the Oromia and Addis Ababa corridor. Moreover, currently, another corridor, Jimma Corridor, has been identified and the potential land identification is under assessment (EHDA, 2017).

Therefore, in order to achieve this plan and attract FDI in the Ethiopian horticulture sector, the Ethiopian business environment or investment climate have to be improved and become attractive to both domestic and foreign investors.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter, an attempt has been made to summarize the major findings, make some conclusions, and forward few recommendations.

5.1. Summary of the Research Findings

The main objective of this study was to assess the factors influencing the flow, performance and growth of FDI in Ethiopia's horticulture sector as well as to investigate its challenges, limitations and prospects. To this end, the study was also aimed at exploring the contributions of FDI in the Ethiopian horticulture sector in relation to employment opportunity, revenue generation to the country, technology transfer and linkage with domestic investments. The study was also intended to assess the negative impacts of FDI in the Ethiopian horticulture sector on the surrounding environment where the investments are operating.

The findings of the study indicate that Ethiopia has significant comparative advantage in horticulture production due to its suitable and ideal weather condition, large and cheap labor-force, abundant land, and its proximity to the largest international horticulture market destinations. The country has a conducive temperate climate by African standards, due to its elevation, which is highly favorable for horticulture production. Moreover, as the majority of the population is young and productive as well as there is high unemployment rate, cheap labor is available for employment in the horticulture sector, which is a labor-intensive business. In addition, as Ethiopia is located at the crossroads between Europe, the Middle East as well as the rest of Africa and Asia, it creates the opportunity for the FDI to easily export horticulture products to the market destinations. Moreover, the study also found out that security, labor availability and market accessibility are important factors to attract FDI. With regard to factor of production, labor is the most significant factor of production for FDI inflow in the Ethiopian horticulture sector due to the availability of relatively cheap labor. This shows that FDI projects in the Ethiopian horticulture sector are labor intensive than capital.

The study found out that even though a large number of projects have taken license to operate in the Ethiopian horticulture sector, the majority of them are at the pre-implementation and implementation stages and only a small proportion of them are at the operational stage. This shows

that there is delay in projects in starting the actual projects, though an investor is expected to start construction within six months and actual operation in one-two years depending on the type of projects. Moreover, among the total licensed projects in the horticulture sector, the majority of them are domestic projects. Currently, there are a total number of 136 horticulture investments operating in Ethiopia in the production and export of flower, fruits and vegetables, and herbs. The majority of the companies operating in the sector are owned by foreign investors in the form of sole proprietorship or partnerships. Furthermore, the majority of horticulture projects are engaged in the production and export of flower.

The findings of the study show that the performance of the horticulture sector is low when compared with the country's huge potential. The main reason for the low performance of the sector is delay in projects. Moreover, there is also weak follow up in insisting the project owners to start the projects as per the standard time set. This low performance ultimately resulted in low effectiveness and growth of the sector in achieving the objectives of creating more jobs and be more reliable source of revenue to enhance the development of the country.

The study found out that even though FDI in the horticulture sector is at infant stage and has several weaknesses, its contribution to the development of the country is significant. In addition to being a source of capital, the inflow of FDI to the Ethiopian horticulture sector is a catalyst for many other sectors such as finance, transportation, construction and export trade. FDI is a source of revenue to the country. However, the level of revenue generated by horticulture sector in Ethiopia is not enough. This is due to various factors such as capital flight back to their home, remittance to their home rather than reinvesting their corporate profits, delays in commencing the actual business operation.

FDI is also creating employment opportunity to a number of people. However, the contribution of FDI to employment is not effective and as it was expected. Even though it is low, employment creation still constitutes the most significant contribution of horticulture investments to local development among populations in Ethiopia. The low contribution of FDI to employment emanates from both failures of starting operation and failure to employ as it was planned in the original proposal. The major source of labor is the local community around the FDI firms as well as nearby areas and regions. This implies that FDI in the horticulture sector is creating employment opportunity to the local community around the investments as well as to the nearby areas and

regions. Foreign investments in the horticulture sector are paying relatively higher wage and salary when compared with domestic firms in the sector. The relatively higher wages and salary paid by FDI in the horticulture sector is enhancing the motivation of workers for higher productivity.

FDI is also to the human capital development of the country as FDI companies make regular training programs to their employees and transfer the experience to their staff. This has a spillover effect over the human capital of the country including skill improvements, employment creation in improved jobs, introduction of a modern industrial structure, and transfer of technologies. However, the study also found out that there are no backward and forward linkages between foreign investments and the domestic ones in the Ethiopian horticulture sector. The foreign investments in the Ethiopian horticulture sector do not utilize the necessary inputs for their production from domestic firms and do not supply finished products to local firms as a market chain as well. Moreover, there is no suitable ground for technology transfer between FDI and domestic investments in the horticulture sector. The findings of the study show two key barriers to the transfer of knowledge and technology from FDI to domestic firms: the technologies are not affordable for domestic investments as well as most of the technologies are not suited to smallholder domestic farming systems. The study found out that a number of horticulture companies have engaged in community support programs involving primary and secondary school construction and renovation, teacher employment, clean drinking water provision, road maintenance and construction, healthcare services provision including hospitals, meal provision and subsidizing in primary schools.

The study also found out that the Ethiopian horticulture sector is suffering from various challenges. The sector is constrained by both organizational inefficiencies of the investments and external factors that imped their contribution to the development of the country. The low contributions of FDI to the development of the country's horticulture sector emanates from delay in operation and failure in meeting the planned full capacity productions which are mainly the result of inter organizational inefficiencies. Poor infrastructural development, excessive bureaucratic delays, lack of skilled labor, land-related problems, lack of investors' commitment to work as per the agreement of their business plan and difficulty in accessing capital are the major impediments to the effectiveness and growth of FDI in the sector. Further, the length approval process of FDI in the sector was found unrealistic and in the process end up discouraging potential investors.

Especially, lack of and poor provision of infrastructures like power supply, access to road and water supply are among the most serious challenges retarding the effectiveness of FDI in the sector. As a result, even though the flow of FDI to the Ethiopian horticulture sector is characterized by frequent fluctuations and it is encountered with a positive and negative annual increase rates, the number of horticulture projects taking licenses annually is currently decreasing.

The findings of the study show that the foreign investments in the Ethiopian horticulture sector have limitations. The horticulture investments have impacts on the environment including air, soil and water pollution (both surface and ground). The heavy use of pesticides and chemical fertilizers in the horticulture farms are putting pressure on the natural balance of the ecosystem and resulting in the degradation of soil, water and the environment. Moreover, exposure to chemicals (primarily pesticides) among employees constitute an important complaint, as a danger to their health.

5.2. Conclusions

FDI in the Ethiopian horticulture sector takes a significant share of total FDI in the country though it has low performance. It is seen that there is an increasingly competitive environment in the horticulture sector. Ethiopia is a preferred destination to horticulture investment due to its ideal and conducive climatic condition, abundance of large and cheap labor, geographic proximity to international horticulture market destinations, and availability of land. Endowed with a wide range of agro-climatic conditions, adequate water, and soil types, Ethiopia is suitable for producing diverse varieties of horticulture products, including temperate, tropical, and sub-tropical crops. Due to these comparative advantages to horticulture production, the attractive incentive packages and overall government supports, the Ethiopian horticulture sector has become center of attraction for FDI. The favorable conditions and incentives provided by the Ethiopian government have been an important factor in attracting both foreign and domestic investors to the horticulture sector. In addition, Ethiopia's geographic location makes it an incredible hub for investment, as the country is also geographically well-positioned at the crossroads between Africa, Europe, the Middle East and Asia which are international market destinations for horticulture export products.

As a result, currently, Ethiopia is the second largest supplier and exporter of horticulture produce in Africa (EIC, 2016). In terms of foreign exchange earnings, even though the total cultivated area for horticulture is limited given the country's immense potential, the horticulture sector is currently the fifth foreign revenue earner to the Ethiopian economy. An area in which the horticulture sector

had performed favorably is in the creation of numerous employment opportunities for local people in Ethiopia. The horticulture sector has provided an income-generating employment opportunity for many employees who were unemployed as well as others entering the sector after working as casual laborers or micro entrepreneurs. It has also improved the quality of horticulture products produced in the economy. Above all, it has given a boost to the export sector of the country. However, the contributions of FDI to the development of Ethiopia is low regardless of the huge potential. The low contributions to development are manifested by low local employment opportunity, low revenue generation, weak linkage of FDI and domestic firms in terms of technology transfer, skill development and other positive spillover effects.

A major part of the achievement of FDI in the horticulture sector is created by investments in the floriculture sub-sector. As a result, FDI has so far been mainly limited to the increased investment levels in the floriculture sub-sector and only a small number of foreign investors have made investments in the fruit and vegetable sub-sectors for the development of export production for the high quality international markets. In contrast, the fruits and vegetables sub-sector is not only dominated by smallholder farmers, but also most investors in the large commercial farms are domestic ones, mainly targeting domestic markets instead of exporting. Foreign investors are not very interested in the fruit and vegetable industries yet. Successful development of the export-oriented fruit and vegetable sub-sectors aimed at the high value markets in Europe and elsewhere thus will require additional efforts from the government to raise the competitiveness of the sector and create market entry.

Regardless of the country's potential to investment, the actual FDI flow into the Ethiopian horticulture sector is not as expected. The very reason for low investment performance of the country is that many investors did not enter the operation stage after taking the investment license. There is delay in projects pertaining to organizational inefficiencies of project owners and other factors external to the organizations. The delay in projects in turn affects the effectiveness of FDI in contributing to the development of the country. There is also a drawback with FDI in operations regarding the local employment opportunity as they are not capable of employing labor as per their project proposals.

Moreover, there are challenges with varying degree of severity that deter the effectiveness and growth of FDI in the Ethiopian horticulture sector. These are lack of infrastructures, institutional

bureaucracy, corruption, capital inaccessibility, lack of skilled labor and land acquisition, rent and lease price. However, the most pronounced challenges persistently affecting the effectiveness and growth of FDI in the Ethiopian horticulture sector are lack of infrastructures, institutional bureaucracy, corruption, lack of skilled manpower and weak linkage of FDI and domestic firms. The major challenges regarding infrastructures are power supply and interruption, water supply and access road. With institutional bureaucracy the service deliveries of most organizations that facilitate the investment are poor. As FDI in horticulture requires services from various government institutions and agencies, the bureaucracy is too long. There are also other reasons for low contributions such as capital flight back to their home, remittance to their home rather than reinvesting their corporate profits, and delays in commencing the actual business operation.

Furthermore, though foreign investments in the horticulture sector have positively contributed to the development of the country, horticulture projects have also limitations. First, many employees complain due to the work in the sector is attributed to the low wages and the exposure to chemicals that debilitate one's health. Sector, the transfer of agricultural knowledge and technology has been largely non-existent primarily due to the high costs and unavailability of the technologies locally. Lastly, the other limitation of FDI in the Ethiopian horticulture sector is its effect on the environment. There are some FDI projects that release their wastes that pollute soil and water that harm the environment. There is little measure taken against the harmful effects of waste release to the environment regardless of FDI obligations to protect the environment.

5.3. Recommendations

In this study, it was revealed that FDI in horticulture has significant economic role in the Ethiopia's economy. FDI in the horticulture sector has triggered many investments from a number of giant companies. Although the further development of the horticulture sector in Ethiopia has good perspectives and interesting opportunities for foreign investors, the sector is still in its infant stage. There is also a relative decline in the annual FDI flow to the Ethiopian horticulture sector in the last few years. Facilitating conditions for doing business are not yet optimal which shows the need to do more. Moreover, the potentiality of the sector is affected by various factors that range from bureaucratic procedures and weak governance, poor infrastructural development, inhospitable regulatory environments, intensification of competition for FDI flows due to globalization, and poor marketing strategies. Therefore, the government need to review its policies and programs to

revitalize its endeavor to attract FDI in the horticulture sector Thus, as a bold step towards the realization of economic growth as envisaged in the country's national vision and MDGs, the sector need to be supported to realize its full potential as well as its declining trend should be reversed.

To reverse the trend, concerted efforts by all stakeholders are necessary. New and more effective approach to investment promotion is inevitable. The governments have some duties to support foreign investment in order to increase competition level. In the past, investment promotion activities were carried out in an environment in which domestic policies were not conducive to foreign investment and so were not successful. An enabling environment has to be created first before marketing investment opportunities to foreign investors could be done effectively. There should be institutional reforms that reduce institutional bureaucracy and results in effective collaboration between institutions that facilitate foreign direct investment. The government should arrange a one-shop services to investors. Corruption and other forms of rent seeking have to be tackled with strict follow up and legal measures. There should be enforcements by government institutions and agencies including terminating investment licenses against those foreign investments which do not start and implement the business as per the scheduled time and proposals. The government has to work more and more to attract FDI with better potential to exploit the horticulture sector as well as ensure the transformation of the country.

Moreover, the realization of Ethiopia's FDI potentials will also depend on the ability of its leaders to improve the FDI climate and take advantage of the new global interest in the affairs of the country by implementing sound macroeconomic policies, enforcing the rule of law, reducing risks of policy reversals, and improving the provision of infrastructure. Infrastructure provision should satisfy their needs both in timely and sufficiently. For example, transport and communication channels like roads, railway lines and telephone leading to key areas where flowers, fruits and vegetables are grown should be built to acceptable international standards. Timely follow up and supervision should be done; support should be extended in some areas where laws, regulations do not allow to do their businesses; land allocation should be done in a professional way ahead of the investors request. Security along those road networks that lead to and from the farms should not only be seen to be safe but free of any threat. This will enhance economic growth considering the sector contributes a bigger portion of foreign exchange earnings to the government as well as provision of employment to many households.

There should be training and development programs to produce skilled manpower that fulfill the demand of FDI and exploit the employment opportunity. There is a need for horticulture experts with a high level of skill and technologically advanced in different fields of business life. Foreign investment is a good tool in Ethiopia for training people. Therefore, per-capita FDI should be coupled with policies designed to facilitate the transfer of knowledge and technology between firms. The government should also set incentive schemes for companies to invest more in their staff (education and vocational training) and in R&D. Technology transfer and other positive spillover effects to be achieved through linkage should be also done with great concern. Local skills are also an important factor that needs to be developed in order to benefit from expatriate know-how while making working in horticulture oriented industries look good; this will equip many small-scale producers with technical knowhow leading to increased production and economic development.

Furthermore, the two major limitations of horticulture investments, negative environmental impacts and workers' health and safety, should be addressed seriously. Balancing the benefits of horticulture sector growth while ensuring environmental protection, as well as maintaining health and safety standards through the enactment and execution of appropriate rules and legislative guidelines has to be given special emphasis. The government should conduct regular environmental auditing and urge foreign investments to environmental mainstreaming in their project activities. Performance related pay should be implemented to improve the wage and salary as well as the productivity of the employees. The government has to give attention during getting the appropriate FDI investors which has a good profile.

5.4. Limitations of the Study

As the number of researches conducted so far on FDI in horticulture sector in Ethiopia is limited, the thesis is constrained by the unavailability of empirical literature. In addition to this, due to time and resource constraints, among the five horticultural development corridors, the study only focused and took into account on horticultural foreign investments that are found in the Oromia and Addis Ababa corridor (on the road from Addis Ababa to Hawassa).

The prime overriding issue that the researcher encountered during the field survey was access to data. As it turned out, the researcher did not find the data collection process as smooth as it was expected. The first challenge in this regard is in relation to the collection of data from governmental

and other public sources. Except in the EIC, where predefined rules about how and which data would be released are set clearly and where the employees were very friendly, the process of data obtaining was too bureaucratic from other institutions. Often, offices had to be visited repeatedly to get the respective officers with the authority to permit the release of data. In some circumstances, it was found difficult to convince and get the cooperation of officers. Moreover, a great number of government officers were both somewhat reluctant and hence, careful in the information they provided. Even in those circumstances where they were willing to cooperate, sometimes it was difficult to get the kind of data designated as such data may not be readily available.

Furthermore, the researcher encountered a more serious and difficult challenge when collecting data from foreign investors. Hence, there were a number of circumstances the researcher was denied of getting data and response and a number of foreign investors were reluctant to grant access to information. The hesitation of the foreign investors to get involved in the study was related to the claim by some recent studies regarding the environmental implication and workers' welfare in the Ethiopian horticulture sector. This eventually reduced the number of foreign investors included in the study significantly. Even in those circumstances where cooperation was attained, they were not willing to share information they thought were sensitive and hence, the researcher was unable to collect as much data as desired. Therefore, there were reservations and unwillingness in revealing all necessary information regarding challenges encountered, limitations and gaps of the government, and environmental impacts of horticulture investments. In some situations, some of the respondents were unwilling to give information due to lack of sufficient time.

Therefore, to resolve these challenges, the researcher tried to handle the difficulties by different mechanisms such as briefly explaining to the respondents the purpose of the study to be for academic purpose, having close relation with the experts and officials of the Ethiopian Horticulture Producer Exporters Association, applying efficient use of time and other resources and attempting to triangulate data to avoid data inconsistency and exploring different data sources from empirical literatures.

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5. Federal Democratic Republic of Ethiopia. (January 2017). Ministry of Trade (MOT). Addis Ababa

6. The Ethiopian Horticulture Producer Exporters Association (EHPEA). (March 2017). Addis Ababa

7. Anonymous Informant. (March 2017). Addis Ababa

APPENDICES

I. Questionnaire responded by FDI Owners (Managers) Engaged in the Horticulture Sector

St. Mary's University

School of Graduate Studies

Master of Business Administration Program

Dear respondents,

The objective of this questionnaire is to gather information or data on the factors affecting Foreign Direct Investment inflow, effectiveness, and its challenges in the horticultural sector in Ethiopia. The study is required for the partial fulfilment of the requirements for the award of degree of Master of Business Administration (MBA) in General Management.

Dear respondents, you are expected to provide genuine and reliable information with respect to Factors Affecting Foreign Direct Investments in the horticulture sector of Ethiopia. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information and the data you provide is very confidential and only serves for academic purpose.

Thank you in advance for your cooperation

Part 1. General Information

1. Name of the FDI/Enterprise……

2. Nationality of the Respondent……

3. Home country of the Enterprise…….

4. Year of Establishment of the Enterprise…….

5. What is the principal Sub-sector of your investment? Please make (X mark) for your response.

A. Flower B. Fruits and Vegetables C. Herbs and Spices

6. Name of the Town the Enterprise found…….

7. Respondent Occupation/Position……...

8. Work Experience……

9. What is the type of ownership of your enterprise? Please make (X mark) for your response.

A. Wholly Owned B. Joint Venture C. Other

Part 2. The Contribution of the Horticultural FDI to the Economy in Ethiopia

1. Does FDI has significant contribution to the economic growth of Ethiopia?

A. Strongly Agree B. Agree C. Neutral D. Disagree E. Strongly Disagree

2. Does FDI has significant role for success in other sectors of the economy in the Ethiopia?

A. Strongly Agree B. Agree C. Neutral D. Disagree E. Strongly Disagree

3. Does FDI has played a key role in the introduction of new technological knowledge in the horticultural sector?

A. Strongly Agree B. Agree C. Neutral D. Disagree E. Strongly Disagree

4. Does FDI in the horticultural sector is significantly contributing towards economic growth and employment creation in Ethiopia?

A. Strongly Agree B. Agree C. Neutral D. Disagree E. Strongly Disagree

5. Does the use of quality horticultural products has given rise to foreign investment in the horticultural sector in Ethiopia?

A. Strongly Agree B. Agree C. Neutral D. Disagree E. Strongly Disagree

Part 3. Factors Affecting FDI Inflow in the Horticultural Sector in Ethiopia.

1. What are the factors that you consider before you invest in certain location?

A. Security B. Labor Availability C. Market Accessibility D. Land Price

2. Why do you choose Ethiopia as the location of your horticulture investment than other countries?

A. Proximity to Market destination B. Large and Cheap labor C. Infrastructure Availability

D. Ideal and Conducive Climate E. Land availability

Part 4. Trends of the Ethiopian Investment Climate

1. Did you efficiently get your work permit during the initial period of your investment?

A. Yes B. No

2. Do you have clear and adequate knowledge about the investment policy of Ethiopia?

A. Yes B. No

3. If your answer to question No. 2 is Yes, please mention the source of the information?

……

4. What is the level of your satisfaction with the Ethiopian investment policy?

A. Highly satisfied B. Satisfied C. Partially Satisfied D. Dissatisfied

5. If you partially satisfied or dissatisfied, please do not hesitate the source of your dissatisfaction.

……

6. Do you think that there is a lot of government involvement in the horticultural sector in Ethiopia?

A. Yes B. No

7. Does the Ethiopian government provide incentives to foreign investors to facilitate trade and investment?

A. Yes B. No

8. Are there incentives which are specifically provided to horticultural FDIs from the Ethiopian investment commission and the Ethiopian Horticultural Development Agency?

A. Yes B. No

9. If your answer to question No. 8 is Yes, what are the incentives?

……

10. Do you think that the incentives given by the government is adequate?

A. Yes B. No

11. Are you satisfied by the incentives?

A. Yes B. No

12. If your answer to question 11 is no, please specify what have to be improved with incentives?

……

13. Do you find the general investment climate of Ethiopia as conducive?

A. Yes B. No

Part 5. Challenges that Affect the Effectiveness of FDI in the Horticultural Sector in Ethiopia.

1. How long it takes you to get your investment license?

A. Less than 5 Hours B. 5-8 Hours C. 9 -12 Hours D. Above 12 Hours

2. How long it takes you to get land for investment?

A. Less than 2 Months B. 3-5 Months C. 6-8 Months D. Above 8 Months

3. How do you rate the service rendered by the Ethiopian Investment Commission and the Ethiopian Horticultural Development Agency?

A. Excellent B. Very Good C. Good D. Poor

4. Do you think that the tax you are paying is fair?

A. Yes B. No

5. If your answer to question No. 4 is No, please explain why it is unfair.

……

6. How long did it take you to begin the actual business after you get your investment license?

A. 6 months B. 6 Months - 1 Year C. 1 year - 1.5 Years D. 2 Years and Above

7. Do foreign investors in the horticultural sector in Ethiopia are treated much the same like domestic investors?

A. Yes B. No

8. Do you have a plan to shift your business to other investment sectors?

A. Yes B. No

9. If your answer to question No. 8 is Yes, please mention your reason?

……

10. Do you have a plan to terminate your investment?

A. Yes B. No

11. If your answer to question No. 10 is Yes, please mention your reason to terminate.

……

12. What are the factors that impede the effectiveness and growth of FDI in the horticulture sector in Ethiopia? Please put the (X) mark for the factors you believe inhibiting FDI effectiveness in the Horticultural Sector in Ethiopia.

No.	Factors Inhibiting the Effectiveness and of FDI in the Ethiopian Horticulture Sector	Degree of Severity			
		High	Medium	Low	Negligible
1	Bad/Lack of Infrastructure				
2	Lack of Capital Accessibility				
3	Inaccessibility of the Market				
4	Excessive and Complicated Bureaucracy				
5	Corruption and Weak Governance				
6	Lack of Inputs and Materials				
7	Lack of Skilled Man Power				
8	Lack of Unskilled Labor				
9	Unfair Taxation				
10	Investment policy, law and its climate				
11	Land acquisition, lease price and other land related problems				

II. Questionnaire responded by Experts

St. Mary's University

School of Graduate Studies

Master of Business Administration Program

Dear respondents,

The objective of this questionnaire is to gather information or data on the factors affecting Foreign Direct Investment inflow, effectiveness, and its challenges in the horticultural sector in Ethiopia. The study is required for the partial fulfilment of the requirements for the award of degree of Master of Business Administration (MBA) in General Management.

Dear respondents, you are expected to provide genuine and reliable information with respect to Factors Affecting Foreign Direct Investments in the horticulture sector of Ethiopia. Your genuine information is highly decisive to the success of this study. Therefore, the researcher assures you that the information and the data you provide is very confidential and only serves for academic purpose.

Thank you in advance for your cooperation

Part 1. General Information

Instructions: Please circle on the relevant alternatives of your respective answers and write your answer on the space provided.

1. Age:

A. 20-25 B. 26-30 C. 31-35 D. 36-40 E. Above 40

2. Sex:

A. Male B. Female

3. Marital Status:

A. Single B. Married C. Divorced D. Widowed E. Separated

4. Educational Background:

A. Certificate B. Diploma C. Bachelor's Degree D. Master's Degree E. PhD

5. Work Experience:

A. 0-5 Years B. 6-10 Years C. 11-15 Years D. Above 16 Years

Part 2. Contributions of Horticultural Foreign Direct Investment in Ethiopia

1. To what extent do you think the investment undertaken by foreigners in the horticultural sector contribute to the development of Ethiopia?

A. Very Great B. Great C. Low

2. If your answer for question number 1 is Low, what could be the reasons for the low contribution?

……

3. Do foreign investors engaged in the horticultural sector provide some social infrastructures to the local community?

A. Yes B. No

4. If your answer for question number 3 is Yes, what are those infrastructures?

……

5. What do you think foreign investors in the horticultural prefer to use in the production process intensively?

A. Labor B. Capital C. Technology D. Both Capital and Labor Proportionately

6. If your answer for question number 5 is labor intensive, what are the reasons?

A. Availability of Cheap Labor B. In order to create Job Opportunity to the Local Community

C. Due to the Business Nature

7. How do you explain the employment opportunity created by the horticultural FDI to local people in Ethiopia?

A. Very Great B. Great C. Low

8. How do you rate the availability of skilled labor in the horticultural sector of Ethiopia?

A. Available B. Not Available C. Less Available

9. How do you rate the availability of unskilled labor in the horticultural sector of Ethiopia?

A. Available B. Not Available C. Less Available

10. Where are the sources of labor for FDI employment in the horticultural sector?

A. FDI Home Country B. Local Community around the FDI Firm

C. Addis Ababa D. Any else where

11. How do you compare the wage and salary paid by foreign direct investors in the horticultural sector with that of domestic investors to their employees?

A. Very High B. Relatively Higher C. The same as that of domestic investors D. Lower

12. What is your opinion about the revenue generated by horticultural FDI operating in Ethiopia?

A. High B. Average C. Low D. Very Low

13. If the revenue generated by FDI in Ethiopia is low, what do you think are the reasons for minimum revenue generation?

……

14. How do you evaluate the productivity of horticultural FDI in Ethiopia?

A. Excellent B. Very Good C. Good D. Poor

15. If the productivity of FDI is poor, what do you think the reasons are?

……

Part 3. Linkage and spillover effects of horticultural Foreign Direct Investment (FDI)

1. Is there a backward linkage where horticultural FDIs use inputs from domestic investors?

A. Yes B. No

2. Is there forward linkage where horticultural FDIs supply their products to local firms/distributors created due to the operation of FDI?

A. Yes B. No

3. If there is any linkage between FDI and Domestic investment in the horticultural sector, to what degree they are linked?

A. Very Strong B. Strong C. Weak D. Very Weak

4.Is there any arrangement or forum for experience sharing among FDI and domestic investment in the horticultural sector?

A. Yes B. No

5. Does technology transfer from FDI to domestic investment take place to improve the productivity of local firms in the horticultural sector?

A. Yes B. No

6. If your answer to question number 5 is Yes, how could you rate the technology transfer?

A. Excellent B. Very Good C. Good D. Poor

7. If technology transfer from FDI to domestic investment exists in the horticultural sector, on what situations it depends?

A. Willingness of FDI Owners B. Enforceable by Investment Agreement

C. Willingness of Domestic Investment Owners

Part 4. Challenges Hindering the Effectiveness and Growth of FDI in the Horticultural sector.

1. Does the lack of infrastructure provision can be considered as an obstacle to the effectiveness of horticultural FDI in Ethiopia?

A. Yes B. No

2. If your answer to question 1 is Yes, who is responsible for the provision of infrastructures?

A. The Investor B. The Local Administrations where the Horticultural FDI is found

C. The Federal Government D. The Regional Government

4. Do you think that foreign investors engaged in the horticultural sector carry out their business in environmentally friendly ways?

A. Yes B. Partially C. No

5. If your answer to question 4 is No, please specify the impacts of horticultural FDI activities on the environment.

……

6. Is there any measure to be taken against any negative impacts of horticultural FDI on the environment?

A. Yes B. No

7. If your answer to question number 6 is Yes, please list the measures (if any).

……

Part 5. Trends, Opportunities and Prospects of FDI in the horticultural sector in Ethiopia.

1. What is the current trends of horticultural FDI flowing to Ethiopia?

A. Increasing B. Decreasing C. Remain Constant

2. Which sub-sectors are dominantly chosen by horticultural FDI?

A. Flower B. Fruits and Vegetables C. Herbs and Spices

3. What are the incentives available to foreign investors in the horticultural sector in Ethiopia?

……

4. What are the potential problems and probable challenges to sustain with horticultural FDI in Ethiopia. Please list out them.

……

5. Are there foreign direct investors in the horticultural sector that terminated their business or operation?

A. Yes B. No

6. If your answer to question number 5 is Yes, what were their reasons?

……

- Extra Information

If you have more information and opinion regarding the effectiveness, challenges and prospects of FDI in the horticultural sector in Ethiopia, please avoid reservation in forwarding as your information is highly valuable to this study.

……

III. Interview Questions to Relevant Government Institutions

1. How could you describe the major contributions of horticultural FDI to poverty reduction in Ethiopia?

2. Do horticultural foreign direct investors reinvest their corporate revenue or remit their capital back to their home country?

3. How do you describe the role of horticultural FDI in promoting local employment and generation of fiscal revenue?

4. Could you explain the effect of horticultural FDI on local productivity and capacity improvement through backward and forward linkages with domestic firms?

5. How do you recognize the effectiveness of horticultural FDI in technology transfer and skill development of domestic firms through spillover effect?

6. How your institution is closely monitor and work with owners/managers of horticultural FDI to facilitate the work?

7. What are the incentives provided by the government or your institution exclusively to foreign investors engaged in the horticultural sector to promote their inflow?

8. What is the trend of horticultural FDI inflow currently looks like in Ethiopia?

9. Are there foreign investors in the horticultural sector that delay longer time in starting actual business after taking land for investment?

10. Are there any horticultural FDI that terminated their operation due to various factors?

11. What are the negative impacts of horticultural FDI activities on the surrounding environment?

12. What are the challenges facing the horticultural FDIs that deter their normal activities?

13. What is your comment on the overall horticultural FDI effectiveness and challenges in Ethiopia?

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Teklegiorgis Assefa (Asst. Prof.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any institution for the purpose of earning any degree.

_____ _____

Name Signature

St. Mary's University, Addis Ababa May, 2017

ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of Graduate Studies for examination with my approval as a university advisor.

_____ _____

Advisor Signature

St. Mary's University, Addis Ababa May, 2017